The location of headquarters: why, when and where are regional mandates located?

Iiris Saittakari
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Iliris Saittakari
Main dissertation advisor
Professor Rebecca Piekkari, Aalto University School of Business, Finland

Co-dissertation advisors
Associate Professor Joanna Scott-Kennel, University of Waikato, New Zealand
Professor Elizabeth L. Rose, University of Leeds, United Kingdom

Preliminary examiners
Associate Lecturer Eva Alfoldi, University of Bradford, United Kingdom
Professor Randi Lunnan, BI Norwegian Business School, Norway

Opponent
Professor Randi Lunnan, BI Norwegian Business School, Norway

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Abstract
The location and relocation of headquarters have significant managerial and policy implications as they may bring considerable cost savings for multinational enterprises, and create high-value-added jobs and enhance the reputation of host countries. Regional headquarters (RHQ) mandates constitute an ideal context in which to study these locational dynamics, as they are easy to relocate from one subsidiary to another. However, it is not clear why, when and where subsidiaries have RHQ mandates.

The thesis begins by developing a theoretical framework containing the most critical host country, multinational enterprise, and focal subsidiary determinants of RHQ location. The thesis argues that it is necessary to understand the different stages of locational dynamics, including mandate possession, loss and relocation. The empirical part of the work consists of three essays, each of which examines one stage from a different theoretical perspective. Essay 1 draws on contingency theory to examine subsidiaries’ possession of RHQ mandates; Essay 2 draws on the concept of absorptive capacity to explain the full and partial loss of RHQ mandates; and Essay 3 employs the notion of liability of foreignness to investigate the relocation of RHQ mandates.

The empirical investigation draws on two unique datasets and focuses on Finnish subsidiaries with RHQ mandates. Located between East and West, Finland attracted many RHQ in the 1990s, but a recent study suggests that RHQ are now more likely to be located in Sweden or Denmark. Finland thus provides an excellent empirical context to examine the locational dynamics of RHQ mandates, especially with regard to loss and relocation.

The findings highlight the important role of RHQ in sales and distribution. Essay 1 finds that subsidiaries are more likely to possess RHQ mandates if they have strong business relationships with local buyers. Essay 2 reveals that full mandate loss is associated with RHQ’s small size and lack of sales focus, whereas partial mandate loss is prompted by challenging conditions within the RHQ’s mandated markets. Essay 3 confirms that RHQ are likely to be relocated geographically closer to mandated markets even if the new host country has investment restrictions. RHQ’s role in sales and marketing prompts location close to large distributors and retailers, many of which are located in Sweden and Denmark, rather than Finland’s export-led production companies.

The thesis is amongst the first large-scale study to systematically examine headquarters’ locational dynamics. Although the above findings are specific to subsidiaries with RHQ mandates, which are typically market- or efficiency-seeking units, the theoretical framework of this thesis is also applicable to other types of headquarters. It reinforces the significance of investment motives, local business relationships, focal-subsidiary capabilities and geographic scope to headquarters’ location, providing insights for both theory and policy.

Keywords regional headquarters, regional mandates, headquarters, location
Väitöskirjan nimi
Pääkontoreiden sijainti: miksi, milloin ja mihin aluepääkonttorimandaatit sijoitetaan?

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Tiivistelmä
Pääkontoreiden sijainnilla ja sen muutoksella on merkittäviä vaikutuksia, sillä ne voivat huoda huomattavia säästöjä monikansalliselle yritykselle. Kohdemaat myös hyötyvät korkeapalkkaisista työpaikoista ja hyvästä maineesta investointien kohteena. Aluepääkonttorit ovat ideaali konteksti pääkontoreiden sijainnin dynamiikan tutkimiselle, sillä niiden mandaatit on helposti siirrettävissä tytäryrityksiltä toiseen. Tässä väitöskirjassa tutkin miksi, milloin ja missä tytäryrityksillä on aluepääkonttorimandaatteja.

Väitöskirjan johdanto kokoa yhteen viitekehykseen tärkeimmät tekijät aluepääkonttoriden sijainnille. Tutkimus tuo myös esiin kolme vaihetta, jotka ovat tärkeitä pääkontoreiden sijainnin ja sen dynamiikan ymmärtämiseksi: pääkonttorimandaatin hallinta, menetyksä ja siirto toiselle tytäryritykselle. Työn empirinen osa koostuu kolmesta tutkimusartikkelista, joista jokainen tutki yhtä dynamiikan vaihetta eri teoreettisesta näkökulmasta.

Väitöskirjan empirinen osa tutkii Suomessa sijaitsevien tytäryritysten aluepääkonttorimandaatteja. Suomi on mielenkiintoinen ympäristö erityisesti mandaattien menettämisen ja siirron tutkimukselle, sillä se on perinteisesti ollut houkutteleva maa aluepääkontoreille idän ja lännen välisen sijaintinsa vuoksi. Viimeikäiset tutkimukset kuitenkin osoittavat, että suurin osa Pohjoismaissa olevista aluepääkontoreista sijaitsee Ruotsissa tai Tanskassa Suomen sijana.

Kahden ainutlaatuisen aineiston löydöksellä коростavat aluepääkonttorien roolia myynnin ja markkinoinnin parissa. Ensimmäisen tutkimusartikkelin tulosten mukaan tytäryrityksillä, joilla on aluepääkonttorimandaatti, on vahvut liikesuhteet paikallisiiin ostajiin. Toisen tutkimusartikkelin tulokset osoittavat, että koko mandaatin menetys liittyy aluepääkonttorin pieneen kokoon ja toiminnan hajauttamiseen myynnin ulkopuolelle; osittainen menetys liittyy haasteisiin vastuussa. Kolmannen tutkimusartikkelin mukaan aluepääkonttorimandaattia siirrettyään se annetaan usein tytäryrityksille, jotka ovat lähempänä vastuuomina, vaikka ne eivät olisi yhtä avoimia ulkomaisille investoinneille kuin Suomi. Myyntiroolinsa vuoksi aluepääkonttorit hyötyvät suurten jälleenmyyjien liäheisyydestä, joista monet sijaitsevat Ruotsissa ja Tanskassa. Suomen vientivetotuotet teollisuusryhtymät eivät siis ole yhtä kiinnostavia aluepääkontoreille.


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Lahti, 22 March 2018

Iiris Saittakari
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1. Saittakari, Iiris; Scott-Kennel, Joanna. Beyond location-specific advantages: Do local business relationships and MNE strategy matter for regional headquarters’ location?
   Earlier version accepted as a competitive paper at the Academy of International Business Annual Meeting, 2017.

2. Kähäri, Perttu; Saittakari, Iiris; Piekkari, Rebecca; Barner-Rasmussen, Wilhelm. Explaining mandate loss of regional headquarters: The difference between full and partial loss.

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1. INTRODUCTION

1.1 The motivation for the study

The question of where multinational enterprises (MNEs) locate their operations has been a fundamental topic of inquiry in international business (IB) research. MNEs have typically maintained a “home base” where they locate their headquarters and other critical units, whereas other operations are spread around the world (Meyer and Benito, 2016, p. 149). Recent news headlines and research indicate, however, that MNE headquarters (HQ) are increasingly located abroad (Baaij and Slangen, 2013; Benito, Lunnan and Tomassen, 2011). Furthermore, although the tendency in earlier research has been to view “corporate headquarters” as a single, identifiable unit in one specific location, recent work portrays it as a dynamic system in which the relevant activities can be distributed organisationally and spatially (Nell, Kappen and Laamanen, 2017, p. 1121). There have been calls for further research on the roles of different types of headquarters (e.g. corporate, divisional and regional), as well as on location and relocation patterns (Benito et al., 2011; Birkinshaw, Braunerhjelm, Holm, and Terjesen, 2006; Laamanen, Simula and Torstila, 2012; Meyer and Benito, 2016; Nell et al., 2017). Overall, there is inadequate understanding of why MNE headquarters are set up in certain host countries at specific points in time, which is the research gap I address in this doctoral dissertation.

The location and relocation of headquarters have significant managerial and policy implications. For example, the board of directors of Nordea Bank AB, the largest financial services group in the Nordic region, announced in September 2017 that it was relocating corporate headquarters from Sweden to Finland to take advantage of Finland’s participation in the European banking union (Nordea, 2017). The relocation is expected to mean savings of one billion Euros for Nordea, highlighting the strategic importance of location decisions for MNEs. In addition, although only a limited number of Nordea’s employees will be relocated to Finland, and corporate taxes still need to be paid in each country of operation, the decision has symbolic relevance for Finland. The presence of major headquarters creates a positive reputation for the host country, not only in attracting other organisational headquarters that generate high-value-added activities and jobs, but also in conveying the message that the country is competitive and worth further investment (Ambos and Schlegelmich, 2010; Avenell, 1996; Barner-Rasmussen, Piekkari and Björkman, 2007; Benito et al., 2011; Strauss-Kahn and Vives, 2009). Some authors have even argued that attracting headquarters is crucial for the future survival and growth of host locations (Heenan, 1977; Heenan and Perlmutter, 1979).

The relocation of corporate headquarters (CHQ), exemplified by the case of Nordea, is still rather rare, but it is more common to relocate intermediary headquarters such as regional (RHQ) and divisional (DHQ) headquarters (Baaij, Van den Bosch, and
RHQ act as intermediary units between corporate headquarters and selected subsidiaries, and are given the authority to “solve problems in the region which cannot be handled by the national units, and otherwise would have to be dealt with and acted upon by headquarters” (Schütte, 1997, p. 441). Thus, they help to coordinate the international activities of the MNE within a defined geographic scope (Laamanen et al., 2012), ranging from small country groupings to triad regions (Alfoldi, Clegg and McGaughey, 2012). RHQ may be a local subsidiary that is given a regional mandate to dedicate some of its time and resources to perform RHQ roles or a dedicated RHQ with exclusively regional responsibilities (Alfoldi et al., 2012). Especially the former, i.e. subsidiaries with RHQ mandates, constitute an ideal context in which to study locational dynamics because they are more common (Ambos and Schlegelmilch, 2010; Chakravarty, Hsieh, Schotter and Beamish, 2017; Kähäri, 2014) and easier to remove and relocate than dedicated RHQ due to lower resource investments (Alfoldi et al., 2012; Schotter, Stallkamp and Pinkham, 2017).

Inspired by the fluidity and practical relevance of the location of headquarters to both managers and policy makers, I aim in this doctoral dissertation to examine the locational dynamics of headquarters, with a specific focus on subsidiaries with RHQ mandates. RHQ location has been a subject of researchers’ interest since the late 1960s, being one of the first types of headquarters to be located outside the MNE’s home country (e.g. Parks, 1969; Heenan, 1977; Heenan and Perlmutter, 1979; Perry, Yeung and Poon, 1998; Yeung, Poon and Perry, 2001). However, existing literature in the field has focused mainly on the criteria set for selecting a location, and the debate on the extent of RHQ mobility, rather than on where they are located in practice (Kähäri, 2014). Against this background, my aim in this dissertation is to address the following research question: Why, when and where do subsidiaries have RHQ mandates?

I argue that to gain a deeper understanding of headquarters’ location it is necessary to understand the different stages of locational dynamics, such as the possession, loss and relocation of the headquarters mandate, as well as the determinants associated with them. The empirical part of the work consists of three essays, each of which examines one stage of locational dynamics from a different theoretical perspective. Essay 1 examines the possession of RHQ mandates among subsidiaries from the perspective of contingency theory; Essay 2 explains the full and partial loss of RHQ mandates via the concept of absorptive capacity; and Essay 3 exploits the liability of foreignness as a notion through which to examine the relocation of RHQ mandates to another host country. By combining these different theories and stages I seek to enhance current understanding of the key determinants associated with headquarters’ locational dynamics.

The empirical investigation reported in this dissertation covers mainly Finnish subsidiaries with RHQ mandates. Finland has been acting as a gateway between East and West and thus attracted RHQ throughout its history (Luostarinen, 2000). One of the two unique datasets analysed in this dissertation illustrates that the main peak period for establishing a RHQ in Finland was in the 1990s, coinciding with the opening of Eastern European markets. However a recent study of the largest MNEs located in the Nordic countries shows that the RHQ are more likely to be in Sweden or Denmark than in Finland (Berthling and Andresen, 2015). Therefore, Finland provides an ideal empirical
context in which to study the locational dynamics of regional mandates, especially the mandate loss and relocation from Finland to another host country.

1.2 Research setting

RHQ mandates are typically granted to existing subsidiaries that continue to have the dual role of local subsidiary and RHQ\(^1\) (Ambos and Schlegelmilch, 2010; Chakravarty et al., 2017). Subsidiaries with RHQ mandates are thus simultaneously embedded in the external environment of the host country and the internal MNE comprising the headquarters and other subsidiaries (Forsgren, Holm and Johanson, 1992; Kähäri, 2014). Following on from Birkinshaw and Hood’s (1998) ground-breaking article on subsidiary evolution, I analyse several contextual determinants on the levels of the host country, the MNE and the subsidiary. In line with the research setting depicted in Figure 1, I examine the extent to which the contextual determinants of these three levels of analysis are associated with the focal subsidiary’s having a RHQ mandate. I further consider the dynamics of the mandate in terms of possession, loss and relocation in the three consecutive essays included in this dissertation.

![Figure 1. The research setting](image)

In addressing the research question, each of the three essays focuses on a combination of determinants on these levels of analysis. Although each of these levels has been examined in the literature, there is still a need for a comprehensive understanding of the interplay between them in the RHQ context. Most existing studies examine either host-country-related determinants (e.g. Avenell, 1996; Heenan and Perlmutter, 1979; Lasserre and Schütte, 1999; Yeung, Poon and Perry, 2001) or determinants on the

---

\(^1\) RHQ may also be dedicated units with exclusively regional responsibilities (Alfoldi et al., 2012; Lasserre, 1996; Schotter et al., 2017). However, the empirical part of this thesis focuses on subsidiaries with regional mandates, as they are the most common form of RHQ. This will be further discussed in Section 1.5.
subsidiary and MNE levels (e.g. Ambos and Schlegelmilch, 2010; Mori, 2002; Poon and Thompson, 2003). Given that only a handful of researchers have attempted to combine all three levels of analysis in a large-scale study (see e.g. Belderbos, Du and Goerzen, 2017; Birkinshaw et al., 2006; Laamanen et al., 2012; and Strauss-Kahn and Vives, 2009), I analyse the determinants on all three levels.

1.3 Finland as an empirical context

It has been argued that MNEs in small peripheral countries that are highly dependent on foreign trade and investments, such as the Nordic countries, are “ahead of the pack” in locating headquarters abroad (Benito et al., 2011, p. 375). Of the few studies on the location and relocation of headquarters conducted thus far, the majority focus on MNEs originating in the Nordic countries, especially Sweden and Finland (e.g. Barner-Rasmussen et al., 2007; Birkinshaw et al., 2006; Forsgren, Holm and Johanson, 1995). These are further discussed in Section 2.2.3.

The Nordic countries, especially Finland, also provides an ideal empirical context in which to study the locational dynamics of foreign MNE headquarters. Finland has been acting as a gateway between East and West throughout its history, and in 1994 the Finnish government started emphasising the importance of RHQ and the strategic position of Finland as a business centre for EU and non-EU firms going to Russia, the Baltic States and Eastern European countries (Luostarinen, 2000). However, a recent study by Berthling and Andresen (2015) of the largest MNEs located in the Nordic countries shows that the RHQ are more likely to be in Sweden or Denmark than in Finland or Norway. Out of 250 RHQ of Forbes Global 2000 companies located in the Nordic countries, 160 were in Sweden. The respective numbers of RHQ located in Denmark, Finland and Norway were 50, 22 and 19. A few MNEs had divided their RHQ between two countries. Among the 100 largest companies worldwide listed by Forbes in 2015, BP, Samsung, IBM and eight others had located RHQ in Stockholm, the capital of Sweden. The capitals of Denmark and Norway, respectively, hosted five and two RHQ from the Forbes 100 list, but Helsinki, the capital of Finland, did not host any. The largest RHQ located in Finland was 120th-ranked Bayer (Berthling and Andresen, 2015). Finland thus provides an excellent research setting to examine especially the loss and relocation of regional mandates.

The empirical investigation reported in this dissertation thus covers subsidiaries with RHQ mandates that are mainly located in Finland. In Essays 2 and 3 I analyse longitudinal data on 374 RHQ located in Finland between 1998 and 2010. I focus on the loss of the RHQ mandate in Essay 2, and on relocation from Finland to another host country in Essay 3. In the case of Essay 1, my analysis of subsidiaries possessing RHQ responsibilities is based on cross-sectional multi-country data collected in six advanced small, open economies2, namely Belgium, Finland, Ireland, the Netherlands, New Zealand and Singapore.

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2 The term small open economy comes from macroeconomics. The distinction between a small and a large open economy is based on how much control a country has over the interest rate on its debt (Guerron-Quintana, 2013). By definition, only the United States and the Euro area are
The findings from these two unique datasets highlight the importance of RHQ’s market-seeking and efficiency-seeking motives, thereby having sales and marketing expertise and creating synergies between the mandated markets within its geographic scope. The findings of Essay 1 suggest that subsidiaries are more likely to possess RHQ mandates if they have strong business relationships with local buyers and agents. The results of Essay 2 show that it is not unlikely for RHQ to experience full or partial mandate loss, thus providing evidence of their fluid nature. Full mandate loss is likely to occur when RHQ are deficient in terms of capabilities (i.e. small size, a lacking sales focus), and the geographic scope is too limited to take advantage of the synergies between mandated markets. Partial mandate loss, on the other hand, is largely driven by challenging conditions in the individual markets (i.e. distance, strong market growth, weak institutional development) within the RHQ’s remit. Essay 3 illustrates that RHQ mandates are likely to be relocated closer to or even within the mandated markets when the location-specific advantages of its mandated markets equip them to host RHQ. A closer examination of the longitudinal data reveals that, soon after the fall of the Iron Curtain, RHQ mandates for Russian, the Baltics and Eastern European markets were often given to Finnish subsidiaries. However, almost half of the 54 RHQ mandate relocations examined in Essay 3 were relocated to Russia, the Baltics or Eastern Europe in the 2000s. Although especially Eastern Europe and Russia were still associated with relatively strong restrictions towards foreign direct investment (OECD, 2017), they were open enough to host RHQ.

In combination the three essays comprise one of the first systematic large-scale studies on headquarters’ locational dynamics. Although the above-mentioned findings are specific to subsidiaries with RHQ mandates in Finland, which are typically established for market-seeking and/or efficiency-seeking reasons, the framework created in this dissertation is applicable for also other types of headquarters. Furthermore, I suggest that the locational determinants of different types of headquarters could be better understood in terms of their investment motive (i.e. resource-, market-, efficiency- or strategic-asset seeking) rather than classifying them as corporate, divisional or regional headquarters. Consequently, not only does this dissertation contribute to the literature on the locational dynamics of RHQ in Finland, the findings also enhance understanding of the locational dynamics of headquarters in general.

1.4 Contingency theory as theoretical underpinning

The underlying assumption in this dissertation is that the location of headquarters is contingent on determinants related to the host country, the MNE and the focal subsidiary at a specific point in time. This largely relies on contingency theory (Lawrence and Lorsch, 1967; Thompson, 1967), according to which there should be a good fit between the organisation’s (or its subunits’) structure (centralisation, formalisation, complexity) and its context (environment, technology or size) for it to be effective, and that the organisation and its managers or owners are constrained by their environment to be large enough to be classified as large open economies. The International Monetary Fund further classifies countries into advanced economies, developing countries and countries in transition (IMF, 1998).
adopting certain structural designs (Drazin and Van de Ven, 1985; Pennings, 1987). A good fit can be achieved through the selection of a location that provides the best match for a certain activity, or through the organisation’s adaptation to its environmental context.

Contingency theory, as well as the information-processing perspective that emanated from it, have often been used in the RHQ context (e.g. Alfoldi et al., 2012; Egelhoff, 1982; Piekkari, Nell and Ghauri, 2010; Schotter et al., 2017), given that the MNEs’ strategy and structure need to be aligned and therefore regional strategies are typically matched with some form of regional structure (Egelhoff, 1982). Contingency theory has also been used in international business studies in the context of subsidiary roles and location selection. Although the early work of researchers highlighted the importance of the home-country environment (e.g. Stopford and Wells, 1972; Vernon, 1966), it was argued in later studies that the characteristics of the host-country environment could also contribute to the MNE’s competence development (e.g. Buckley, 1990; Casson, 1987; Dunning, 1988; Ghoshal and Bartlett, 1990). Bartlett and Ghoshal’s (1986) ground-breaking work, in which they identify subsidiary roles on a two-by-two matrix comprising the competences held by the local organisation and the strategic importance of the local environment, “clearly draws on the contingency framework” (Doz and Prahalad, 1991, p. 151). More recent studies on the choice of location, such as Jensen and Pedersen (2011, p. 352), discuss “fit” between activities and the local context, which arguably has its roots in contingency theory, although the authors do not explicitly acknowledge this theoretical heritage.

The assumptions of contingency theory are associated with institutional adaptation as discussed by Cantwell, Dunning and Lundan (2010), meaning that the firm seeks to adjust its own structure and policies to better fit the environment. However, these authors criticise this approach in pointing out that firms can also affect their operating environment rather than only adjust to it. The increasing autonomy of MNE subsidiaries drives firm-level creativity and institutional entrepreneurship that could lead to the co-evolution of MNE activities and the environment. During this institutional co-evolution the firm may engage in political activities to affect regulation or the market structure in a way that would benefit the firm over its competitors (Cantwell et al., 2010). Large MNEs, in particular, tend to have enough bargaining power to negotiate with potential host-country governments for better conditions for their operations. Host countries may even compete for MNE investment by offering speedy application processes, land grants, subsidised rents, tax holidays and investment allowances, for example (Dunning, 1998). However, the ability of the firm to affect its environment conflicts with the underlying assumptions of contingency theory, according to which it is the firm that adapts to its environment – not the other way around.

Contingency theory has also been criticised on other grounds over the years. According to Schoonhoven (1981), it is not a theory at all, but rather a metatheory or orienting strategy that suggests ways in which a phenomenon should be conceptualised. The author also argues that “theoretical” statements used by contingency theorists, such as “appropriate for”, “consistent with”, “fit” and “match”, require greater precision than these ambiguous statements provide (Schoonhoven, 1981).
As I propose in Chapter 1.2, in which I describe my research setting, the subsidiary possessing an RHQ mandate is contingent on determinants on the host-country, MNE and focal-subsidiary levels. Although the setting largely reflects contingency theory, I do acknowledge the weaknesses discussed above. For example, before making the decision to locate its CHQ in Finland, Nordea tried to persuade Denmark and Sweden to join the European Banking Union (Talouselämä, 2017). The final location decision was made when Nordea’s board of directors remained unconvinced that either of the countries would join the banking union in the then near future. As a result, Nordea relocated its CHQ to Finland because the country was already a member of the banking union and the euro area. In this case, the final relocation decision followed Nordea’s failure to affect the operating conditions in the other two potential host countries. The bank did not wish to adjust to the current operating environment in Sweden, either, which further implies that the issue of affecting versus adjusting to the external environment is highly relevant to the dynamics of headquarters location. Caution is therefore warranted when analysing the influence of certain location-specific advantages such as FDI restrictiveness and corporate taxes.

1.5 The limitations and boundaries of the dissertation

This dissertation, like any research, has various limitations. First, I follow Birkinshaw and Hood (1998) in focusing on determinants on the country, MNE and subsidiary levels, which are the main factors identified in previous research on subsidiary mandates and locational dynamics. However, the focus on these three levels sidelines several others (Birkinshaw and Hood, 1998). Micro-level analysis, for example, targets the choices made by individual companies (Laamanen et al., 2012) and involves the analysis of individual-level barriers to headquarters relocation such as the nationality, language and managerial skills of individual managers (Ambos and Schlegelmilch, 2010). However, the focus here is not on the managerial-level of analysis. The different levels are further discussed in Chapter 3 on the development of the theoretical framework.

Second, it is possible to analyse locational determinants on the level of the city (e.g. Goerzen, Asmussen and Nielsen, 2013; Belderbos et al., 2017), the sub-national region (e.g. Beugelsdijk and Mudambi, 2013; Meyer and Nguyen, 2005), the host country or the region. My focus in this dissertation is on the country-level determinants. I chose this level of analysis because the RHQ examined here are in geographically relatively small countries in which firms are clustered relatively close to the capital or to another business centre (i.e. Auckland in New Zealand).

Third, Alfoldi et al. (2012) criticise the literature for not distinguishing between two fundamentally different types of RHQ: 1) a dedicated RHQ, which is an administratively oriented unit that dedicates all its time and resources to performing RHQ roles, and 2) a local profit-oriented subsidiary with RHQ mandates (also called regional management mandates, RMMs), which is mandated to dedicate some of its time and resources to carrying out RHQ duties (Alfoldi et al., 2012; Schütte, 1997). The locational determinants of these two types may vary, the former being established as green-field entries and the latter through the granting of RHQ mandates to existing subsidiaries. The majority of existing literature reviewed in Chapter 2 was published
prior to 2011 and hence does not make a distinction between these two types of RHQ. My focus in the empirical part of this dissertation, however, is on subsidiaries with RHQ mandates. They can offer considerable advantages over dedicated RHQ in small regions as they are more cost-efficient and provide more select localised resources (Alfoldi et al., 2012; Schotter et al., 2017). Given Finland being an empirical context, there are more RHQ mandated subsidiaries than dedicated RHQ. I therefore leave the empirical examination of the dedicated RHQ for later study. However, the theoretical framework developed in this dissertation enhance understanding of the locational dynamics of headquarters in general, including the dedicated RHQ.

Fourth, there is an extensive body of research on RHQ roles. The systematic literature review conducted by Kähäri (2014) identified RHQ roles as the focus of two-thirds of journal articles and book chapters published between 1967 and 2014 on RHQ. However, most of the studies (e.g. Enright, 2005a, 2005b; Mori, 2002; Perry, Poon and Yeung, 1998; Schütte, 1997; Yeung et al., 1998) have not attracted further debate (Kähäri, 2014). The most influential study is the one conducted by Lasserre (1996), who identified four RHQ profiles, namely initiators, facilitators, coordinators and administrators based on the entrepreneurial and integrative roles. Given the wide variety of RHQ roles and their different nuances, their detailed examination in the context of location is beyond the scope of this dissertation and I leave it for further study.

1.6 The structure of the dissertation

This dissertation consists of two parts. Part I starts with this introductory chapter, in which I set the scene for the study. In Chapter 2 I discuss the relevant literature that contributes to current understanding of the locational dynamics of headquarters, with a specific focus on RHQ. I develop the theoretical framework of the dissertation in Chapter 3. Chapter 4 explains the methodology used. The dissertation is based on two datasets. The first, which derives from a cross-sectional multi-country study on 164 foreign-owned subsidiaries, of which 82 had RHQ responsibilities (Section 4.1), is analysed in Essay 1. The second set of data was collected in a longitudinal study (1998-2010) of 374 foreign-owned subsidiaries with RHQ mandates located in Finland (Section 4.2), and is analysed in Essay 2 and Essay 3. The three essays are briefly summarised in Chapter 5. Finally, Chapter 6 discusses the findings and conclusions of the three essays, as well as their contributions and implications. Part II comprises the three essays constituting this dissertation. Figure 2 depicts the structure of the whole dissertation.
**Figure 2.** The structure of the dissertation
The discussion in this chapter covers the relevant literature that enhances understanding of locational dynamics in the context of MNE headquarters, with a specific focus on RHQ. Section 2.1 concerns the regional dimension. First, I briefly discuss regional strategies, and then narrow the focus to consider the various definitions of RHQ and the dynamics in terms of their role, geographic scope and location. Regional strategies do not necessarily require a RHQ structure, but consistently with the contingency model of the MNE’s environment-organisation fit, they are typically matched to align the MNE’s strategy and structure (Alfoldi et al., 2012; Ambos and Schlegelmilch, 2010; Egelhoff, 1982; Lehrer and Asakawa, 1999).

The literature on RHQ location goes back to the 1960s (Williams, 1967), but it still lacks a specifically articulated theory and thus needs more theorising (Holt, Purcell, Gray and Pedersen, 2008; Kähäri, 2014). Therefore, I turn to the core international business literature that explains the location of MNE activities and headquarters in general. In line with Forsgren, Holm and Johanson (1992, 1995) and Barner-Rasmussen et al. (2007), in Section 2.2 I focus on three degrees of internationalisation. These are the location of individual functions (i.e. internationalisation of the first degree), subsidiaries as strategic centres (i.e. internationalisation of the second degree), and the relocation of headquarters (i.e. internationalisation of the third degree). The purpose of reviewing all three degrees of internationalisation literature is to identify the key determinants on the country, MNE and subsidiary levels that are potentially associated with headquarters’ location. I will then use these determinants as a basis for reviewing the literature specific to RHQ location in Section 2.3. Finally, in section 2.4 I discuss the the dynamic aspect of mandate location.

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3 The majority of existing literature was published prior to 2011 and hence does not make a distinction between dedicated RHQ and subsidiaries with RHQ mandates.
2.1 The regional dimension

2.1.1 Regional strategy

The organisation of an MNE’s distant operations has been a fundamental question in international business (IB) research (Enright, 2005b). Heenan and Perlmutter (1979) introduced a regional dimension - a regiocentric orientation of the MNE - which represents the middle ground between the long-standing dual criteria of centralised strategic planning and control, and decentralised local planning and operations. However, although organisational structures such as the multifocal MNE, the transnational MNE and the heterarchy were developed in the 1980s to cope with simultaneous pressures for global integration and local responsiveness, regional strategies emerged more intensively in the 1990s (Lehrer and Asakawa, 1999).

Regional strategies serve to accommodate cultural, political, legal and economic differences between regions (Ghemawat, 2005). Regional differences in markets, employees, business rules and social behaviour (Enright, 2005b) challenge global strategies that would require firm-specific advantages (FSAs) that “can be transferred abroad at low marginal costs and used effectively in foreign operations without substantial adaptation” (Rugman and Verbeke, 1992, p.763). In the regional solution, both bounded-rationality constraints and value-creation objectives require the dispersal of competences and capabilities among internal, region-based networks, typically in each part of the triad (E.U., NAFTA countries, Asia) rather than globally within the MNE (Rugman and Verbeke, 2001). Hence, regional strategies serve to achieve a compromise between global integration and local differentiation by efficiently exploiting regional-scale economies while maintaining a flexible approach to regional differences (Alfoldi et al., 2012; Lehrer and Asakawa, 1999).

The differentiation of strategies on a regional basis became a noticeable trend among American, European and Japanese MNEs in the mid-1960s (Heenan and Perlmutter, 1979). Forty years later, Rugman and Verbeke (2004) argued that although MNEs are key drivers of globalisation, the biggest proportion of the world’s largest firms have not
penetrated worldwide but are rather dispersed regionally in the broad ‘triad’ markets of NAFTA, the European Union and Asia. Despite being criticised for focusing on sales measures that may downplay the supply side of the business – arguably significant for manufacturing firms – these results imply that MNEs struggle to achieve success in more than one region (Ambos and Schlegelmilch, 2010). Rugman (2003) even envisioned ‘the demise of globalization’, emphasising strong inter-regional mobility barriers associated with subsidiary-specific advantages. Asmussen (2009) further illustrated that significant barriers to international expansion remain also within regions as large MNEs have strong national biases. However, despite the potential benefits of regional integration, the great majority of IB literature has taken global HQ and national subsidiaries as units of analysis (Rugman and Verbeke, 2001). This tends to bypass one of the most significant trends in the world economy, the rise of regional strategies and organisations as a focus for research (Rugman and Verbeke, 2001; Enright, 2005b).

A regional strategy does not automatically require a RHQ-led regional structure, although the two often go hand in hand especially if the strategy is truly adaptable on a regional basis (Ambos and Schlegelmilch, 2010). On the other hand, having RHQ does not necessarily mean that the firm has a regional strategy in practice (Ghemawat, 2005). The key is to achieve the right balance between customisation and standardisation, of which RHQ may well be a necessary, but not sufficient, part (Ghemawat, 2005). Alternatives to RHQ include having a regional office based within the CHQ, virtual networking and friendly regional culture to foster subsidiary cooperation (Ambos and Schlegelmilch, 2010; Lasserre, 1996; Li, Yu and Seetoo, 2010; Schütte, 1997). However, there are benefits, such as being able to narrow the span of control from headquarters as RHQ control local subsidiaries and have greater area sensitivity with a physical presence in the region (Heenan and Perlmutter, 1979). RHQ also yield economies of scale and scope in eliminating duplicate innovation, production and key administrative activities across different countries in the same region (Rugman and Verbeke, 2001). To achieve this, they typically require comprehensive activity relocation, which results in some subsidiaries being given extended regional mandates based on their location-specific advantages and related resource-bundling successes, as well as their observed superior competences within the region for specific activities, whereas others are closed down (Rugman and Verbeke, 2001). RHQ are therefore the most suitable option when operations within a region are relatively extensive, complex, and sufficiently different from those in other regions, allowing for bigger economies of scale within a region than worldwide (Egelhoff, 1982).

2.1.2 Regional headquarters (RHQ)

MNEs typically have various types of headquarters, such as the divisional and the regional, to help them coordinate their international activities (Laamanen et al., 2012). In this section I first briefly discuss the various definitions of RHQ (see Kähäri’s (2014) systematic literature review for an in-depth discussion), and then turn to the dynamics of their role, their geographic scope and location, given their relevance to this dissertation.
Definition

There is no standard definition of RHQ in the literature, thus there is substantial variation in terminology and responsibilities within the wider MNE organisation. Many early studies used the term ‘regional office’ (Williams, 1967; Perry, 1992; Perry et al., 1998). Some refer to ‘regional units’, ‘regional office’ and ‘regional headquarters’ rather interchangeably (Heenan, 1977; Heenan and Perlmutter, 1979; Ho, 1998; Holt et al., 2008), whereas others differentiate ‘regional headquarters’ as having more autonomy than ‘regional offices’ (Enright, 2005b; Poon and Thompson, 2003). Enright (2005b) defined RHQ as “an office that has control over the operation of one or more other offices and subsidiaries in other economies or countries in the region and which does not need to make frequent referrals to the overseas parent companies” (p. 84, emphasis added). A regional office, on the other hand, is “an office that has control over the operation of one or more other offices and subsidiaries in other economies or countries in the region” (Enright, 2005b, p. 84). Enright thus differentiates regional headquarters from regional offices in terms of autonomy, and further combines ‘regional headquarters’ and ‘regional office’ as ‘regional management centres’ (RMCs).

More recent studies classify RHQ as a mandate granted by headquarters rather than autonomous entities. A mandate is “a business, or element of a business, in which the subsidiary participates and for which it has responsibilities beyond its national market”, and thus is a generic concept that refers to responsibilities extending beyond the national market, whether a single value-adding activity such as a function or product line, or an entire business (Birkinshaw, 1996, p. 467). Birkinshaw’s definition was inspired by the definition of ‘charter’, which refers to “the businesses (i.e., product and market arenas) in which a division actively participates and for which it is responsible within the corporation” (Galunic and Eisenhardt, 1996, p. 2). Mandates can be granted to RHQ, divisional HQ, and centres of excellence, for example, which become intermediate-level units between the corporate headquarters and local subsidiaries (Hoemen, Nell and Ambos, 2014).

On the RHQ level, a mandate is “given to a profit-oriented local subsidiary that is mandated to dedicate some of its time and resources to performing regional HQ roles” (Alfoldi et al., 2012, p. 277, emphasis added). In fact, Alfoldi et al. (2012) criticise the literature for not distinguishing between two fundamentally different types of regional management centres: 1) a local profit-oriented subsidiary with RHQ mandates (also called regional management mandates, RMM) and 2) a dedicated RHQ that is an administratively oriented unit that dedicates all its time and resources to performing RHQ roles (Alfoldi et al., 2012; Lasserre, 1996). Subsidiaries with RHQ mandates have considerable advantages over dedicated RHQ, especially in small regions: they are more cost-efficient than dedicated RHQ and exploit the local operational expertise on a regional level, and thus relieve headquarters of the burden of monitoring remote peripheral markets (Alfoldi et al., 2012). However, a potential disadvantage is that subsidiaries with RHQ mandates may prioritise operations in their own host country at the expense of other countries in the region (Verbeke and Asmussen, 2016). Moreover, the fact that mandates are granted to existing subsidiaries may bring additional risks related to the legitimacy and acceptance of this type of RHQ by other subsidiaries (Alfoldi et al., 2012).
Mandates are neither unilateral accomplishments (assigned unambiguously by HQ or initiated by the subsidiary) nor the results of dyadic negotiation (shaped in interaction between HQ and the mandated unit), but tend to be co-constructed by multiple MNE units across multiple levels over time (Alfoldi, McGaughey and Clegg, 2017). They are “dynamic phenomena, often changing in form over time and sometimes being lost as well as won” (Birkinshaw, 1996, p. 468). Thus, Kähäri (2014, p. 120) defines RHQ as “an intermediate organizational unit with a mandated role, geographic scope and location, and is triple-embedded, terminable and change-sensitive”. I also use this definition in my dissertation, and discuss the dynamics of the RHQ role, its geographic scope and location in the following paragraphs.

**Role**

RHQ roles fall into two broad categories: entrepreneurial and integrative (Lasserre, 1996). Entrepreneurial roles are associated with various aspects of business development: searching for opportunities and initiating new ventures across the region (scouting), assisting local subsidiaries in terms of understanding the changing nature of the regional environment and helping them to integrate the changes into their business strategies (strategic simulation), and signalling commitment to local governments and stakeholders. Integrative roles, on the other hand, include ensuring that the businesses exploit synergies and follow consistent policies (coordination), and managing certain key functional activities (pooling resources) across the region (Lasserre, 1996). Hence, the entrepreneurial role is a ‘positive’ one that emphasises value creation, whereas the integrative role focuses on loss prevention by avoiding ‘negative’ or morally hazardous behaviour in the subunits (Alfoldi et al., 2012). In a similar vein, Schütte (1997) further divided RHQ roles into those directed towards headquarters, such as strategy development and intelligence gathering, and others more directly involved in regional operations such as the co-ordination of activities across borders and business divisions.

Lasserre’s (1996) RHQ lifecycle model traces the dynamics in the roles as follows: at the beginning of the lifecycle RHQ will probably have an entrepreneurial role associated with stimulation and strategic coordination; once the MNE becomes better established in the region the RHQ would adopt more integrative roles and exploit synergies between the different subsidiaries; finally, once the MNE has engendered a sufficient volume of activity in the region it will give full responsibility for carrying out various tasks to the local subsidiaries themselves, and RHQ will remain an administrative unit responsible for training, financial management, and legal and juridical oversight, for example (Lasserre, 1996). Thus, the roles may change over time and eventually even disappear if the full responsibility for carrying out various tasks is assumed by the local subsidiaries (Lasserre, 1996).

**Geographic scope**

Geographic scope refers to the region managed by RHQ (Kähäri, 2014), which may range from triad regions to small country groupings (Alfoldi et al., 2012). Ambos and
Schlegelmilch (2010) identified five determinants of the geographic scope: grouping geographically proximate markets, market similarities, the relative importance of individual markets to headquarters, political considerations, and cost efficiency in terms of balancing the trade-off between adaptation and economies of scale.

The question of geographic scope has significant managerial relevance. According to Ambos and Schlegelmilch (2010, p. 66), who interviewed managers in headquarters, RHQ and local subsidiaries, “no single question triggered as much interest as how to figure out what should constitute an optimal region”. Given that subsidiaries with RHQ mandates are more cost effective than dedicated RHQ in smaller regions, their optimal geographic scope is also smaller (Alfoldi et al., 2012). Despite its relevance, however, the issue has received surprisingly little attention in earlier research. A welcomed contribution is made by a recent study by Schotter et al. (2017) who examined the formation drivers of the two different types of RHQ: dedicated RHQ and subsidiaries with RHQ mandates. The authors found that MNEs are more likely to establish dedicated RHQ when there is a greater footprint (i.e. number of subsidiaries) in a region in order to enhance integration within the region. In contrast, MNEs with more dispersed subsidiaries across different countries within a region are more likely to grant RHQ mandates to existing subsidiaries (Schotter et al., 2017). However, their study does not identify the geographic scope of each established RHQ, but rather refers to the geographic scope of the MNE as a whole. Moreover, little is still known about the dynamics involved (Kähäri, 2014).

**Location**

Location is the focus in only 20 per cent of the literature on RHQ published between 1969 and 2014 (Kähäri, 2014). Furthermore, most of this literature concentrates on the selection criteria and on whether the RHQ were mobile or not, placing less emphasis on where they were located in practice (Kähäri, 2014). As Kähäri points out, however, this was probably due to the challenges of collecting reliable location information rather than a lack of interest.

Changes in RHQ location are rather common, and RHQ tend to be footloose given their low fixed costs and the fact that their main output is information (Dunning, 1988). Hence, they are relatively easily relocated from one host country to another when the relocation is triggered (Laamanen et al., 2012). RHQ may also be terminated without major disturbances in the MNE’s operations (Kähäri, 2014). From a systemic perspective, it has been argued that individual RHQ disappear when they are inefficient, in other words when their contribution is smaller than their costs (Piekkari et al., 2010). However, withdrawal does not necessarily signify failure: it may simply mean that the RHQ’s mission of launching ventures in the region has been accomplished, thereby ending the need for a headquarters in that area (Parks, 1969; Lasserre, 1996).
My aim in this dissertation is to examine the locational dynamics of headquarters, with a specific focus on subsidiaries with RHQ mandates. I classify RHQ based on Kähäri’s (2014, p. 120) recent definition as “an intermediate organizational unit with a mandated role, geographic scope and location, and is triple-embedded, terminable and change-sensitive”. The distinction between subsidiaries with a RHQ mandate and dedicated RHQ is worth attention when the focus is on locational dynamics. Whereas dedicated RHQ are established as green-field entries, RHQ mandates are given to existing subsidiaries, hence it is likely that the locational determinants differ accordingly. I decided to focus on subsidiaries with RHQ mandates in the empirical part of this dissertation and to leave dedicated RHQ for later study. Although Lasserre (1996) argued that granting RHQ mandates to local subsidiaries may seem attractive theoretically but was not widely done due to potential conflicts between the mandated and the non-mandated subsidiaries, more recent studies report that RHQ mandates are typically granted to existing subsidiaries (Ambos and Schlegelmilch, 2010; Chakravarty et al., 2017; Goold and Campbell, 2002). In fact, Chakravarty et al. (2017) found in their sample of 455 Japanese MNEs that subsidiaries with regional RHQ responsibilities outnumbered dedicated RHQ by more than 2:1, on average, with the former tending to become even more dominant. Having briefly discussed regional strategies and RHQ above, I will now move to the second box in Figure 3 and discuss the three degrees of internationalisation.

2.2 The three degrees of internationalisation

My focus in this section is on the relevant literature on international business dealing with the location of MNE activities in general. In line with Forsgren, Holm and Johanson (1992, 1995) and Barner-Rasmussen et al. (2007), I refer to internationalisation of the first, second and third degrees, representing the relocation of individual functions, subsidiaries as strategic centres, and the relocation of headquarters, respectively. I will summarise the key country-level, MNE-level and subsidiary-level determinants emerging from each of the three literature streams listed in Table 1, Section 2.2.4. Given that this body of literature, and especially that on internationalisation of the first and second degrees, is much more strongly established than the literature on RHQ location, I will use the determinants identified in this section as a basis for my review of the latter in Section 2.3.

2.2.1 The first degree: the relocation of individual functions

Internationalisation of the first degree refers to the initial steps in the internationalisation process, in which individual functions such as sales and marketing (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Luostarinen, 1979) and eventually production and R&D are transferred to a foreign country (Forsgren et al., 1992). This approach relies on the assumption that the subsidiary is an instrument of the MNE and acts solely according to the roles determined by CHQ (Birkinshaw and Hood, 1998). It attracted a lot of interest in the early research on international business.
Johanson and Vahlne (1977) proposed in their ground-breaking article that firms internationalise incrementally through stages ranging from low to high commitment, and that they enter markets with the least psychic distance first. The authors define psychic distance as “the sum of factors preventing the flow of information from and to the market”, such as differences in language, education, business practices, culture and industrial development (Johanson and Vahlne 1977, p. 24). Hence, distance between the home and host countries is a major determinant in decisions on where to locate individual functions.

The focus in Vernon’s (1966) product-lifecycle theory, on the other hand, is on the production functions of US market-seeking firms, the assumption being that the product is first produced in the country in which it is sold (typically the firm’s home country). Once the product matures and foreign demand increases concerns about production costs are raised and the company may take the risk of setting up a foreign production facility (Vernon, 1966). Thus, according to the theory, the labour costs of the host country largely determine where the production facilities are relocated. Labour costs are one type of location-specific advantage, which is treated more holistically in the following paragraphs on internalisation theory.

Whereas the above-mentioned studies focus on the act of foreign direct investment (FDI), other international business studies starting in the mid-1970s turned their attention to the organisation making the investment, and why they should set up or acquire foreign activities rather than focusing on exporting (Dunning, 1998). Internalisation theory, which is grounded in transaction cost theory (Coase, 1937; Williamson, 1975), posits that MNEs grow by replacing imperfect external markets with internal markets (Buckley and Casson, 1976; Casson, 1979; Dunning, 1981; Hennart, 1982; Rugman, 1980, 1981; Teece, 1981). It is based on the premise that the MNE’s advantages derive from firm-specific advantages (FSA), location-specific advantages (LSAs, also called country-specific advantages, CSA) and internalisation advantages, of which FSAs and LSAs are critical determinants of the location of value-chain activities (Moore and Heeler, 1998). Location-specific advantages are available to all firms in a given location (Dunning, 1980) and thus associated with the benefits of locating certain activities in particular countries (Rugman and Verbeke, 1992). In addition to the labour costs that Vernon (1966) mentions, Dunning (1990) suggests LSAs to include productivity, national resources (especially labour, land and finance capital), market size and character, transport costs, tariff barriers, the taxation structure, risk factors, attitudes towards FDI and the structure of the competition (Moore and Heeler, 1998). Firm-specific advantages, on the other hand, are a requirement for internationalisation as “international production takes place once the MNE has secured a firm-specific advantage” (Rugman, 1980, p. 25). They include the competitive strengths of the company, being either production- or marketing-based and comprising economies of scale or product diversification related to firm size, the management of organisational expertise, the ability to acquire and upgrade resources, product differentiation, marketing economies, and access to domestic markets (Dunning, 1981, 1990; Moore and Heeler, 1998; Rugman and Gestrin, 1993; Rugman and Verbeke, 1992).

Internalisation theory addresses the issues of entry mode and firm boundaries, but also posits that market internalisation alone explains the existence of MNEs (Lundan, 2010).
Dunning (1988) accepted the argument related to the firm’s boundaries but placed more emphasis on the need for ownership advantages prior to internalisation (Lundan, 2010). Thus, he created an eclectic, or OLI, paradigm, comprising a) the firm’s ownership advantages (O) of property rights and intangible assets; b) locational advantages (L) of national differences in natural resources, transportation costs, cultural factors and government regulations; and c) internalisation (I) advantages to overcome market failures such as buyer uncertainty and the lack of futures markets (Dunning, 1988). This triad is like “a three-legged stool; each leg is supportive of the other, and the stool is only functional if the three legs are evenly balanced”: hence, all these advantages are needed to determine FDI and MNE activity (Dunning, 1998, p.45).

Dunning (2004) and Dunning and Lundan (2008a, 2008b) further divided ownership advantages into asset-based advantages (Oa), advantages of common governance (Ot) and institutional advantages (Oi). Asset-based advantages refer to what the firm owns, such as intellectual property rights, stocks of tacit knowledge, or tangible property and equipment (Lundan, 2010). Advantages of common governance, on the other hand, arise from the cross-border coordination of asset-based advantages and thus refer to economies achieved by a multi-plant over a single-plant firm (Lundan, 2010). Finally, institutional ownership advantages derive from the institutional infrastructure specific to any one firm (Dunning and Lundan, 2008a, 2008b). Not only do MNEs adjust to their operating environment, they also shape the formal and informal institutional environments in their home and host countries by engaging in political activities to develop the regulations or the market structure and thus give them an advantage over their competitors (Cantwell et al., 2010; Lundan, 2010). As discussed in Chapter 1.4, the example of Nordea’s relocation to Finland shows how relevant the issue of affecting versus adjusting to the external environment is to the dynamics of headquarters location. Nordea relocated its CHQ to Finland because it was not able to shape the operating conditions in Denmark or Sweden, and did not want to adjust to the current conditions in Sweden. Whereas in the case of joining the European Banking Union the benefits would have been available to all banks, in many cases MNEs negotiate conditions that are specific to them, such as corporate taxation. Therefore, the analysis of location-specific advantages warrants extra caution because the researcher cannot be certain that the RHQ is subject to the listed taxes and other conditions unless an in-depth case study is conducted.

Dunning (1998) also pointed out that the locational preferences of foreign direct investors depend on the motives for the investment and whether it is new or sequential rather than on the types of activities in which they are engaged. He identified four major motives for foreign direct investment (FDI), namely resource-seeking, market-seeking, efficiency-seeking, and strategic-asset-seeking (Dunning, 1993). First, (natural) resource-seeking motives are supply-oriented, aimed at gaining access to natural resources such as minerals, agricultural products and unskilled labour (Dunning, 2000). Second, market-seeking motives are demand-oriented, aimed at satisfying a specific foreign market or set of foreign markets. Third, efficiency-seeking FDI is typically sequential to resource- or market-seeking FDI and is designed to promote a more efficient division of labour or specialisation of the MNE’s assets. Finally, strategic-asset-seeking FDI is designed to protect or augment specific existing ownership advantages of the MNE and/or to weaken those of its competitors (Dunning, 2000). Each of the four motives is associated with specific subsidiary types that are set up to
bundle distinctive internal competences with specific location advantages (Rugman et al., 2011). In the context of RHQ, I noted earlier in this dissertation that they are typically established to achieve a compromise between global integration and local differentiation by efficiently exploiting regional economies of scale while accommodating regional differences (Alfoldi et al., 2012; Lehrer and Asakawa, 1999). This would imply that RHQ are typically established for market-seeking and efficiency-seeking purposes. Moreover, as discussed earlier, they tend to be sequential investments in that RHQ mandates are granted to existing subsidiaries that are already embedded in host countries.

Whereas Dunning (1998) highlighted the relevance of the above-mentioned motives for investment rather than the types of activity in which MNEs are engaged, the literature on offshoring starts from the activities. Offshoring concerns the disaggregation, relocation and reintegration of activities and business processes across borders (Jensen and Pedersen, 2011). More specifically, it refers to the relocation of the firm's input-market side of its value-chain activities such as production and R&D rather than the output-market side, in other words sales from the home country to a foreign location (Schmeisser, 2013). The same activities may either be carried out by the MNE’s own subsidiary or allocated to a foreign contract vendor (Contractor, Kumar, Kundu and Pedersen, 2010). An underlying assumption in this more recent literature is that the value chain is no longer divided into large functions such as sales, marketing, production and R&D but is rather split into dozens or hundreds of sub-activities within each function, which requires separate decisions on where to carry them out (Contractor et al., 2010). Hence, offshoring is also associated with internationalisation of the first degree.

The majority of the literature on offshoring has focused on the home country or the offshoring firm (Jensen and Pedersen, 2011), such as the MNE home country’s intellectual-property-rights system (Martínez-Noya and García-Canal, 2011), firm size (Roza, Van den Bosch and Volberda, 2011), the degree of product innovation (Mol, Van Tulder and Beije, 2005), the industry’s information intensity (Nachumand and Zaheer, 2005) and the characteristics of services to be offshored (Doh, Bunyaratavej, and Hahn, 2009; Liu, Feils and Scholnick, 2011). Less attention has been paid to the local context of the offshoring location (Jensen and Pedersen, 2011), although there has been some research on location-specific advantages such as labour costs, host-country risk and the advancement of the offshored activity (Hahn, Bunyaratavej and Doh, 2011), larger knowledge stocks and similar technological profiles of host-country industries (Chung and Yeaple, 2008), and the global sourcing of science and engineering talents (Lewin, Massini and Peeters, 2009). However, there are calls for a more nuanced understanding of the nature of relocated activities, especially between standardised and advanced (i.e. creative and innovative) activities (Jensen and Pedersen, 2011).

In sum, the literature on internationalisation of the first degree provides a strong basis for explaining the location of MNE activity. Country-level determinants emerging from this literature include distance between the MNE’s home and host country (Johanson and Vahlne, 1977) and location-specific advantages (Dunning, 1980, 1981; Rugman, 1981; Rugman and Verbeke, 1992). Although distance is dependent on the nationality of the MNE, I consider it a country-level determinant because it refers to the distance between countries. MNE-level determinants include firm-specific advantages (Rugman
1980; Rugman and Verbeke, 1992), ownership advantages (Dunning and Lundan, 2008a, 2008b) and foreign direct investment motives (Dunning, 1993). However, focal-subsidiary-level determinants received less attention in the early IB studies. Insights from the literature on offshoring (e.g. Doh et al., 2009; Liu et al., 2011) imply that the characteristics of offshored activities are also associated with the location. Table 1 in Section 2.2.4 summarises these determinants.

2.2.2 The second degree: subsidiaries as strategic centres or centres of excellence

Whereas the first degree of internationalisation, discussed above, concerns locating operative MNE functions abroad, the focus in the second degree is on the transformation of existing subsidiaries into strategic centres or centres of excellence. This stream of research on the conceptualisation and appreciation of subsidiary roles aroused the interest of researchers as MNEs increasingly began to adopt global strategies (Prahalad and Doz, 1987), and with the emergence of concepts such as the MNE as a heterarchy (Hedlund, 1986), a differentiated network (Ghoshal and Nohria, 1989; Nohria and Ghoshal, 1997), the transnational MNE (Bartlett and Ghoshal, 1989) and the embedded/federative multinational (Andersson, Forsgren and Holm, 2002, 2007; Forsgren, Holm, Johanson, 2005). A networked organisation gives subsidiaries much more freedom to develop their own unique resource profiles and thus to move from a subordinate even to a leadership position within the MNE (Birkinshaw and Hood, 1998). Subsidiaries may even become strategic centres when they extend their operations outside their local markets and control resources on which other parts of the MNE depend for their operations (Forsgren et al., 1992).

Centres of excellence (i.e. strategic centres) resemble RHQ in many ways, hence a deeper understanding of their key locational determinants will also enhance understanding of the RHQ location. First, referring to the definition of Forsgren et al. (1992) mentioned above, RHQ also control the operations of one or more other offices and subsidiaries in other economies or countries in the region (Enright, 2005b). Second, the concept of centres of excellence also reflects ‘product mandates’, which give the subsidiary responsibility over a single product line beyond its own market (Birkinshaw, 1996). Third, centres of excellence and subsidiaries should not be equated on a one-for-one basis. They do not necessarily require a fixed physical location because they emerge based on the capabilities of a relatively small group of people (Lyle and Zawacki, 1997; Moore and Birkinshaw, 1998), but they tend to be physically based in a specific organisational subsidiary (Frost, Birkinshaw, Ensign, 2002). In this sense, subsidiaries with RHQ mandates are very similar in that selected people in the subsidiary have RHQ-related roles whereas the rest focus on traditional subsidiary activities.

Fourth, according to Frost et al. (2002), a centre of excellence is best defined in terms of its basis for creating value rather than of a specific product or line of business because it possesses capabilities that have the potential to create value for more than one line of business. Given their entrepreneurial role focusing on value creation (Lasserre, 1996; Alfoldi et al., 2012), RHQ thus resemble centres of excellence in this respect. Fifth, centres of excellence emerge through bottom-up or top-down processes in which the subsidiary’s top management recognises the importance of an existing knowledge base,
or the MNE’s senior management identifies certain knowledge areas that need to be actively developed within the firm (Birkinshaw and Hood, 1998; Moore and Birkinshaw, 1998). The same applies to RHQ mandates, which can be assigned by headquarters or initiated by the focal subsidiary (Alfoldi et al., 2017). However, the authors further point out that RHQ mandates are typically co-constructed over time by multiple subsidiaries and CHQ (Alfoldi et al., 2017).

Finally, centres of excellence may well be dynamic in that they emerge to fill a specific need and are likely to evolve or to die out (Moore and Birkinshaw, 1998). Their value is also likely to diminish over time as their once specialised knowledge is disseminated more widely in the organisation, or it becomes less relevant in a new competitive environment. Thus, they face either renewal or closure (Moore and Birkinshaw, 1998). This is in line with Lassere’s (1996) RHQ lifecycle discussed earlier, according to which RHQ roles may change over time and eventually disappear if the full responsibility is taken over by local subsidiaries. However, little attention has been given in the literature to the end of the lifecycle (Moore and Birkinshaw, 1998), which also applies to the loss of headquarters mandates in general (Nell et al., 2017).

Key determinants emerging from the literature

Country-level determinants Country-level determinants are relevant to strategic centres, as they exploit advantages specific to the host country (Forsgren et al., 1992, p. 237). Frost, Birkinshaw and Ensign (2002) and Holm, Holmström and Sharma (2005) divide the determinants related to the host country into location-specific advantages and the connectivity of the unit to key actors in the country, in other words local business relationships.

First, location-specific advantages (LSAs) include the strategic importance of the country (Bartlett and Ghoshal, 1986), the importance of local resources and environmental complexity (Ghoshal and Nohria, 1989), a dynamic and attractive local environment, host-country government support and the low cost of factor inputs (Birkinshaw and Hood, 1998), skills and capabilities resident in the host country (Anand and Kogut, 1997), the strength of the local industry “diamond” (Porter, 1990; Frost et al., 2002), being on the ‘inside’ of the trading areas (Benito, Grögaard and Narula, 2003), the host country’s market economy and related actors (Dörrenbächer and Gammelgaard, 2006), as well as specific characteristics of local clusters to which subsidiaries belong (Birkinshaw and Hood, 2000). However, Rugman et al. (2011) criticise IB research for the tendency to assume that one subsidiary has only one role (e.g. innovation, sales, production or administration). The authors suggest that the strength of locational advantages should be assessed separately for each task that the subsidiary has because one subsidiary may have several roles. This is especially important in the RHQ context given that mandates may be given to fully-fledged subsidiaries, which then have a dual role with regional and local responsibilities, or dedicated RHQ may be established solely for regional purposes (Alfoldi et al., 2012).

Second, local business relationships have been examined rather extensively in the context of embedded and federative MNEs (e.g. Andersson et al., 2002, 2007; Forsgren
et al., 2005). This line of research has shown that closeness in relationships (i.e. embeddedness) with specific customers, suppliers and other business and institutional counterparts improves the subsidiary’s ability to absorb new knowledge from the environment, and that innovative behaviour is as common within business relationships as within firms (Andersson, Björkman and Forsgren, 2005). The external embeddedness of a subsidiary is measured in terms of its product adaptation and its production-development-based relationships with its main customers and suppliers (Andersson, Forsgren and Holm, 2001; Forsgren et al., 2005). Hence, local business relationships are considered a strategic resource for the focal subsidiary and of importance in terms of competence development in the MNE (Andersson and Forsgren, 2000; Andersson et al., 2002). Other studies on embeddedness and local linkages use measures such as patent citations with other firms in the host location (e.g. Almeida and Phene, 2004; Cantwell and Mudambi, 2005). Among other things they have found that the subsidiary’s knowledge linkages to host-country partners provide the best inputs for innovation, whereas linkages to the MNE may yield redundant knowledge given that such ties are within the same knowledge content (Almeida and Phene, 2004). Patent citations are often used, especially in the context of innovative subsidiaries that produce tangible outputs, because they are easier to proxy and to empirically test (Narula, 2014). However, RHQ are less likely to generate patents given their administrative and managerial nature, and thus their local business relationships constitute a more accurate measure of their local embeddedness than patent citations.

Whereas business relationships constitute a country-level determinant given their dependence on the industry structure and the number of potential partners, the ability to take advantage of these relationships could also be classified as a subsidiary-level determinant because not all subsidiaries are able to exploit potential local relationships equally effectively. However, in this dissertation I classify local business relationships as external to the firm, and thus as country-level determinants, in line with Frost et al. (2002) according to whom: “the dominance of particular firms—and clusters of firms—in certain industries can be attributed, in part, to the institutional conditions in which these firms are born and evolve” (p. 1001). Holm et al. (2005) also consider competence development in local business relationships a country-level determinant.

Subsidiary-level determinants have been the focus of attention in the literature on second-degree internationalisation, which mainly concerns established subsidiaries that become strategic centres or centres of excellence.

In their seminal article, Bartlett and Ghoshal (1986) identified the local subsidiary’s competences as one of the two main determinants of its role. Subsidiary capabilities encompass individual managers’ skills as well as organisational routines and learning processes (Nelson and Winter, 1982), and could thus be classified as residing in the employees or in the organisation. B Birkinshaw and Hood (1998) identified employee capabilities in terms of the credibility of subsidiary management and the degree of entrepreneurial orientation. The track record of the subsidiary, on other hand, represents organisational capabilities (Birkinshaw and Hood, 1998). However, most studies consider subsidiary capabilities from a broad perspective. Bartlett and Ghoshal (1986, p.90), for example, specify competences rather broadly as being “in technology, production, marketing, or any other area”. Forsgren et al. (1992) also identify subsidiary
competence and capacity stemming from production, marketing and R&D activities on which other MNE units depend. Furthermore, subsidiaries that are strategic centres control more critical resources than other subsidiaries, and thus larger or more profitable subsidiaries are better able to operate rather independently (Forsgren et al., 1992).

Frost et al. (2002) describe centres of excellence as based on the subsidiary’s strong capabilities, formal recognition, and greater-than-unit-level contribution. They further identify the level of capabilities (or competences) in terms of research, development and manufacturing. Capabilities also influence the dynamic aspect of subsidiary evolution in that mandate changes are driven or followed by changes in capability (Birkinshaw and Hood, 1998). Following Amit and Schoemaker (1993), the authors define capabilities as the subsidiary’s capacity to deploy resources (i.e. the stock of available factors it owns or controls).

Formal recognition implies the formal acknowledgement of the competences at headquarters, whereas greater-than-unit-level contributions refer to the extent to which these capabilities influence other MNE units (Frost et al., 2002). Formal recognition could thus be contrasted with having a specific mandate granted by headquarters, as in the case of RHQ. A greater-than-unit-level contribution, on the other hand, refers to the operational dependence on the subsidiary among sister units, as discussed in Forsgren et al. (1992).

Centres of excellence as a concept is closely linked to that of subsidiary-specific advantages (SSAs), which are unique to a specific subsidiary and thus not shared by others in the same MNE or by other subsidiaries in the industry in a country (Moore and Heeler, 1998). Such advantages include product differentiation, managerial capability, product or process competences, global marketing economies, access to demanding domestic markets, being able to take advantage of capital availability and financial expertise, access to natural resources, and the ability to adjust to structural changes within the MNE (Moore and Heeler, 1998). Rugman and Verbeke (2001) describe SSAs as competences and capabilities that are difficult to diffuse within the MNE in that they incorporate tacit knowledge that is context-specific and dispersed across several individuals within the subsidiary. They are prerequisites in terms of obtaining global or regional mandates in that having the relevant competences further justifies the mandate allocation so that sister subsidiaries feel a sense of fairness about the process (Moore, 2001).

MNE-level determinants Several studies examining the emergence of subsidiaries as strategic centres or centres of excellence also include MNE-level determinants, which are associated with competitive strengths of the MNE such as firm-specific and ownership advantages, as discussed earlier.

Birkinshaw and Hood (1998) propose in their conceptual paper that headquarters’ assignment of roles is an MNE-level determinant of subsidiary evolution, which they further categorise as a competitive internal-resource-allocation system that promotes internal competition, the decentralisation of decision-making in the MNE, and an ethnocentric attitude among parent-company managers. The authors also point out that the type of industry could potentially affect subsidiary evolution, although they exclude this from their conceptual development. Frost et al. (2002) highlight headquarters’
investment decisions and the assignment of roles. The authors found that centres of excellence are more common in subsidiaries that are more strongly influenced by other units within the multinational network in their competence development, and that attract more investment from the parent firm. Investment from the parent firm was particularly strongly associated with the formation of centres of excellence focused on research, development and manufacturing (Frost et al., 2002).

Cantwell and Mudambi (2005) examined the country-level, MNE-level and subsidiary-level determinants of R&D intensity among subsidiaries with competence-creating mandates. The authors identified MNE-level determinants such as product or business diversification and being part of an acquired group. They also compared the UK subsidiaries of Japanese, US and European MNEs, and found that Japanese- and American-owned subsidiaries were more likely to develop cross-border innovation networks within Europe because they did not have a home base on which to focus attention within the European region (Cantwell and Mudambi, 2005). Thus, it was the distance between the parent and the subsidiary rather than the nationality of the MNE that affected the outcome.

In sum, determinants on all three levels of analysis are addressed in the literature on the second degree of internationalisation, sometimes even in the same study (e.g. Birkinshaw and Hood, 1998; Frost et al., 2002; Cantwell and Mudambi, 2005). Country-level determinants have been examined in terms of location-specific advantages and local business relationships. Subsidiary-level determinants, on the other hand, are discussed in terms of closely related concepts of subsidiary capabilities, such as the competences of the focal subsidiary, subsidiary size and subsidiary-specific advantages. Finally, MNE-level determinants include headquarters’ investment decisions and the assignment of roles, the industry in question and firm-specific advantages.

2.2.3 The third degree: the relocation of headquarters

Management functions typically remain in the MNE home country during the first two stages of internationalisation. Third-degree internationalisation happens when headquarters units are relocated to a foreign country, a step that could be considered once a considerable proportion of sales and production originate from the foreign market (Barner-Rasmussen et al., 2007, p. 263). As noted in Section 2.1.2, RHQ could be considered hybrid units that share characteristics associated with internationalisation of the second and third degree. On the one hand, they are subsidiaries with a market scope that extends beyond their home market. On the other hand, irrespective of whether they are dedicated RHQ or subsidiaries with RHQ mandates, they are intermediary headquarters standing between CHQ and local subsidiaries that are given the authority to “solve problems in the region which cannot be handled by the national units, and otherwise would have to be dealt with and acted upon by headquarters” (Schütte, 1997; p. 441).

The relocation of headquarters functions may involve moving some core parts of the CHQ abroad or establishing intermediary headquarters between CHQ and the local subsidiaries in a foreign country (Baaij and Slangen, 2013; Nell et al., 2017). Barner-
Rasmussen et al. (2007) identified different patterns of relocation. First, direct relocation means that a firm simply relocates a headquarters unit in another place. Although the relocation of corporate headquarters (CHQ, as in the opening case of Nordea) is still rather rare, the relocation of intermediary headquarters abroad on the divisional (DHQ) and regional (RHQ) level, for example, is becoming increasingly common (Baaij and Slangen, 2013; Benito et al., 2011; Birkinshaw et al., 2006). Second, relocation may be full, partial or virtual, meaning that the entire top-management group and all headquarters functions are moved (full), only selected members of the top-management group and functions are transferred (partial), or headquarters management responsibilities are handled through frequent travel and modern IT support systems (virtual) (Barner-Rasmussen et al., 2007). Baaij, Mom, Van den Bosch and Volberda (2015) also found that some MNEs move elements of their CHQ with some or all members of the executive management team, or specific corporate staff functions to foreign countries.

Studies on the relocation of headquarters abroad can be divided into two groups: those that examine the initial relocation of the headquarters from the home country by asking why and to what extent they are located abroad (e.g. Baaij, Mom, Van Den Bosch, and Volberda, 2012, 2015; Benito et al., 2011; Birkinshaw et al., 2006; Forsgren et al., 1995), and those that also consider the actual choice of the new location (e.g. Barner-Rasmussen et al., 2007; Laamanen et al., 2012; Lunnan, Benito and Tomassen, 2011; Strauss-Kahn and Vives, 2009).

The first systematic study on the initial relocation of headquarters was conducted by Forsgren et al. (1995) and concerned the DHQ of 19 Swedish MNEs. Of a total of 104 divisions, 22 had relocated to foreign countries. The authors focused on firm-level determinants, asking: “Why are division headquarters of multinational corporations in some cases located abroad?” (p. 475). They found that a higher degree of divisional internationalisation (proportion of employees abroad) was associated with relocating DHQ abroad, close to the division’s operations. However, MNEs with highly internationalised operations were less likely to relocate DHQ abroad in order to keep the division heads together as a close team (Forsgren et al., 1995). Birkinshaw et al. (2006) also studied large Swedish multinationals and the likelihood of moving their corporate headquarters and divisional (business unit in their terminology) headquarters overseas. Six of the 35 MNEs had relocated their CHQ abroad, as well as 40 of 125 DHQ. The authors found that DHQ were relocated overseas in response to changes in the internal configuration of their unit's activities, perceived attractiveness of the new location, and the demands of the product markets in which they operated, whereas CHQ relocated in response to the demands of external stakeholders, specifically global financial markets and shareholders.

Baaij et al. (2015) conducted a study of 58 of the 100 largest Dutch MNEs in 2007 and asked why MNEs move specific core parts (i.e. executive management team members, CHQ core staff functions or the corporate legal seat) of their CHQ abroad. The authors proposed that the benefits of moving CHQ core parts overseas depend on two main categories of relocation drivers, namely increased internationalisation of the MNE and decreased attractiveness of the home country compared with alternative host countries. They found that the relocation of the executive management team members and the relocation of the core CHQ staff are associated with the increased internationalisation
of the MNE’s shareholders and assets. The relocation of the core CHQ staff is also associated with the decreased attractiveness of the home country in terms of availability of talent and quality of service clusters. The authors also found that the corporate legal seat tended to be kept in the home country, which makes it difficult for outsiders keep track of relocations.

A study by Barner-Rasmussen et al. (2007) is exceptional for the reason that it studies the initial relocation of the headquarters units from home country, the choice of the new host country as well as relocation to another host country. The authors examined DHQ relocation in four large Finnish MNEs, focusing on both MNE- and location-specific determinants and taking a multiple-case-study approach. They found that key drivers of DHQ relocation included the need to control and integrate newly acquired subsidiaries, attracting global talent, improving communications with owners and other stakeholders, establishing a physical presence (within the EU, co-located with key customers, skilled employees and key competitors), logistic costs and quality-of-life aspects (a good climate, easy language, the availability of housing and schools). However, the authors did not make an analytical distinction between the relocation from home to host country, and from a host country to another.

Benito et al. (2011) examined the relocation of DHQ (the authors included RHQ within their DHQ concept), focusing on the MNE-level determinants that pushed (and held back) Norwegian MNEs to establish or move abroad DHQ between 2000 and 2006. The authors found that state ownership and ownership concentration discouraged DHQ relocation abroad, but national ownership did not. On the other hand, companies operating in the services sector were more likely than companies in manufacturing or local-resource-based industries to locate divisional headquarters abroad given that services benefit less from standardisation and economies of scale (Benito et al., 2011). In addition, although MNEs may move their DHQ to gain efficiency by co-locating with foreign subsidiaries, they keep them at home when the company becomes large, highly diversified and complex to manage (Benito et al., 2011), echoing the findings of Forsgren et al. (1995). Lunnan, Benito and Tomassen (2011) also conducted a consecutive study in which they looked at the companies’ choice of location more closely. They proposed that companies locate DHQ abroad close to their central stakeholders in order to gain legitimacy among them, be close to resources needed, gain global sustainable competitive advantages, and improve efficiencies in the headquarter–subsidiary relationship. The authors further suggest that when the MNE enters a foreign market through acquisitions, legitimacy will be a strong motivator for granting the acquired unit a DHQ mandate in order to counterbalance the insecurity among local employees and governments (Lunnan et al., 2011). However, it’s more important to locate DHQ in developed clusters than gain legitimacy with stakeholders in weak locations (Lunnan et al., 2011).

Strauss-Kahn and Vives (2009) also extend their analysis to the choice of location by asking why and where do headquarters move. The authors studied 30,000 headquarters, defined as a management (administration and marketing) centre of a firm, of which 1,441 relocated within the US between 1996 and 2001. The authors mainly focused on location-specific advantages and found that headquarters relocated to metropolitan areas with good airport facilities, low corporate taxes, low average wages, high levels of business services and same-industry specialisation. They also note a tendency towards
higher concentrations of headquarters in the same activity sector, and that amenities such as amusement and recreational services (e.g., dance studios, theatres and professional sports), and health and educational services attracted headquarters to a specific location (Strauss-Kahn and Vives, 2009). The headquarters in the sample were US- and foreign-owned, of which the latter were more likely to relocate.

The quantitative study of RHQ and CHQ relocation conducted by Laamanen et al. (2012) is unique in the sense that it examines country-, MNE- and subsidiary-level determinants, as does the dissertation at hand. Laamanen and his co-authors propose a set of MNE- and subsidiary-specific catalysing factors (distinction between CHQ and RHQ, publicly traded company status, the firm’s performance and the size of the HQ personnel), and country-specific push factors that are associated with the question of “whether to relocate”. They also analysed country-specific factors as pull factors associated with “where to relocate”. According to their findings, high taxes and high employment represent push factors associated with “whether to relocate”, whereas a central location and low taxes represent pull factors associated with “where to relocate”. In addition, export-oriented companies and RHQ showed a higher tendency to relocate (Laamanen et al., 2012). However, given that RHQ and CHQ were examined together because of the relatively small sample size of 52 HQ relocations, it is not clear whether high taxes, for example, were associated with RHQ relocation or were of overpowering significance to CHQ. Depending on the legal structure, RHQ may (or may not) have profit responsibility or its mandated subunits showing in its financials, making them more (or less) vulnerable to taxation issues. Furthermore, the combination of CHQ and RHQ units in the analysis is challenging because the relocation of CHQ typically takes place from home to host country, whereas the RHQ may be relocated from a host country to another. This difference is not made evident in the article but warrants further theoretical discussion.

In sum, although the literature on the relocation of headquarters is relatively new and still limited in extent, it involves more theorising than the literature on RHQ location, which I discuss in the following section. Most studies focus on whether or not MNEs disaggregate HQ activities abroad, thus the drivers of the initial relocation of headquarters away from the CHQ home country (e.g. Baaij et al., 2012, 2015; Barner-Rasmussen et al., 2007; Benito et al., 2011; Birkinshaw et al., 2006; Forsgren et al., 1995; Laamanen et al., 2012; Strauss-Kahn and Vives, 2009). These studies focus mainly on the MNE-level determinants such as MNE industry and a variety of determinants associated with firm-specific advantages, including changes in internal configurations of activities, foreign/state ownership, acquisitions, level of internationalisation and whether or not the MNE is publicly traded. Also the country-level determinants are examined in terms of location-specific advantages (including quality-of-life aspects, perceived attractiveness of the home county and taxation) and proximity to various stakeholders. The focus is typically on the perceived attractiveness of the home county because the actual choice of location is outside the scope of the study (e.g. Baaij et al., 2015; Birkinshaw et al., 2006). Less attention has been afforded to the actual choice of location thus far (notable exceptions include Laamanen et al., 2012; Lunnan et al., 2011; Strauss-Kahn and Vives, 2009). Nevertheless, current understanding of the factors that encourage MNEs to locate or relocate headquarters functions abroad is very limited (Benito et al., 2011).
Interestingly, a number of studies have combined several types of headquarters units in their analysis without conceptualising their differences. For example, Birkinshaw (1996) studied subsidiaries with world product mandates but several had only regional mandates, Barner-Rasmussen et al. (2007) studied divisional and corporate headquarters, whereas Benito et al. (2011) and Lunnan et al. (2011) included regional headquarters within their concept of divisional headquarters. This suggests that the traditional classification of headquarters into e.g. corporate, divisional and regional may not be meaningful any longer.

What is surprising is that the studies conducted by Benito et al. (2011) and Lunnan et al. (2011) are among the few that acknowledge co-location between the headquarters mandate and subsidiaries. Whereas Alfoldi et al. (2012) criticise earlier RHQ studies for not distinguishing between dedicated RHQ and subsidiaries with a RHQ mandate, the same criticism can be extended to the literature on headquarters’ location in general. Nevertheless, research on the locational dynamics of headquarters is likely to expand rapidly given recent calls for research on different types of headquarters configurations, the roles of different types of headquarters and their (re)location patterns (Benito et al., 2011; Hoenen and Kostova, 2014; Laamanen et al., 2012; Menz, Kunisch and Collis, 2015; Meyer and Benito, 2016; Nell et al., 2017; Zhou, 2014).

2.2.4 A summary of the key determinants

Table 1 summarises the key country-, MNE- and subsidiary-level determinants that I identified as being associated with the relocation of individual functions abroad (the first degree of internationalisation), the creation of subsidiaries as strategic centres (the second degree) and the relocation of headquarters abroad (the third degree). Although they represent the main determinants that previous researchers have addressed, they do not comprise a comprehensive list given the potential existence of other associated determinants. However, I believe they cover the major determinants associated with the location of MNE activities in general.

First, country-level determinants include location-specific advantages, distances from the HQ unit to the key markets and the MNE home country, as well as local business relationships. Second, MNE-level determinants consist of firm-specific advantages, ownership advantages, investment motives, headquarters’ investment decisions and role assignment, and the MNE’s industry. Finally, subsidiary-level determinants include factors related to the focal subsidiary’s activities, competences, subsidiary-specific advantages and size. I use these determinants in the following section to review the literature on RHQ location, and thereby to identify the key determinants associated with the locational dynamics of RHQ as well as those that are not analysed in that body of literature.
Table 1. Takeaways from the three degrees of internationalisation literature

<table>
<thead>
<tr>
<th>Degree of internationalisation</th>
<th>Country-level</th>
<th>MNE-level</th>
<th>Subsidiary-level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st: Location of individual functions abroad</td>
<td>Distance (Johnson and Vahlne, 1977)</td>
<td>Firm-specific advantages (Rugman 1980; Rugman and Verbeke, 1992)</td>
<td>Activities (Doh et al., 2009; Li et al., 2011)</td>
</tr>
<tr>
<td>Location-specific advantages (Dunning, 1980, 1981; Rugman, 1981; Rugman and Verbeke, 1992)</td>
<td>• Labour costs, productivity (Vernon, 1966)</td>
<td>• MNE size</td>
<td></td>
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<tr>
<td></td>
<td>• National resources</td>
<td>• Ability to acquire and upgrade resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Size and character of markets</td>
<td>• Product differentiation</td>
<td></td>
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<tr>
<td></td>
<td>• Transport costs</td>
<td>• Marketing economies</td>
<td></td>
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<td></td>
<td>• Tariff barriers</td>
<td>• Access to domestic markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Taxation structure</td>
<td>Ownership advantages (Dunning and Lundan, 2008)</td>
<td></td>
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<tr>
<td></td>
<td>• Attitudes toward FDI</td>
<td>• Asset-based</td>
<td></td>
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<tr>
<td></td>
<td>• Competition</td>
<td>• Common governance</td>
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<tr>
<td></td>
<td>• Network-specific advantages (Cantwell et al., 2010)</td>
<td>• Institutional</td>
<td></td>
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<tr>
<td>2nd: Subsidiaries as strategic centres / centres of excellence</td>
<td>Location-specific advantages</td>
<td>Headquarters' investment decisions and the assignment of roles</td>
<td>Competencies of the focal subsidiary (Bartlett and Ghoshal, 1986)</td>
</tr>
<tr>
<td></td>
<td>• Strategic importance of country (Bartlett and Ghoshal, 1986)</td>
<td>• Resource allocation system, decentralized decision making, CHQ managers' ethnocentric attitude (Birkinshaw and Hood, 1998)</td>
<td>• Operational dependencies on the subsidiary among sister units (Forsgren et al., 1992)</td>
</tr>
<tr>
<td></td>
<td>• Local resources and environmental complexity (Ghoshal and Nohria, 1989)</td>
<td>• Parent firm investment in the subsidiary (Frost et al., 2002)</td>
<td>• Track record of subsidiary, credibility of management, employees' entrepreneurial orientation (Birkinshaw and Hood, 1998)</td>
</tr>
<tr>
<td></td>
<td>• Dynamic and attractive local environment, host country government support, cost of factor inputs (Birkinshaw and Hood, 1998)</td>
<td>MNE industry (Birkinshaw and Hood, 1998)</td>
<td>Subsidiary size (Forsgren et al., 1992)</td>
</tr>
<tr>
<td></td>
<td>• Strength of local industry “diamond” (Porter, 1990; Frost et al., 2002)</td>
<td>• Product or business diversification, being part of an acquired group (Cantwell and Mudambi, 2005)</td>
<td>• Product differentiation</td>
</tr>
<tr>
<td></td>
<td>• Being on the ‘inside’ of the trading areas (Benito et al., 2003)</td>
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<td>• Managerial capability</td>
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<td></td>
<td>• Local clusters (Birkinshaw and Hood, 2000)</td>
<td></td>
<td>• Product or process competencies</td>
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<td></td>
<td>Local business relationships (Andersson et al., 2002)</td>
<td></td>
<td>• Global marketing economies</td>
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<tr>
<td>3rd: Relocation of headquarters</td>
<td>Location-specific advantages</td>
<td>MNE industry (Benito et al., 2011; Strauss-Kahn and Vives 2005)</td>
<td>Subsidiary size (Laamanen et al., 2012)</td>
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<td></td>
<td>• Quality of life (Bamber-Rasmussen et al., 2007; Strauss-Kahn and Vives 2005)</td>
<td>Firm-specific advantages</td>
<td></td>
</tr>
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<td></td>
<td>• Attractiveness of the country (Baaij et al., 2015; Birkinshaw et al., 2006)</td>
<td>• Changes in internal configurations of activities (Birkinshaw et al., 2006)</td>
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</tr>
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<td></td>
<td>• Taxation (Strauss-Kahn and Vives 2005; Laamanen et al., 2012)</td>
<td>• Foreign/state ownership (Benito et al., 2011)</td>
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<tr>
<td></td>
<td>Distance (Laamanen et al., 2012)</td>
<td>• Acquisitions (Bamber-Rasmussen et al., 2007; Laamanen et al., 2011)</td>
<td></td>
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<tr>
<td></td>
<td>Local business relationships</td>
<td>• Level of internationalisation (Baaij et al., 2015; Forsgren et al., 1995)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Proximity to stakeholders (Bamber-Rasmussen et al., 2007; Birkinshaw et al., 2006; Laamanen et al., 2011)</td>
<td>• Publicly traded company (Laamanen et al., 2012)</td>
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2.3 RHQ locational dynamics

In this integrative section I draw the findings discussed in Sections 2.1 and 2.2 together as a basis for reviewing the literature on RHQ location and relocation. I discussed regional strategies and RHQ, and reviewed the literature on the three degrees of internationalisation. Table 1 summarises the major determinants associated with the location of MNE activities, which I use in this section to structure the literature on RHQ location.

2.3.1 Country-level determinants

The three main dimensions of country-level determinants identified in Table 1 were location-specific advantages, distance between key markets and the MNE home country, and local business relationships. The majority of previous literature on RHQ location focuses on country-level determinants, more specifically on location-specific advantages. In fact, Heenan and Perlmutter (1979) posed three questions in their seminal book on regional management, all of which refer to country-level determinants and have remained relevant for the past 40 years:

1. Are tax incentives more important than easy access to air transportation, efficient telecommunications, or high-quality schooling? (Heenan and Perlmutter, 1979, p. 104)

The debate on the importance of tax-related incentives compared with other relevant location-specific advantages associated with the host country has been ongoing since it was initiated by Heenan and Perlmutter in 1979. The authors found, in fact, that tax and related incentives, in addition to housing, educational and medical facilities, and the availability of office space and personnel, were of least concern, whereas supporting infrastructure, the cost of maintaining an expatriate staff, air transportation, and communications were the factors that influenced RHQ location most strongly (Heenan and Perlmutter 1979). Parks (1969) had reached the same conclusion in his earlier study, in which he reasoned that tax concessions were transitory, whereas headquarters’ location should be long-term. Living conditions for the staff and a favourable operational environment should therefore be more compelling locational criteria for the RHQ (Parks, 1969).
Yoost and Fisher (1996) focused on tax-related factors, and also found that the establishment of a regional headquarters is primarily motivated by business and commercial – rather than tax – considerations. The authors elucidate their argument using the example of Singapore, where the tax benefits depend on the type of RHQ. Tax concessions are only granted to RHQ that meet certain qualifying criteria, including the size of the MNE, capitalisation, presence of management and professional expertise, as well as the level of activity to be undertaken in Singapore (Yoost and Fisher, 1996). Hence, tax incentives benefit only MNEs that are well established in the region with large RHQ, whereas those in the development phase gain less from them (Perry et al., 1998). However, costs related to telecommunications were important locational factors for RHQ located in Asia in the 1990s, where telecommunications were deregulated rather late and as a result, telecommunication costs were up to eight times higher than in the United States (Ho, 1998).

Ambos and Schlegelmilch (2010) also found that ‘soft factors’ related to pure personal preferences among top management, such as the quality of schooling and lifestyle, were stronger determinants of RHQ location than ‘hard factors’ such as taxation. They further argued that tax dumping and building on other macroeconomic structures seldom leads to success in attracting RHQ (Ambos and Schlegelmilch, 2010). In addition, there is a strong complementary relationship between a city's tourist industry and its attractiveness to MNEs. Demands by vacationers in terms of first-class hotels, restaurants, and transportation facilities also constitute a better support system for MNE executives (Heenan, 1979).

In contrast, Laamanen et al. (2012) found that high corporate taxes were pushing companies to relocate CHQ and RHQ away from the current host country, whereas low taxes increased its attractiveness. However, the authors had to combine CHQ and RHQ due to sample-size constraints, hence it remains unknown whether the importance attached to taxes was emphasised by CHQ or was also associated with RHQ. It is to be expected that tax incentives are more influential for CHQ than for RHQ because they affect the relations of the MNE as a whole with legislatures and other governmental bodies concerning taxes, tariffs and regulation (Chandler, 1991).

In sum, access to air transportation, efficient telecommunications and high-quality schooling have been found to have a very strong effect on RHQ location. The original literature on RHQ did not report tax incentives as an influential locational factor, but more recent studies are more optimistic about its role. However, analysing listed rates of corporate tax may not reveal the actual tax rate that the MNE pays. Large MNEs in particular tend to have enough bargaining power to negotiate tax incentives prior to their entry decision. Referring back to the advantages of institutional ownership discussed in Section 2.2.1, firms may not only adjust but also affect change in local (formal and informal) institutions by engaging in political activities to adjust the regulations or the market structure to give them an advantage over their competitors (Cantwell et al., 2010). Consequently, one should be especially cautious when evaluating the importance of tax rates for the RHQ location. Indeed, whether or not they are important remains to be determined.
Question 2: Does the political stability of a regional site off-set all other considerations? (Heenan and Perlmutter, 1979, p. 104)

The second question posed by Heenan and Perlmutter (1979) contrasts political stability and all other external environmental characteristics. The authors suggest that political stability is indeed one of the most dominant factors affecting the choice of RHQ location. Host countries do not need to be full-service bankers to attract RHQ or other headquarters, but they do need to be politically stable (Heenan and Perlmutter, 1979). Compared to Japanese MNEs, US MNEs consider political stability particularly important (Heenan, 1979). Perry et al. (1998) also found that political stability was the most favourable locational aspect for RHQ located in Singapore, and Hong Kong’s reversion to China in July 1997 provided a potential reason for relocating to Singapore. The authors further argue that local linkages to financial and business services may further inhibit mobility to another host country given that strategically important RHQ establish business relationships to expand affiliate activity (Perry et al., 1998). Also international linkages matter. Belderbos et al. (2017) further demonstrated that the international connectivity of cities (in terms of cities’ producer services connectivity, airport passenger traffic, and international co-inventor activity) makes them more attractive to RHQ rather than other local characteristics.

Distance

Johanson and Vahlne (1977) identified distance between the home and host markets as one of the country-level determinants associated with entering new markets (see Table 1). Because RHQ are intermediary units between CHQ and subunits in mandated markets, distance in the RHQ context has two dimensions: the distance between RHQ and CHQ, and the distance between RHQ and the mandated markets within its geographic scope. The location of the RHQ in relation to CHQ and its mandated markets has indeed been among the major questions in the literature on RHQ location. Hence, the third question posed by Heenan and Perlmutter (1979) is this: Question 3: Do multinationals prefer to locate their regional units closer to major countries’ markets or to corporate headquarters? (Heenan and Perlmutter, 1979, p. 104)

The majority of the RHQ literature tends to assume that the benefits of locating geographically close to mandated markets outweighs the benefits of being close to the CHQ. Heenan and Perlmutter (1979) assessed the importance of 16 country-level determinants of RHQ location, and found that corporate executives had rated the proximity of major countries’ markets as much more important than the proximity to CHQ or other international headquarters (Heenan, 1977; Heenan and Perlmutter, 1979). The very same question has been addressed in later studies. Being geographically close to foreign markets also increases the quality of the information received by the RHQ and its decision-making authority, which in turn results in easy access and shorter travel times, lower travel costs, more frequent visits, a better understanding, higher trust and being an insider (Belderbos et al., 2017; Håkanson and Ambos, 2010; Kähäri, 2014; Lunnan et al., 2011; Perry et al., 1998). RHQ also transfer more knowledge to and from geographically close subsidiaries that are important and visible (Lunnan and Zhao,
Moreover, certain circumstances such as being a major start-up, changes in ownership, unprofitable operations, or government difficulties in several countries in the region require being close to operational affiliates (Heenan and Perlmutter, 1979).

Whereas being close to the mandated markets lowers the observation costs of monitoring market developments, being close to CHQ lowers the communication costs of transferring information from RHQ to CHQ (Laudien and Freiling, 2011). However, the significance of RHQ proximity to CHQ has received limited attention among researchers. One of the few studies is the one conducted by Lunnan et al. (2011) who found that flight distance (capital to capital) from the country of CHQ is not a significant factor for location. Piekkari et al. (2010) however, found that managers at a distant RHQ had fewer opportunities to establish and maintain personal relationships with colleagues at the CHQ and outside the region, resulting in a “self-supporting region” (p. 527). This finding counters Laudien and Freiling’s (2011) argument that modern technology keeps the communication costs of transferring information from RHQ to CHQ relatively low.

Comparing MNEs with different origins, Yeung et al. (2001) argue that the tendency of US and European MNEs to establish Asian RHQ in Singapore implies that geographical distance between the RHQ and the CHQ is not an issue. However, if the RHQ is too close to the CHQ it may not add enough value. The authors also found that Japanese MNEs were less likely to establish RHQ in South-East Asia because the CHQ in Japan was familiar with the host region and its culture and therefore it could possibly exercise direct control and co-ordination over their South-East Asian subsidiaries (Yeung et al., 2001). The concept of distance therefore needs to be evaluated beyond geographical distance.

Other measures of distance in the literature on international business include cultural, administrative, political, economic, linguistic and psychic distance, of which cultural and psychic distance have been highlighted in the RHQ context (Ghemawat, 2005; Yeung, Poon and Perry, 2001; Häkanson and Ambos, 2010; Enright, 2005a; Perry et al., 1998; Piekkari et al., 2010; Laudien and Freiling, 2011). Most international-business studies on cultural distance refer to Hofstede’s (1984) four dimensions (uncertainty avoidance, individuality, tolerance of power distance and masculinity-femininity), especially since Kogut and Singh (1988) quantified cultural distance with a simple formula based on them. Cultural distance has been widely applied in research on international business specifically to explain the foreign-market-investment location, entry-mode choice and the performance of foreign invested affiliates (Shenkar, 2001). In the RHQ context, the demand for regional management increases when cultural and value-based differences between the mandated markets and the CHQ are substantial, because such differences may influence the interpretation of received information and thus cause an increase in information costs (Laudien and Freiling, 2011).

Psychic distance is a wider concept that combines factors preventing the flow of information from and to the market, such as differences in language, education, business practices, culture and industrial development Johanson and Vahlne (1977, p. 24). When the MNE’s home country is far away from the host region in terms of geographical and psychic distance, the MNE is more likely to establish a RHQ to exercise control over its local subsidiaries, to accumulate learning and to understand regional differentiation (Yeung et al., 2001; Laudien and Freiling, 2011). Thus, establishing RHQ close to the
region may be an effective way of proactively managing differences in perceptions of psychic distance from the mandated markets (Håkanson and Ambos, 2010).

The measurement of difference between two countries raises two issues. First, it typically focuses on the magnitude, not the direction of the difference. Second, it artificially forces differences between two countries to be measured on a scalar basis and thus it is not clear whether there is an equilibrium point under which the differences between two countries are not significant. Hence, there is a demand for novel approaches, such the one taken by Yildiz and Fey (2016), who propose a framework that differentiates between the extent (i.e., the degree to which two countries are perceived to be similar/different) and the effects (i.e., the degree to which distance perceptions create favourable or unfavourable attitudes and responses) of perceptions of psychic distance.

Local business relationships

RHQ are in a unique position in an MNE as they are triple-embedded in the organisation, the local context of their mandated region and their own host-country environment, each of which have their specific rules and regulations (Kähäri, 2014). Most studies on RHQ embeddedness focus on embeddedness among other units of the MNE (Lunnan and Zhao, 2014) or on regional embeddedness, meaning that RHQ build relationships with local actors in their region and become embedded in their subsidiaries’ local networks for reasons related to control, power, information gathering and building entrepreneurial capabilities (Hoenen et al., 2014). Nell and Ambos (2013) also examined the regional embeddedness of RHQ in the mandated markets, and found that it was positively associated with the value added by the RHQ. However, RHQ embeddedness and local business (i.e. external to the MNE) relationships in its own host country have received very little attention in the related research. This is surprising given that the literature on subsidiary roles has long highlighted the relevance of business relationships with local buyers and suppliers to competence development in the subsidiary and the emergence of strategic centres (Frost et al., 2002; Holm et al., 2005, see Table 1).

One of the few studies to mention local embeddedness is that of Perry et al. (1998), who argue that the most important goal for RHQ, apart from building up market share, is to expand the network of business partners, which further inhibits mobility to another country. Local embeddedness allows the MNE to become an ‘insider’ receiving more accurate and timely information as well as accumulating local knowledge (Lunnan et al., 2011, p. 14). The location of headquarters have symbolic importance, as discussed in the introduction of this dissertation, and thus granting a headquarter mandate signals importance and commitment to local stakeholders, such as employees, investors and government (Lunnan et al., 2011). Furthermore, Ho (1998) emphasized the role of RHQ in sales and marketing in putting together a regional package for multinational clients and thus being able to sell to multiple MNE subsidiaries at the same time. The author found that the sales of these regional or even global packages strengthened and further amalgamated the role of the RHQ within the MNE. Dörrenbächer and Gammelgaard (2010), on the other hand, examined regional production charters and found that insufficient linkages to local business partners led to their removal. Poon and Thompson
(2003) also found a correlation between embeddedness and manufacturing-oriented RHQ – however, they measured embeddedness in terms of the age of the subsidiary.

It is not known whether the presence of potential local business partners is associated with a RHQ mandate being granted to a subsidiary. Mori (2002) came closest to answering this question: he was surprised to find in his sample of eight European RHQ of Japanese MNEs that the location of the RHQ was not decided on the basis of local business relationships or knowledge flows.

### 2.3.2 MNE-level determinants

As Table 1 illustrates, the key MNE-level determinants identified in Section 2.2 include firm-specific advantages, ownership advantages, investment motives, headquarters’ investment decisions and the assignment of roles and the industry. In the following I discuss how these determinants are treated in the literature on RHQ location.

**Firm-specific advantages**

Firm-specific advantages include variables such as MNE size, its ability to acquire and upgrade resources, product differentiation, marketing economies, access to domestic markets and the home country’s IPR (Dunning, 1990; Rugman and Verbeke, 1992, Martínez-Noya and García-Canal, 2011). Product or business diversification, acquisitions (Cantwell and Mudambi, 2005; Lunnan et al., 2011), the level of internationalisation (Forsgren et al., 1995), as well as the ownership structure (Benito et al., 2011; Laamanen et al., 2012) could also be considered firm-specific advantages in that they contribute to the competitive strengths of the MNE.

Studies on RHQ location have examined firm-specific advantages primarily in terms of MNE size, international experience, numbers of RHQ in the region, ownership structure and nationality. However, according to previous research not many of them are significant determinants of RHQ location. It has been proposed that RHQ belonging to larger MNEs have more resources to absorb the risks of internationalisation (Enright, 2005a) and overcome the liability of foreignness (Poon and Thompson, 2003). RHQ of smaller MNEs, on the other hand, are more likely to find a local partner to ease entry into the markets (Poon and Thompson, 2003). However, these arguments lack empirical support in the context of RHQ.

It has also been proposed that an MNE’s international experience influences the location of RHQ. Early studies emphasised the importance of foreign manufacturing, rather than foreign sales, leading to regional management structures as there are more opportunities for economies of scale through regional coordination and integration (Egelhoff, 1988). Later, the importance of foreign sales was acknowledged as MNEs may wish to locate their headquarters and RHQ close to their main markets or customers (Laamanen et al., 2012). However, the authors found no empirical support for this hypothesis. Furthermore, the type of RHQ may depend on the MNE’s regional experience: flexibility associated with mandated RHQ is appreciated when an MNE is relatively new to a region, whereas dedicated RHQ may be established when the MNE has more experience in the region (Schotter et al., 2017). Moreover, if there is only one RHQ in
the region it is more likely to provide a wide range of managerial services and functions, whereas if there is more than one the services may be divided among them (Enright, 2005a).

In terms of ownership structure, Laamanen et al. (2012) suggest that family-owned MNEs may have stronger emotional attachment to their current location, and may even be willing to sacrifice their business performance, whereas stock-market-listed MNEs tend to be under constant performance pressure, and are thus more likely to relocate. However, the authors did not find support for this hypothesis, either.

The nationality of the MNE is determined by the location of the CHQ (Coeurderoy and Verbeke, 2016). Quite a few studies on RHQ location compare MNEs originating from two-to-three different countries or regions, such as North America vs. Europe (Heenan and Perlmutter, 1979), the US vs. Japan (Heenan, 1979), and North America vs. Europe vs. Asia (Holt et al., 2008). However, the differences in origin tend to be explained in terms of distance between the home and the host countries, as discussed earlier, rather than by nationality per se.

Ownership advantages

As I mentioned in Section 2.2.1, the ownership advantages of OLI have been categorised as asset-based (Oa), advantages of common governance (Ot) and institutional advantages (Oi) (Dunning and Lundan, 2008a). The latter are particularly relevant to RHQ locational dynamics. MNEs may have the bargaining power to negotiate better terms for their operations with respective governments before making the decision to locate their RHQ, given that host-country governments tend to welcome all types of headquarters. As discussed in the introduction, headquarters are likely to attract other headquarters that create high-value-added activities and jobs and also convey the message that the country is competitive and worth further investment (Ambos and Schlegelmich, 2010; Avenell, 1996; Barner-Rasmussen et al., 2007; Benito et al., 2011; Strauss-Kahn and Vives, 2009). Furthermore, once established, the RHQ of particularly large MNEs may bring about change in local institutions by engaging in political activities to adapt regulations or the market structure to give them an advantage over their competitors (Cantwell et al., 2010). However, to the best of my knowledge, there are no studies on RHQ location in which it is acknowledged that certain location-specific advantages (such as corporate taxes) are subject to negotiation and thus warrant special caution when the results are interpreted.

Investment motives

Dunning (1993) identified four types of motives for foreign direct investment (FDI), namely resource-seeking, market-seeking, efficiency-seeking and strategic-asset-seeking. Efficiency-seeking FDI is typically sequential to resource- or market-seeking FDI (Dunning, 2000), thus the different motives are not exclusive. MNEs may establish RHQ in order to access multiple markets more efficiently, for example, and thus have both market-seeking and efficiency-seeking interests. My focus in this sub-section is on
how these four FDI motives are illustrated in the literature on RHQ location. I will discuss each of them individually for the sake of analytical clarity.

First, the literature does not present strong evidence supporting the establishing of RHQ for resource-seeking purposes. Whereas resource-seeking FDI serves supply-oriented motives to gain access to natural resources, e.g. minerals, agricultural products, unskilled labour (Dunning, 2000), access to skilled labour is more relevant for any type of headquarters. Heenan (1977) studied the availability of office personnel as one of the 16 factors affecting the choice of RHQ location, but it was among the factors of least concern when potential host locations were evaluated. Headquarters are not labour-intensive, thus the availability of office personnel is not a relevant motive for establishing RHQ in a specific location (Heenan and Perlmutter, 1979). Even in Asia, which is a common location for resource-seeking subsidiaries, the availability of professional and technical skills was far from the most significant determinant according to RHQ managers in Hong Kong (Perry et al., 1998). On the other hand, in 1988 Egelhoff emphasised the importance of foreign manufacturing, rather than foreign sales, in the establishment of regional management structures. However, according to a recent study on Japanese MNEs and their RHQ worldwide, only six per cent of subsidiaries with RHQ mandates were established to access the natural resources, and 11 per cent were established for offshoring purposes (Chakravarty et al., 2017).

Second, market-seeking FDI serves demand-oriented motives to satisfy a particular foreign market or set of foreign markets (Dunning, 2000). Market-seeking RHQ are established to guide entry into new territories (Perry et al., 1998), and thus perform similar roles as Lasserre’s (1996) “entrepreneurial-enhancing” RHQ (p.31), including scouting for market opportunities and initiating new ventures across the region. Similarly, Ho (1998) identified two major marketing-related roles of RHQ. The first of these is equivalent to Lasserre’s (1996) scouting activities: the RHQ supervise marketing and sales activities in new markets where the MNE may not even have plants or offices, and once these markets have developed to a certain degree, a local subsidiary is established in the mandated market (Ho, 1998). The second role is to compile a regional package for multinational clients, so that RHQ may sell to regional and global decision-makers at the same time (Ho, 1998). Company ‘Alpha’ (see Essay 1 of this dissertation), which established RHQ close to its three most important distributors in Norway, is an example of the latter.

Market-seeking motives commonly lie behind the establishment of RHQ. Poon and Thompson (2003) examined manufacturing- and service-oriented RHQ, and found that both also served as market units engaged in customer service, and in sales planning and execution. Enright (2005a), in turn, found that 79 per cent of 691 RHQ located in the Asia-Pacific region were strongly engaged in both marketing and sales planning and execution, as well as in customer servicing and support activities. In fact, subsidiaries with RHQ mandates are more likely than dedicated RHQ to be established for market-seeking purposes. Chakravarty et al. (2017) found that 81 per cent of mandated RHQ were established to access local markets, whereas the equivalent proportion of dedicated
RHQ was only 57 per cent. The authors also noted that export to a third country\(^4\) was the investment motive for a quarter of the subsidiaries with a RHQ mandate.

Third, \textit{efficiency-seeking} motives serve to promote the more efficient division of labour or the specialisation of MNE assets (Dunning, 2000). These are also typical RHQ activities and reflect Lasserre’s (1996) integrative approach to exploiting synergies and pooling resources across the region. Efficiency-seeking motives are relevant when the MNE has various types of subsidiaries concentrated in one region. For example, different stages of electronics production are concentrated in the Asia Pacific region given its proximity to production chains, original equipment-manufacturing schemes and local component sourcing (Ho, 1998). Establishing a RHQ is efficient in that functions are centralised and managed from one office, which thus requires a geographically central location in terms of flight times and frequency to facilitate regular contact with dispersed local offices in the region (Ho, 1998). However, according to a more recent study conducted by Chakravarty et al. (2017), efficiency-seeking motives are almost twice as likely to drive the establishment of a \textit{distribution} network than a production network, highlighting the importance of RHQ sales activities.

Fourth, \textit{strategic-asset-seeking} motives serve to protect or augment the existing ownership advantages of the MNE and/or to reduce those of their competitors (Dunning, 2000), and are more commonly associated with the location of CHQ than of RHQ. The opening example of Nordea is an illustration of such motivation given the strategic importance of being located in a country that belongs to the European banking union (Nordea, 2017).

Finally, Chakravarty et al. (2017) also identified a \textit{capital-seeking} motive for establishing RHQ, claiming that it was the second most common motive for establishing a dedicated RHQ, after market seeking. However, it was rather infrequently referred to among subsidiaries with RHQ mandates.

\textit{Headquarters’ investment decisions and the assignment of roles}

RHQ mandates can be assigned by headquarters or initiated by the focal subsidiary (i.e. unilateral accomplishment), shaped jointly by both parties (i.e. a dyadic negotiation process) or \textit{co-constructed} over time by multiple subsidiaries and CHQ (Alfoldi et al., 2017). The authors found that, despite the assumption in earlier studies that the allocation of RHQ is based on unilateral accomplishments or dyadic negotiation processes, it is, in fact, co-constructed over time. The process is more complex than in the case of establishing centres of excellence discussed earlier: a subsidiary is more likely to have a centre of excellence the more the parent firm invests in it (Frost et al., 2002). In terms of locational dynamics, Birkinshaw (1996) examined the dynamics of global product mandates, many of which had regional aspects. He found that if the

\(^4\) Although Chakravarty et al. (2017) classify ‘export to a third country’ as a resource-seeking motive, I consider it a market-seeking motive because scouting activities include marketing and sales activities in new markets in which the MNE may not even have plants or offices (Ho, 1998; Lasserre 1996). In addition, according to Dunning (2000), only supply-oriented motives lie behind resource-seeking FDI.
subsidiary had pursued opportunistic ventures without formal recognition from headquarters, its contribution was not acknowledged by headquarters, resulting in the loss of the mandate.

**Industry**

Certain industry hubs may attract relevant RHQ. For example, a MNE servicing the financial-services sector may wish to establish a strong presence in the most important financial hubs of the world (Laamanen et al., 2012). However, empirical support for this argument remains slight. The earlier RHQ literature focused mainly on individual cases of certain industries (e.g. Edgington and Hayter 2013; Ho, 1998; Piekkari et al., 2010), or compared services, manufacturing and technology (Enright, 2005a; Holt et al., 2008; Poon and Thompson, 2003). A large-scale study conducted by Perry et al. (1998) was one of the few to show that RHQ are strongly associated with the economic structure of their immediate location. The authors compared secondary data on 572 RHQ in Hong Kong with survey data on 130 RHQ in Singapore, and found that the RHQ of manufacturing organisations were primarily located in Singapore whereas Hong Kong attracted trading and other financial and business service organisations. Enright (2005a) also pointed out that manufacturing and service firms have different requirements for RHQ, thus it could be argued that they also have different locational requirements.

The MNE’s industry also influences the locational aspects that are deemed more important than others. Ho (1998) compared the specific dynamics of air-delivery and online-information services, and found that the former prioritised connectivity, thus a hub location close to major markets, and physical considerations such as flight times and operating hours at airports, whereas for the latter the key factors were telecommunications and the regulatory environment (pricing and entry barriers) surrounding the technology. Holt et al. (2008) further found that the decision concerning RHQ location among service-sector MNEs was driven by a favourable financial environment and a familiar operating environment. Manufacturing firms, on the other hand, prioritised cost effectiveness, whereas those in the technology sector prioritised a supportive environment (Holt et al., 2008, p. 128).

In terms of the three country-level variables discussed earlier, the importance of local business partners may depend specifically on whether the RHQ engages in business-to-business (B2B) or business-to-consumer (B2C) activities. These two types of business have different locational requirements, but to the best of my knowledge this is not addressed in the existing literature on RHQ location.

**Geographic scope**

Geographic scope is a determinant that is of managerial relevance to RHQ, but it is so specific to RHQ that it did not emerge in the literature on the three degrees of internationalisation. In fact, the geographic scope of RHQ has received very limited attention even in research on RHQ (Kähäri, 2014). Even then, the focus of attention is on defining the geographic scope (e.g. Daniels, 1986; Grosse, 1981; Lasserre and
Schütte, 1999; Schütte, 1997) rather than on how it influences the location of the RHQ. A recent study by Schotter et al. (2017) is an exception. The authors found that a larger geographic scope, measured by the number of subsidiaries in the region, is typically matched with a dedicated RHQ. When the subsidiaries are dispersed in different countries, however, RHQ mandates are more likely granted to existing subsidiaries as the diverse country characteristics may have different needs and thus require flexible information processing (Schotter et al., 2017). However, the authors do not examine whether the RHQ mandates are then offered to multiple subsidiaries and thus the geographic scope of each RHQ remains unknown.

The geographic scope of the RHQ may extend over various levels, from triad regions to small country groupings (Alfoldi et al., 2012). Although regions are typically conceived of as geographically proximate countries, they may also be allocated as such based on nongeographic dimensions such as cultural, administrative, political and economic (Ghemawat, 2005). Spain, for example, could be considered “closer” to Latin America than to Europe because of its long-standing colonial ties (Ghemawat, 2005, p. 10; Pla-Barber and Camps, 2011). Perceptions of what a region is may also change over time in response to market conditions and the MNE’s own strategic goals (Ghemawat, 2005).

The significance of geographic scope has been indirectly acknowledged in the context of distance between the RHQ and mandated markets. Being close to mandated markets has been identified as one of the key country-specific determinants of RHQ location, and this is closely associated with geographic scope. In fact, Ambos and Schlegelmilch (2010) assume that the RHQ is located in the region it manages. Perry et al. (1998) also acknowledge the relationship between RHQ location and geographic scope: whereas the geographic scope of RHQ located in Hong Kong was limited to China, RHQ in Singapore were responsible for Southeast Asia (Perry et al., 1998).

The MNE’s strategy

Interestingly, the MNE’s strategy did not emerge as a significant determinant of location in the literature on the three degrees of internationalisation. Nevertheless, there have been calls to incorporate MNE strategy in studies on RHQ location (Holt et al., 2008; Perry et al., 1998), although only a few include it in the analysis. Holt et al. (2008) differentiated MNEs based on their strategic purpose: either regional market responsiveness or global coordination and facilitation. The authors examined RHQ location decisions among 18 non-European MNEs with RHQ in Europe, and 57 Australian MNEs with RHQ in the Asia-Pacific region. They found that MNEs pursuing regional market responsiveness strategies were more likely to base their location decisions on operational costs such as an economical IT infrastructure or low operating costs. Those following a global coordination strategy, on the other hand, did not necessarily need to have their RHQ close to their market or regional operations, but put more emphasis on intangible aspects related to the cost of living in general, and a supportive financial environment (Holt et al., 2008).

Perry et al. (1998), in turn, examined RHQ mobility between Singapore and Hong Kong. They reported a low level of mobility given the limited availability of potential locations.
for foreign operations in Asia in the 1990s. However, the few relocations the authors evidenced were linked to changes in corporate strategy or to new investment decisions, which is indicative of the need to examine factors beyond location-specific advantages (Perry et al., 1998). It seems that the second location decision, in other words relocation, is largely driven by changes in the corporate strategy.

2.3.3 Subsidiary-level determinants

Subsidiary-level determinants matter to RHQ given that the mandate is typically granted to an existing subsidiary that adopts the new regional role on top of its local endeavours (Ambos and Schlegelmilch, 2010). The subsidiary-level determinants identified in Table 1 are related to characteristics of activities, competences and the size of the focal subsidiary, and subsidiary-specific advantages. I discuss the existing RHQ literature related to these determinants in this section.

Characteristics of subsidiary activities

The literature on offshoring highlights the importance of activities carried out by the focal subsidiary in its host country in that location decisions are “contingent upon the fit between the nature of the activity and the advantages offered by the particular local context” (Jensen and Pedersen, 2011, p. 354). However, there have been few studies on activities undertaken by the focal subsidiary possessing the RHQ mandate. Mori (2002) found that RHQ mandates were typically given to sales or logistics subsidiaries than to any other type. A recent study by Belderbos et al. (2017), on the other hand, propose that the RHQ with an entrepreneurial role is likely to value international connectivity more highly than the RHQ with an administrative (i.e. integrative, see a brief discussion on RHQ roles in Chapter 2.1.2) role because seeking new business opportunities and exploring the regional environment requires intensive travelling to the mandated markets. However, the authors found that this argument only holds when distance to mandated markets is not particularly high. Therefore, RHQ activities are largely driven by the investment motives behind establishing the RHQ, as discussed earlier.

Subsidiary competences

RHQ competences, like headquarters competences in general, have received surprisingly little attention in the literature. They are rather tacit in nature and are therefore notoriously difficult to measure (Narula, 2014; Parmigiani and Holloway, 2011; Hoenen et al., 2014), especially in quantitative studies. The majority of the literature on international business relies on a basic two-way classification, namely: 1) asset-type competences referring to knowledge assets related to technology/engineering and covering aspects such as new products, services and processes, machinery and equipment, and intellectual property; and 2) transaction-type competences referring to knowledge related to organising intra-firm activities efficiently and thus enabling the MNE to earn economic rents from its asset-type competitive advantage (Narula, 2014).
The research typically focuses on asset-type competences as they produce tangible outputs that are easier to proxy and to empirically test (Narula, 2014), such as successful patents applied for by the subsidiary in a given year (e.g. Almeida and Phene, 2004). Transaction-type competences, on the other hand, depend on having managerial skills associated with efficiently organising intra-firm activities and knowledge flows, and having higher-order positions in the organisational hierarchy (Narula, 2014; e.g. Hedlund, 1986; Moore and Birkinshaw, 1998). The latter are more typical of RHQ in that the main tasks relate to organisational and administrative responsibilities over national subsidiaries within the region (Enright, 2005b), which makes their competences difficult to measure.

Hoenen et al. (2014) were able to proxy RHQ entrepreneurial capabilities by capturing their outcome in a small-scale quantitative study. The authors asked the RHQ managers to evaluate the importance of three tasks for the RHQ: 1) searching for new business opportunities, 2) initiating new ventures, and 3) entering new markets. Galunic and Eisenhardt (1996) were also able to identify these somewhat subjective measures in a multiple case study within one MNE. Albeit focusing on divisional mandates, the authors found that lagging performance, the inability to simultaneously manage old businesses, current growth and new opportunities, as well as a mismatch between the marketplace and the division’s competences and culture resulted in mandate loss. Inspired by Galunic and Eisenhardt’s (1996) work, Birkinshaw (1996) adopted a resource-based perspective and highlighted the importance of the subsidiary’s capabilities or resources as the driver of its mandates. The author conducted interviews focusing on subsidiary capabilities, asking “To what extent were the required capabilities already proven in the Canadian subsidiary” (Birkinshaw, 1996, p. 477). The interview data allowed the identification of various subsidiary-specific capabilities that are difficult to identify and measure in a quantitative study. Mori (2002) also used interview data to identify the focal subsidiary’s sales and logistics experience, and found that RHQ mandates were granted solely depending on the previous experience of the subsidiary. Age is also associated with experience in that long-established offices are likely to be more influential (Enright, 2005b).

Operational dependence on the subsidiary among sister units is one way to examine subsidiary competences. Ambos and Schlegelmilch (2010) refer in their book *The New Role of Regional Management* to the subsidiary’s leadership role in relation to its sister subsidiaries as ‘power leverage’, arguing that a RHQ mandate is given to one regional subsidiary that is assumed to exercise leadership among its sister units. Thus, according to Ambos and Schlegelmilch (2010, p. 78), power leverage, comprising competence profiles, unit or market size, relationships with global headquarters and other power levels, is a more influential location driver than host-country-level determinants. It is also a major determinant in terms of avoiding mandate relocation once the mandate has been received (Ambos and Schlegelmilch, 2010).

A subsidiary’s relationship with CHQ is also associated with its leadership role and a RHQ mandate (Ambos and Schlegelmilch, 2010). Given that RHQ are intermediary headquarters between CHQ and the mandated subunits, they must have enough combinative capabilities to integrate knowledge from different sources and further transfer it within the MNE (Laudien and Freiling, 2011). The authors also point out that RHQ need to have substantial persuasive power to impose their opinions on CHQ, to
which they are hierarchically subordinated. These arguments are supported by Piekkari et al. (2010, p. 527), who found that weak relationships between RHQ and CHQ distanced the regional area from the rest of the MNE and turned it into a “self-supporting region”.

Subsidiary competences are also closely associated with management expertise, its relationship with RHQ success having been highlighted by Heenan and Perlmutter (1979). Lunnan and Zhao (2014) found that RHQ were more actively involved in MNE knowledge transfer if the managers had high personal motivation and broad company experience. Ambos and Schlegelmilch (2010) further examined the importance of management expertise in deciding on a location for RHQ: they found that Puma established its RHQ in Salzburg because of the personnel and the competences they had developed.

Subsidiary size

A subsidiary’s size has often been used to proxy its capabilities given that larger units within the firm account for a large part of the MNE’s assets, turnover and profit (Forsgren et al., 1992, p. 250). Subsidiaries with RHQ responsibilities are typically large operating entities, hence they are likely to possess strong technical and operational capabilities (Chakravarty et al., 2017). Laamanen et al. (2012) further proposed that a large subsidiary size reduced the likelihood of relocation because physical relocation costs are higher when more personnel are involved. Relocation could also result in the loss of key employees, who would have to leave the firm if they were not willing to move abroad (Laamanen et al., 2012). However, the authors did not find support for this hypothesis in their empirical analysis.

Subsidiary-specific advantages

Subsidiary-specific advantages are unique to the subsidiary and thus are not shared by other subsidiaries in the same MNE or in the industry in a specific country (Moore and Heeler, 1998; Rugman and Verbeke, 2001). Such advantages include product differentiation, managerial capability, product or process competence, global marketing economies, access to demanding domestic markets, taking advantage of capital availability and financial expertise. In this respect they are related to subsidiary capabilities and are discussed above in the context of other subsidiary-level determinants.
2.4 The dynamic aspect of mandate location

Various stages of headquarters’ locational dynamics can be identified in the literature I have reviewed in this section. The preliminary step is the initial decision to relocate all or some headquarters (HQ) activities from the MNE home country to a foreign country, as illustrated in Figure 4. The relocation of full corporate headquarters (CHQ, as in the opening case of Nordea) is still rather rare, but the relocation of intermediary headquarters (such as RHQ) abroad is becoming increasingly common (Baaij and Slangen, 2013; Benito et al., 2011; Birkinshaw et al., 2006). This stream of literature focuses on the extent and reasons to relocate HQ units from the home country to a foreign country by asking: should top management relocate across national borders (Baaij et al., 2012, p. 17), why do MNEs move abroad specific core parts of their CHQ (Baaij et al., 2015, p. 46), why are division headquarters of MNEs in some cases located abroad (Forsgren et al., 1995, p. 475), and why do some MNEs relocate their headquarters overseas (Birkinshaw et al., 2006, p. 681). This initial relocation of headquarters activities abroad is an antecedent to the headquarters’ locational dynamics between different host countries, which is the focus of this dissertation.

![Figure 4. The dynamic stages of mandate location](image)

Headquarters’ locational dynamics can be examined in the perspectives of mandate location, loss and relocation. These three stages relate to the headquarters mandate, which may be reallocated from one subsidiary to another. The majority of the literature on RHQ location discussed earlier in this section views mandate location as a static situation. One could investigate it either in terms of selection criteria or based on the actual location of the headquarters mandate, as illustrated in Figure 4. Selection criteria have been examined by asking managers to rank or rate a set of host-country-specific determinants that were important in selecting a location as a one-off event, meaning that the focus is on the subsidiary gaining the RHQ mandate. Some studies have succeeded in investigating the criteria used in the selection of the current RHQ location (e.g. Yeung et al., 2001), whereas others consider a hypothetical decision to locate RHQ (e.g. Heenan, 1977; Holt et al., 2008). When it is a question of the real location, on the other
hand, managers are often asked to evaluate the key advantages of their current location in practice (e.g. Perry et al., 1998), hence the focus is on subsidiaries already possessing the RHQ mandate. However, only a few studies have examined the real RHQ location given the challenges associated with collecting such information (Kähäri, 2014). For the same reasons, only a small number of studies focus on the dynamic aspects of the loss and relocation of the mandate, even though Dunning (1988) acknowledged their fluidity long ago.

The second stage of locational dynamics is mandate loss, when the CHQ removes the mandate from the focal subsidiary, which continues to operate as a regular subsidiary. Only a few studies have examined mandate loss in a subsidiary, which they describe as the complete elimination of the subsidiary’s international responsibilities (Birkinshaw, 1996, p. 472) or the total removal of its value-chain activities (Dörrenbächer and Gammelgaard, 2010, p. 206), rather than differentiating full and partial loss. Mandate loss may happen due to the elimination of the mandate (i.e. CHQ takes direct control and thus the RHQ is not needed) or its relocation. In case of the RHQ mandate relocation, the initial subsidiary possessing the mandate loses it while another subsidiary gains it.

The last stage in Figure 4 is mandate relocation. The focus is explicitly on relocation events, specifically on either why companies relocate (i.e. whether to relocate) or where they relocate (Laamanen et al., 2012). Explanations of why companies relocate concern the decision to move the mandate from the current host country to another one in general, and the associated reasons. Explanations of where, on the other hand, concentrate on the determinants associated with actually moving the mandate to a specific host country. The mandate may be repeatedly lost or relocated again to yet another host country, making the three stages a continuous cycle. Below I discuss the findings from studies on RHQ location that analyse more than one of the dynamic stages illustrated in Figure 4.

Birkinshaw (1996, p.472) studied the gain and loss of world mandates (of which many had regional aspects) of six Canadian subsidiaries, and introduced the concept of the ‘mandate life cycle’. He highlighted the focal subsidiary’s distinctive capabilities as the driver of mandate growth and retention in that “the heart of the mandate is actually a capability, not a product or a market” (p. 489). Its location is likely to change, however, as location-specific advantages shift over time and the subsidiary cannot adapt to the changes (Birkinshaw, 1996). However, location-specific advantages were not clearly identified in the study. Moreover, the relocation stage (see Figure 4) is beyond the scope of his study.

Kähäri and Piekkari (2015) used ecological analysis to examine emergence (i.e. gain), loss and relocation decision among the RHQ population in Finland from 1998 to 2010. Their study is based on the same data as the dissertation at hand. A large sample allowed the authors to examine ecological determinants related to MNEs as well as the environments of the host country5 and mandated markets. Starting at the end of the 1980s, the number of RHQ located in Finland increased rapidly due to favourable

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5 The authors, who examined the RHQ population from the country perspective, refer to the location of the RHQ as the ‘home country’. However, I call it the ‘host country’ to maintain coherence with my research setting.
changes in all three ecological processes: foreign MNEs already having subsidiaries in Finland (internal MNE ecology), Finland joining the European Union in 1995 (host-country environment) and the opening of markets in the former Soviet Union in 1991 (mandated market environment). Only 10 per cent of the RHQ mandates remained unchanged between 1998 and 2010 (Kähäri and Piekkari, 2015). Whereas Birkinshaw (1996) emphasised the importance of the focal subsidiary’s capabilities, Kähäri and Piekkari (2015) found that mandate loss was triggered mainly by changes in the internal MNE ecology, such as parent-company reorganisation / restructuring (28%), regionalization (22%) or acquisition (23%). The environment of the geographic scope (mandated markets’ market growth 16% and contraction 6%) also played some role in mandate loss (Kähäri and Piekkari, 2015). Decisions to relocate mandates to another host country were also associated with mandated markets under the RHQ remit (i.e. the geographic scope): Finland lost much of its locational advantage when other countries caught up by joining the European Union, for example. The majority of mandates were relocated to Russia, the Baltics or Scandinavia, but the determinants associated with each of these destination countries (i.e. ‘Actual mandate relocation’ in Figure 4) also falls beyond the scope of their study.

Laamanen et al. (2012), on the other hand, focused specifically on relocation in their quantitative study of 52 RHQ and HQ relocations in Europe, considering the likelihood of relocation (i.e. whether to relocate) and the determinants associated with the eventual choice (i.e. where to relocate). It is worth noting that the relocation of CHQ typically refers to the initial relocation from the home country to a foreign country, whereas the relocation of RHQ units often deals with the relocation from one foreign country to another. Looking back to Figure 4, they fall into different stages of the locational dynamics, and thus the reasons behind them may be different. The interpretation of the results therefore is challenging because CHQ and RHQ were studied together due to a relatively small sample size. The authors found that location-specific advantages related to high taxes and high employment were among the reasons to relocate away from the current home country. A central location (i.e. distance from other capitals in Europe) and low taxes, on the other hand, were associated with the attractiveness of the new host country.

A study conducted by Ambos and Schlegelmilch (2010) is the only one to focus on determinants associated with all three stages of locational dynamics depicted in Figure 4, in other words mandate location (criteria and actual location), loss and relocation (decision and actual relocation). The authors interviewed managers of nine companies in Europe. They suggested that ‘hard’ location-specific advantages related to country attractiveness such as taxes and other key indicators in the IMD World Competitiveness Index were not associated with RHQ location. Furthermore, they found that the choice of RHQ location is based on the capabilities of subsidiaries and their managers (power leverage in their terminology) compared to sister subsidiaries, managers’ personal preferences in terms of the host country’s quality-of-life (i.e. ‘soft’ location-specific advantages) and historic accidents. In line with Birkinshaw (1996), the authors emphasise the focal subsidiary’s capabilities as the strongest determinant, also in preventing the loss of the mandate. They further found that the RHQ mandate was relocated due to structural changes in the regional setup, and often to lead markets.
In sum, clear patterns between methodologies and findings are visible in above studies, as illustrated in Figure 5. Birkinshaw (1996) and Ambos and Schlegelmilch (2010) conducted case studies, and thus were able to examines the focal subsidiaries’ capabilities in-depth as well as their ability to adapt to changes in the external environment. These studies emphasise the strong role of capabilities in gaining and retaining (i.e. preventing the loss of) the mandate. The case method also facilitated the coverage of multiple stages in the mandate dynamics. Moreover, the unique population data that Kähäri and Piekkari (2015) analysed allowed them to touch upon all three stages of mandate location in their population study. Instead of examining subsidiary-level determinants (i.e. capabilities), the authors focused on MNE-specific determinants, which they found were the main reasons for mandate loss. The quantitative study conducted by Laamanen et al. (2012), on the other hand, focused only on whether and where to relocate, their data yielding information about relocation at one point in time. Although they put less emphasis on subsidiary capabilities, the strength of their study was that they could compare a variety of host-country-specific determinants, as illustrated in Figure 5. They found that taxes, employment and a central location were associated with mandate relocation (Laamanen et al., 2012). What is missing, however, is a combination of these approaches: a large-scale study that facilitates examination of a variety of country-specific determinants in detail at different dynamic stages, complemented with in-depth knowledge about the subsidiary’s capabilities and MNE-level determinants. The dissertation at hand aims to narrow this research gap.

Figure 5. The relationship between methodologies and findings in earlier studies on locational dynamics

To conclude, in this chapter I reviewed the literature so as to find answers to the following research question: “Why, when and where do subsidiaries have RHQ mandates?” It is evident from the literature review that this research question is highly relevant but can only be answered partially in the light of existing knowledge. The
majority of studies on RHQ location⁶ perceive location as a static situation, lack theoretical framing and focus on country-level determinants, namely location-specific advantages and distance. This primarily addresses the question of ‘where’ RHQ is located. However, the reasons for establishing RHQ in a certain country and the dynamic aspect of the location are given less attention, thus the literature falls short in terms of answering the ‘why’ and ‘when’ questions. Seeking answers I therefore reviewed the literature associated with the location of MNE activities in general (i.e. three degrees of internationalisation). In the following chapter I develop a theoretical framework that includes the potential determinants associated with the above-mentioned research question.

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⁶ Studies on RHQ location has been published in journals associated with international business, general management and economic geography. It has also been published in books and book chapters.
3. THEORETICAL FRAMEWORK

I formulated the following research question in the introductory chapter of this dissertation: “Why, when and where do subsidiaries have RHQ mandates?” I examine the locational dynamics of headquarters, with a specific focus on RHQ mandated subsidiaries. My prime focus in this chapter is on the key country-, MNE- and subsidiary-level determinants of RHQ location that have emerged in the literature discussed in Chapter 2. These determinants constitute the theoretical framework of my dissertation, illustrated in Figure 6. I have created this framework with a specific focus on RHQ mandates but it is applicable also to other types of headquarters as the determinants are drawn from relevant literature on three degrees of internationalisation and RHQ location. Whereas the location of individual functions (i.e. internationalisation of the first degree) and subsidiaries as strategic centres (i.e. internationalisation of the second degree) have been extensively examined in international business research, the relocation of headquarters (i.e. internationalisation of the third degree) is a relatively new and evolving literature stream. Furthermore, the literature on three degrees of internationalisation and RHQ location compliment each other as the former is theory-driven whereas the latter is largely managerially focused.

In the end of the section I will show how each of the three essays, which focus on the possession of the RHQ mandate, the loss of the RHQ mandate and the relocation of the RHQ mandate, respectively, fit into this theoretical framework.

![Figure 6. The theoretical framework of the thesis](image-url)
Country-level determinants

Country-level determinants are specific to the host country in which the RHQ is located. I identified three country-level determinants in the literature review (see Table 1 in Chapter 2.2.4): local business relationships, distance and location-specific advantages.

First, local business relationships refer to the importance of local business partners in the RHQ host country. Studies on embedded multinationals refer to close local business relationships (i.e. embeddedness) with specific buyers, suppliers and other business and institutional counterparts as a strategic resource for the focal subsidiary and for competence development in the MNE (Andersson and Forsgren, 2000; Andersson et al., 2002, 2005). Also studies concerning the initial relocation of headquarters from the home country have found the relocation being driven by the need to be closer to various stakeholders (Barner-Rasmussen et al., 2007; Birkinshaw et al., 2006; Lunnan et al., 2011). However, it is surprising that the literature thus far virtually ignores the significance of local business relationships for RHQ and their location. I therefore include them in the theoretical framework depicted in Figure 6. In line with Andersson et al. (2001) and Forsgren et al. (2005), I will focus on local business relationships with buyers and suppliers.

Second, the distance between the countries of CHQ and RHQ as well as between RHQ and the mandated markets, has been among the key determinants associated with RHQ location since the early studies in the 1960s, and thus also belongs in the framework. My focus in this dissertation is on geographic and cultural distance, which have been identified as the most influential with regard to RHQ (Enright, 2005a; Heenan, 1977; Heenan and Perlmutter, 1979; Håkanson and Ambos, 2010; Kähäri, 2014; Laudien and Freiling, 2011; Lunnan and Zhao, 2014; Perry et al., 1998; Williams, 1967).

Third, location-specific advantages (LSAs) of the host country refer to environmental characteristics that are favourable to foreign investment relative to other countries (Rugman, 1981; Rugman and Verbeke, 1992). Industrial clusters are also a relevant LSAs as subsidiaries in leading-edge clusters may become headquarters for a particular business area (Porter, 1990). The majority of the literature on RHQ location focuses on a variety of location-specific advantages. Tax-related issues in particular have been under scrutiny since the appearance of one of the first RHQ studies published by Parks (1969), and findings on their influence on location are mixed (Laamanen et al., 2012; Perry et al., 1998; Yoost and Fisher, 1996). Also the international connectivity of the host city is deemed attractive to RHQ (Belderbos et al., 2017). The significance of ‘soft factors’ related to the personal preferences of top management, such as the quality of schooling and lifestyle aspects, to the question of RHQ location has also been emphasised in earlier studies (Ambos and Schlegelmilch, 2010; Holt et al., 2008). Hence, location-specific advantages constitute another important determinant to be included in the framework.
MNE-level determinants

MNE-level determinants are associated with the firm as a whole. I identified the following locational determinants in the literature review: firm-specific advantages, ownership advantages, investment motives, strategy, headquarters’ investment decisions and the assignment of roles, industry and geographic scope. In addition, although the MNE’s strategy was not highlighted as a significant determinant of location in the literature on internationalisation, there has been requests to incorporate it in studies on RHQ location (e.g. Holt et al., 2008; Perry et al., 1998).

Most of the firm-specific advantages, such as MNE size, international experience and ownership structure tend to be associated with whether or not the headquarters units are initially relocated abroad from the home country (see e.g. Benito et al., 2011; Birkinshaw et al., 2006; Forsgren et al., 1995) rather than explaining where they are located (see Figure 4 in Section 2.3.4). Furthermore, changes in the firm-specific advantages such as reorganisation and restructuring, regionalization and acquisitions have been found to trigger mandate relocation decisions (Kähäri and Piekkari, 2015). They do not, however, explain why, when or where the mandates are actually located so I do not include them in the framework. It is thus not surprising that these determinants have not received empirical support with regard to RHQ location (Enright, 2005a; Laamanen et al., 2012; Poon and Thompson, 2003). Nevertheless, they should be controlled if possible. It is worth noting that these variables need to be included when the initial relocation of headquarters units from the MNE home country is analysed.

Ownership advantages, especially those on the institutional level related to the firm’s ability to affect rather than adjust to its host country’s operating environment (Cantwell et al., 2010; Dunning, 1988; Dunning and Lundan, 2008a, 2008b), should be considered when assessing the significance of location-specific advantages to RHQ location. Headquarters may have bargaining power to negotiate better terms beforehand, thus LSAs that may be subject to negotiation, such as taxation, need to be interpreted with some caution. Although I do not include ownership advantages as such in the theoretical framework, they warrant attention in the context of location-specific advantages.

According to Dunning, the choice of RHQ location “stems largely from the functions it is intended to perform and the benefits it is expected to provide” (1988, p. 278), the implication being that the investment motive for establishing RHQ is likely to be a strong locational determinant. However, the literature on RHQ and headquarters in general thus far has paid surprisingly little attention to resource-seeking, market-seeking, efficiency-seeking and strategic-asset-seeking investment motives from a locational perspective. Echoing Dunning (1988), I argue that investment motives should be included in the theoretical framework.

The regional strategy does not necessarily require a RHQ structure, but consistently with the contingency model of the MNE environment-organisation fit, it is typically aligned with the MNEs’ strategy and structure (Alfoldi et al., 2012; Ambos and Schlegelmilch, 2010; Egelhoff, 1982; Lehrer and Asakawa, 1999). However, only a few studies on RHQ location include the MNE’s strategy in their analyses (e.g. Schotter et al., 2017), even though there have been calls to incorporate it (Holt et al., 2008; Perry et al., 1998). Consequently, I propose that an understanding of the MNE strategy, in
terms of global versus local orientation, is a major determinant in the analysis of RHQ locational dynamics.

**Headquarters’ investment decisions and the assignment of roles** constitute a complex process in which mandates are co-constructed over time by multiple subsidiaries and CHQ (Alfoldi et al., 2017). Although the literature on RHQ location has not thus far identified the impact of mandate assigning process, evidence from world production mandates suggests that subsidiaries pursuing opportunistic ventures without ever gaining formal recognition from headquarters are more likely to lose their mandates (Birkinshaw, 1996). Although this determinant is worth controlling, if the data allows, I do not include it in the theoretical framework because the process through which the mandate was initially allocated is rarely known.

The question of whether different types of industries have different requirements for their RHQ location has attracted relatively little attention in the literature. Although studies have compared the service, manufacturing and technology sectors (Enright, 2005a; Holt et al., 2008; Perry et al., 1998; Poon and Thompson, 2003), there is still a lack of understanding about their different locational requirements. Moreover, other classifications such as RHQ engaging in business-to-business (B2B) or business-to-consumer (B2C) activities may have different locational requirements. Thus, I consider the industry a significant determinant of RHQ locational dynamics that needs to be included in the theoretical framework.

Finally, **geographic scope** determines which mandated markets are under the RHQ remit. Although it has received surprisingly little attention in the literature thus far (Kähäri, 2014), its relevance is obvious given that RHQ tend to be located in the region under its control (Ambos and Schlegelmilch, 2010). Although most earlier RHQ studies focused on the distance between RHQ and its mandated markets, which is also associated with geographic scope to some extent, I include the geographic scope of the mandated markets in the theoretical framework as a self-standing determinant.

In sum, I have identified investment motives, strategy, industry and geographic scope as the most significant determinants of RHQ locational dynamics. Although I do not include firm-specific advantages, ownership advantages or headquarters’ investment decisions and role assignment in the framework, it is worth noting that they should be understood and controlled if possible.

**Subsidiary-level determinants**

Subsidiary-level determinants are specific to the focal subsidiary with the RHQ mandate. Given that RHQ mandates are typically given to existing subsidiaries, subsidiary-level determinants that promote its leadership role over other subsidiaries have been identified as one of the most prominent location drivers (Ambos and Schlegelmilch, 2010). The determinants identified in Table 1 (Chapter 2.2.4) include activities, competences, size and subsidiary-specific advantages.

**Activities** performed by the RHQ reflect largely Lasserre’s (1996) entrepreneurial and integrative roles. Entrepreneurial roles are associated with various aspects of business
development such as searching for opportunities, initiating new ventures and assisting local subsidiaries, whereas integrative roles include coordination and pooling of resources across the region (Lasserre, 1996). These two roles are closely associated with the market-seeking and efficiency-seeking *investment motives*, respectively. I therefore consider subsidiary activities as part of investment motives. Although investment motives could also be a subsidiary-level determinant, I classify it as an MNE-level determinant because it is dictated by the MNE.

Competences, subsidiary-specific advantages and size, in turn, fall into the category promoting the subsidiary’s leadership role and therefore I refer to them holistically as subsidiary capabilities.

It is worth noting that RHQ location may also be associated with *individual-level determinants* such as the nationality and skills of individual managers (e.g. Ambos and Schlegelmilch, 2010). Moreover, key employees may not be willing to relocate for family reasons or because of attachment to the current community (Baldridge, Eddleston and Veiga, 2006; Feldman and Bolino, 1998). Female managers in particular, and professionals working in various industries may be less willing to relocate because of family concerns than men (Baldridge et al., 2006). Furthermore, the availability of job-market alternatives in the current location is associated with employees’ unwillingness to relocate (Feldman and Bolino, 1998). However, examination of the skills of individual managers and the choices made by individuals is beyond the scope of this dissertation, and is therefore left for further study (see Chapter 1.5: Limitations and boundaries of the dissertation).

In sum, Figure 6 identifies the major country-, MNE- and subsidiary-level determinants of RHQ locational dynamics in one framework. The determinants are somewhat overlapping and interrelated, but I illustrate them separately for analytical clarity. As implied in the above discussion, the determinants are drawn from relevant literature on three degrees of internationalisation and RHQ location. These two literature streams compliment each other as the former is largely theory-driven whereas the latter is more managerially focused. The determinants included in the theoretical framework are thus not limited to RHQ but associated with the location dynamics of headquarters in general.

*Dynamic stages*

The theoretical framework guides the empirical work, which comprises the three essays that constitute this dissertation. I use a different theoretical lens and focus on a different stage of RHQ mandate dynamics in each essay, as shown in Figure 7. Essay 1 examines the conditions under which subsidiaries possess RHQ mandates in terms of contingency theory, based on the underlying assumption of a fit between country-, MNE- and subsidiary-level determinants (applied in Essay 1 and followed throughout the study). Essay 2 examines the deficiencies in RHQ capabilities associated with losing their mandates fully or partially from the perspective of absorptive capacity. Essay 3, on the other hand, considers the relocation of RHQ mandates to a sister subsidiary in a different host country in terms of the notion of liability of foreignness.
In each essay, I examine the selected determinants that are appropriate to the specific theoretical lens, and also combine the determinants on different levels of analysis to build an in-depth understanding of the dynamics of RHQ location. The contributions of the essays are complementary in that they offer different theoretical explanations of the phenomenon under study, also giving insights into RHQ locational dynamics in practice. Chapter 5 summarises the three essays, each of which includes an in-depth discussion of the respective theoretical approach taken.

Figure 7. Theoretical perspectives and the determinants analysed in three essays
4. METHODOLOGY

I used quantitative methods to answer the research question posed in this dissertation. I analysed two different empirical datasets, having been involved in the collection and management of the data, and in the analysis: 1) a cross-sectional dataset of 164 foreign subsidiaries located in Belgium, Finland, Ireland, the Netherlands, New Zealand and Singapore; and 2) a longitudinal dataset of 374 subsidiaries with RHQ mandates located in Finland. With reference to Figure 4 in Chapter 2.3.4, focusing in Essay 1 on the possession of a RHQ mandate I analyse the cross-sectional data. In Essays 2 and 3 I examine different subsets of the longitudinal dataset: the loss of the RHQ mandate in Essay 2 and its relocation in Essay 3.

Using these two different datasets had multiple benefits. First, the cross-sectional multi-country dataset allowed me to broaden the scope of the study beyond Finland as it covers subsidiaries in five other small, open and advanced economies. Second, the longitudinal dataset allowed me to capture the dynamics of RHQ mandates. Third, I was able to use the two datasets for some data-triangulation purposes, both of them including observations in Finland. Seven of the 18 foreign-owned subsidiaries in the cross-sectional dataset collected in Finland were also represented in the longitudinal dataset.

Table 2 summarises these two datasets, both of which I discuss in detail in the following sub-sections. The methodologies are also explained in each of the essays, hence there is unavoidable repetition.
Table 2. A summary of the two datasets analysed in this dissertation

<table>
<thead>
<tr>
<th>Essay</th>
<th>Dataset</th>
<th>Time of data collection</th>
<th>Data collection method</th>
<th>Sampling frame</th>
<th>Received responses</th>
<th>Response rate</th>
<th>Sub-sample used in the essay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cross-sectional multi-country data</td>
<td>2008 - 2009</td>
<td>Mail and internet survey</td>
<td>500 largest (by turnover) companies in Finland, Ireland, Netherlands and Belgium (the data from these two countries were combined due to their proximity), New Zealand and Singapore, total of 2500 companies</td>
<td>393 companies of which 49 domestic companies, 180 national MNE headquarters, 164 foreign-owned subsidiaries*</td>
<td>15.7%</td>
<td>164 foreign-owned subsidiaries</td>
</tr>
<tr>
<td>2</td>
<td>Longitudinal data</td>
<td>Initial data collection in 1998 - 1999</td>
<td>Mail surveys and telephone interviews</td>
<td>1998-99: The whole population of 1,509 foreign-owned subsidiaries located in Finland in 1998</td>
<td>1998-99: 1,143 foreign-owned subsidiaries of which 374 had received RHQ mandates</td>
<td>1998-99: 75.7%</td>
<td>221 foreign-owned subsidiaries still operating in Finland in 2010</td>
</tr>
<tr>
<td>3</td>
<td>Follow-up data collection in 2010</td>
<td>2010: telephone interviews and nine face-to-face interviews</td>
<td></td>
<td>2010: 374 foreign-owned subsidiaries which had received RHQ mandates by 1998***</td>
<td>2010: 361 subsidiaries**</td>
<td>2010: 96.5%</td>
<td>54 RHQ mandate relocations 1993-2010</td>
</tr>
</tbody>
</table>

* 164 subsidiaries constitute the sub-sample used in Essay 1.
** Out of 361 subsidiaries, 221 were still operating in Finland in 2010. This constitutes the sub-sample used in Essay 2.
*** The sub-sample used in Essay 3 contains 54 RHQ relocations identified among 374 subsidiaries in 2010.

4.1 Cross-sectional multi-country data

The cross-sectional multi-country data was collected in Belgium, Finland, Ireland, the Netherlands, New Zealand and Singapore in 2008 and 2009. I was part of the team of three Master’s students doing the data collection in Finland. The data facilitated examination of the determinants associated with a subsidiary possessing the RHQ mandate in Essay 1.

I begin this section with an account of the survey design. I joined the research team after the initial survey had been done and therefore I reference Scott-Kennel and Giroud’s (2015) paper in which the authors analyse data obtained from a subset of the same dataset. I go on to explain the sample- and data-collection procedures, and provide and elaborate on a descriptive analysis. Finally, I discuss validity and reliability issues that are specific to this dataset.

4.1.1 Survey design

The questionnaire design closely followed Dillman’s (2007) instructions on mail and internet surveys with respect to personalization, wording, question order and layout (Scott-Kennel and Giroud, 2015). The survey was pilot-tested first among 26 people including academic colleagues, business managers, and postgraduate students in business administration. After incorporating the initial feedback to ensure user-friendliness and avoid the misinterpretation of questions, we tested the survey again on 39 people.

The original questionnaire was developed in English and was translated into Dutch, Finnish and French. The initial translation into Finnish was done separately by myself.
and two other researchers whose mother tongue was Finnish and who spoke both languages fluently on a daily basis. The strength of this parallel translation process is that it favours the emergence and the discovery of local cultural meanings arising from different insights among independent translators (Usunier, 2011). We then jointly formulated the best translation for each question. The Dutch version was also translated in parallel by three researchers, and the French version was translated in parallel by two researchers (Scott-Kennel and Giroud, 2015). After that the questionnaires were back-translated into English in an attempt to avoid translation and interpretation errors (Malhotra and Birks, 2007). The translated questionnaires were proofread and pre-tested on a committee of bilingual colleagues to ensure comprehensibility. This kind of combination of parallel translation, back-translation and an expert committee reduces the risk of language-related flaws in the wording of the questionnaire (Usunier, 2011).

Both the English and local versions were made available to respondents in Belgium and the Netherlands (where 75% of respondents answered it in either French or Dutch) and Finland (where 82% answered in Finnish), whereas the English versions were used in Ireland, New Zealand and Singapore (Scott-Kennel and Giroud, 2015).

4.1.2 Sample and data collection

The data were collected in Belgium, Finland, Ireland, the Netherlands, New Zealand and Singapore, all of which share the common characteristics of small markets and open economies. We targeted 500 of the largest companies by annual turnover in each of the countries to create a somewhat matched sample (Sekaran, 1983), and also to include companies in various industries. Belgium and the Netherlands were combined given their proximity, leaving an overall sampling frame of 2,500 companies. The companies were identified from local databases in each country as follows: NordicNet (Finland), Kompass (New Zealand), Irish Times Top 1000 companies (Ireland), Singapore Largest 1000 (Singapore), and The Top500 Companies (the Netherlands and Belgium). These lists were updated regularly and were considered the most reliable for identifying the largest companies in these countries in terms of annual turnover (Scott-Kennel and Giroud, 2015).

The data were collected in 2008-2009 by mail and internet surveys sent to executive-level managers on the grounds that answering the questionnaire required an in-depth understanding of strategic issues related to the focal subsidiary as well as the MNE. We found the senior managers’ email addresses mainly from company websites and online databases. If we could not find the contact information we called the company. We reached senior managers through mail or email, asking them to complete the survey. They were provided with a link to the survey in 2ask.net software, which was used to administer it. A hard copy was provided if requested. Two reminders were sent via email, letter or telephone calls (there were slight variations by country). After the data had been collected, the respondents were provided with an executive summary including a personalised report comparing their anonymised and summarised answers with the others in the respective country.
A total of 393 responses were received, representing an overall response rate of 15.7 per cent. Each response in any one country is associated with a different MNE (i.e. there were no multiple responses from different units of the same MNE). The respondents were asked to provide details of the company’s activities in the respective country, its relationships with local business partners, its international connections and the local business environment. The survey instructions specified that the questionnaire should be completed by a senior manager. In an optional section on contact information, 171 respondents gave their names and positions as follows: CEO (32%), managing director (23%), general manager (15%), chief financial officer (7%) or other senior management executive (23%) (Scott-Kennel and Giroud, 2015). Given the executive-level knowledge required to answer the survey and the fact that it was sent to large firms that typically receive similar requests quite frequently, the response rate was reasonable.

4.1.3 Descriptive statistics

The numbers of responses received in each country were as follows: Belgium 15, Finland 81, Ireland 70, the Netherlands 53, New Zealand 135 and Singapore 39. The 393 responses received were from three types of company: 49 solely domestic companies, 180 national MNE headquarters and 164 foreign-owned subsidiaries. My focus in this study is on the subset of 164 foreign-owned subsidiaries.

The respondents were asked whether their subsidiary had RHQ responsibilities defined as the coordination of regional activities in manufacturing, service delivery, marketing or distribution. The exact terminology used in the survey was ‘responsibilities’ rather than ‘mandates’ because the former is a more familiar term to managers.

According to our survey responses, 70 of these 164 subsidiaries were regular subsidiaries without RHQ mandates, and the remaining 94 had RHQ mandates. As Alfoldi et al. (2012) recommend, local subsidiaries with RHQ mandates should be differentiated from dedicated RHQ. I identified this distinction based on the nature and scope of the subsidiary’s activities, its name and the job title of the respondent. If the RHQ had a regional name (e.g. Company X East Asia Ltd), or if the title of the respondent signified regional responsibility (e.g. vice president of Asia Pacific), I identified it as a potentially dedicated RHQ. A total of 14 subsidiaries met either one of these criteria. The dedicated RHQ role was further confirmed through company websites: two of the companies also appeared to have local subsidiary activities and thus were not classified as dedicated RHQ. Hence, a total of 12 dedicated RHQ and 82 subsidiaries with RHQ mandates were identified. The finding that most RHQ in our sample belonged to the latter category was expected given that RHQ responsibilities are typically assigned to existing local subsidiaries (Ambos and Schlegelmilch, 2010; Chakravarty et al., 2017; Goold and Campbell, 2002).

Table 3 lists the 164 foreign-owned subsidiaries by country and type of subsidiary. The percentage share of subsidiaries with RHQ mandates ranges between 43 in New Zealand and 62 in the Netherlands. Belgium differs from the other countries in that none of the subsidiaries have a RHQ mandate. It is also noteworthy that most subsidiaries located in Singapore either have a RHQ mandate or are dedicated RHQ. This was not
unexpected given that the country is a well-established location for RHQ (Edgington and Hayter 2013; Enright, 2005a; Ho, 1998; Perry, Yeung and Poon, 1998; Poon and Thompson, 2003; Yeung, Poon and Perry, 2001; Yoost and Fisher, 1996). Because I am focusing on subsidiaries with RHQ mandates in the empirical part of this dissertation, I excluded the 12 dedicated RHQ from the analysis, reducing the sample to 152 subsidiaries.

Table 3. The respondents by country and subsidiary role

<table>
<thead>
<tr>
<th>Country</th>
<th>Regular subsidiary (no RHQ mandate)</th>
<th>Local subsidiary with RHQ mandate</th>
<th>Dedicated RHQ</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
</tr>
<tr>
<td>Belgium</td>
<td>3</td>
<td>75 %</td>
<td>0</td>
<td>0 %</td>
</tr>
<tr>
<td>Finland</td>
<td>9</td>
<td>50 %</td>
<td>9</td>
<td>50 %</td>
</tr>
<tr>
<td>Ireland</td>
<td>16</td>
<td>38 %</td>
<td>24</td>
<td>57 %</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
<td>38 %</td>
<td>13</td>
<td>62 %</td>
</tr>
<tr>
<td>New Zealand</td>
<td>31</td>
<td>57 %</td>
<td>23</td>
<td>43 %</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
<td>12 %</td>
<td>13</td>
<td>52 %</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>82</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>

The industries represented by the focal subsidiaries’ were classified as services or manufacturing, and further divided according to their technological intensity. In line with Eurostat, we used the NACE Rev. 2 codes at the 3-digit level. Services include both knowledge-intensive services (KIS) and less-knowledge-intensive services (LKIS), and manufacturing is further aggregated into medium-high (includes high-technology) and medium-low (includes low-technology) technology groups (Scott-Kennel and Giroud, 2015). As Table 4 shows, 63 (38%) subsidiaries in our sample operated in less-knowledge-intensive services, followed by medium-high-technology manufacturing (26%). Nine (5%) subsidiaries were not covered by these categories and are listed as ‘other’: subsidiaries in mining and quarrying (2 subsidiaries, NACE code B); electricity, gas, steam supply (2, D); water supply, sewerage, waste management (1, E); and construction (4, F). The respondents in each country, with the exception of Belgium, operate in a variety of industries. Table 4 also shows the variety of industries represented in regular subsidiaries and subsidiaries with RHQ mandates.

Table 4 further indicates whether the respondents operate in B2B or B2C business: B2C businesses sell directly to consumers whereas B2B businesses sell only to other businesses. If the subsidiary is engaged in both types of business we classified it as B2C because the majority of such companies also use distributors and agents as well as sell directly to end consumers. Of the 164 respondents, the vast majority (78%) represent B2B business, and only 22 per cent operate in B2C business. In fact, subsidiaries operating in B2B business are in the majority in all six small, open economies, and also among all types of subsidiaries.
A number of steps were taken to create a somewhat matched sample between the data collected in the different countries (Sekaran, 1983). First, the data collection was limited to the 500 largest companies in each country. Second, the process was, as far as possible, identical in each of the countries. Third, I compared the MNE size and the subsidiary size in terms of employee numbers, subsidiary spending on R&D and marketing as a percentage of sales, and the numbers of subsidiaries in services and in manufacturing to assess whether the respondents from the different countries could be reasonably assumed to be similar in nature. There was a statistically significant difference (p<0.10) between the countries in terms of marketing spending as assessed by one-way ANOVA. A closer examination showed that marketing spending among the respondents in Belgium was significantly higher than in the other countries. I therefore excluded the four responses from Belgium from the analysis in Essay 1 because of the dissimilarity compared to the respondents in other countries. As the one-way ANOVA revealed, there was no statistically significant difference (p>0.10) between the country samples in terms of the other variables. Table 5 presents the results.

### Table 4. The respondents’ industry classifications by country and subsidiary role

<table>
<thead>
<tr>
<th>Industry</th>
<th>BE</th>
<th>FI</th>
<th>IR</th>
<th>NL</th>
<th>NZ</th>
<th>SG</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge-intensive services</td>
<td>0</td>
<td>3</td>
<td>10</td>
<td>2</td>
<td>13</td>
<td>4</td>
<td>32</td>
</tr>
<tr>
<td>Less knowledge-intensive services</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td>11</td>
<td>23</td>
<td>13</td>
<td>63</td>
</tr>
<tr>
<td>Medium-high technology manufacturing</td>
<td>2</td>
<td>4</td>
<td>18</td>
<td>5</td>
<td>9</td>
<td>5</td>
<td>43</td>
</tr>
<tr>
<td>Medium-low technology manufacturing</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>7</td>
<td>2</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>18</td>
<td>42</td>
<td>21</td>
<td>54</td>
<td>25</td>
<td>164</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subsidiary type</th>
<th>Regular subsidiary</th>
<th>Subsidiary with RHQ mandate</th>
<th>Dedicated RHQ</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2B</td>
<td>3</td>
<td>14</td>
<td>35</td>
<td>16</td>
</tr>
<tr>
<td>B2C</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>18</td>
<td>42</td>
<td>21</td>
</tr>
</tbody>
</table>

### Table 5. Sample demographics, foreign-owned subsidiaries (n=164)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average</th>
<th>Belgium</th>
<th>Finland</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Singapore</th>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td># of companies</td>
<td>27</td>
<td>4</td>
<td>18</td>
<td>42</td>
<td>21</td>
<td>54</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>MNE size, employees</td>
<td>55478</td>
<td>59756</td>
<td>53710</td>
<td>36412</td>
<td>57077</td>
<td>85565</td>
<td>40306</td>
<td>1.03</td>
</tr>
<tr>
<td>R&amp;D spending, % of sales</td>
<td>4.18</td>
<td>0.75</td>
<td>5.22</td>
<td>5.07</td>
<td>5.81</td>
<td>2.61</td>
<td>5.63</td>
<td>1.72</td>
</tr>
<tr>
<td>Marketing spending, % of sales</td>
<td>12.66</td>
<td>26.25</td>
<td>9.00</td>
<td>9.93</td>
<td>10.71</td>
<td>7.26</td>
<td>12.83</td>
<td>2.18</td>
</tr>
<tr>
<td>Service industry %</td>
<td>57.93</td>
<td>50.00</td>
<td>50.00</td>
<td>43.00</td>
<td>62.00</td>
<td>67.00</td>
<td>68.00</td>
<td>1.48</td>
</tr>
<tr>
<td>Manufacturing industry %</td>
<td>35.98</td>
<td>33.00</td>
<td>28.00</td>
<td>50.00</td>
<td>38.00</td>
<td>28.00</td>
<td>28.00</td>
<td>1.26</td>
</tr>
</tbody>
</table>

I also compared the confidence intervals to test whether there were significant differences in terms of the proportion of subsidiaries with 0-99, 100-999 and 1,000-10,000 employees (subsidiary size). All the confidence intervals were overlapping, thus further indicating that there were no statistically significant differences (p<0.05) between the countries in terms of subsidiary size.
4.1.4 Analysis

I analyse the cross-sectional multi-country data in Essay 1, which focuses on subsidiaries possessing RHQ mandates. It examines the conditions under which RHQ mandates emerge, thus comparing subsidiaries with RHQ mandates to regular local subsidiaries (without RHQ mandates). The dependent (outcome) variable reflects whether the subsidiary has a RHQ mandate or not. Given the binary nature of the dependent variable, I applied logistic regression to model the probability of the subsidiary possessing a RHQ mandate. I used Stata version 11.1 in my analysis.

4.1.5 Validity and reliability

In this sub-section I discuss the validity and reliability pertaining to the data, the analysis, and the interpretation of the cross-sectional multi-country dataset used in Essay 1. Validity is in many ways the most important research criterion in that it refers to the integrity of the conclusions it generates, whereas reliability refers to the extent to which the results are repeatable (Bryman and Bell, 2015).

Measurement validity (also called construct validity) is assessed in response to the following question: “Do the observations meaningfully capture the ideas contained in the concepts?” (Adcock and Collier, 2001, p. 529). We took this into account by carefully designing the questionnaire (Fowler, 2002). First, we derived the questions from theory: we used the multi-dimensional items developed in previous studies (see Harzing, 2000) to measure the MNE’s strategic orientation, for example. Second, the survey was pilot-tested among 65 people to ensure user-friendliness and to minimise the risk of misinterpretation of the questions. Third, the questionnaire was translated from English into Dutch, Finnish and French using a combination of methods including parallel translation, back-translation and committee discussion to make sure the translations captured the local meanings of the original language (Usunier, 2011).

External validity concerns the generalizability of the findings to and across particular persons, settings and times (Ghauri and Grønhaug, 2010). The fact that our data includes observations from Belgium, Finland, Ireland, the Netherlands, New Zealand and Singapore is likely to constrain the generalizability to similar small, open economies. We included in the sampling frame the 500 largest companies in each country by turnover to create a somewhat matched sample (Sekaran, 1983), as well as include companies in various industries. Typical response rates for international mail surveys lie between six and 16 per cent (Harzing, 1997), therefore constraining the sampling frame to fewer companies in each country would probably have resulted in a sample that was too small for quantitative analysis. The response rate of 15.7 per cent is considered reasonable for this type of study.

Reliability concerns the repeatability of the results of the study, including their stability and internal reliability (Bryman and Bell, 2015). It is also related to ‘measurement validity’: if a measure is unstable, in other words fluctuates in a sample of respondents, it is not reliable and thus lacks validity (Bryman and Bell, 2015). The careful translation process enhanced the stability of the survey responses in the different countries, and the
pilot testing on 65 people lowered the potential for misinterpretation among the respondents. In addition, we assessed non-response bias by comparing the respondent waves, as suggested by Armstrong and Overton (1977) and Khalid and Larimo (2012). The early responses were compared with the late responses received after follow-up emails and phone calls in terms of unit age and size, foreign-ownership share and FSAs; t-tests and ANOVAs. The results did not highlight any significant differences in means between the groups (Scott-Kennel and Giroud, 2015, p. 99). Internal reliability, in turn, concerns multiple-indicator measures and whether the indicators are related to each other (Bryman and Bell, 2015). Thus, the two factors (‘hard LSAs’ and ‘local strategy’) included in the model in Essay 1 were assessed on the Kaiser-Meyer-Olkin measure of sampling adequacy and the Cronbach’s Alpha measure of internal consistency.

4.2 The longitudinal dataset

The longitudinal data facilitated examination of the dynamics behind the location of the RHQ mandate in Essay 2 and Essay 3. This dataset includes foreign-owned subsidiaries located in Finland, and the data were collected in two stages, 12 years apart, in 1998-99 and 2010. The first data collection was conducted by a research team led by Reijo Luostarinen at Helsinki School of Economics (the former name of Aalto University School of Business). The Finnish Ministry of Trade and Industry provided most of the finance for the project, in response to the increased emphasis in the Finnish government on establishing Finland’s strategic position as a business centre for EU and non-EU firms going to Russia, the Baltic States and Eastern European countries (Luostarinen, 2000). The policy was motivated by the fact that “earlier gateway projects had very scarcely studied the position of Finland as an administrative and coordinating center of EU- and non-EU-firms to CEE-markets” (Luostarinen, 2000, p.3).

The second data-collection round took place in 2010, the aim being to find out what had happened to the RHQ mandate. As part of the research team during this follow-up stage I was involved in designing the survey, conducted 81 of the telephone interviews and participated in two face-to-face interviews.

I start this section with a discussion of the sample and the data collection to ensure an understanding of the longitudinal nature of the data. The descriptive-statistics subsection introduces Finland as a context for RHQ. I widely reference Kähäri’s (2014) dissertation for which the same empirical dataset was used.

4.2.1 Sample and data collection

This longitudinal dataset was collected at two points in time. The initial data collection took place between April 1998 and December 1999, and the follow-up round between January and May 2010 (Kähäri, 2014). The initial data-collection effort targeted the entire population of 1,509 foreign-owned subsidiaries located in Finland in 1998 (Statistics Finland, 2017). The companies were identified based on an earlier study conducted in 1993, from foreign embassies and consulates in Finland as well as from the Invest in Finland Bureau (Luostarinen, 2000). A total of 1,143 subsidiaries were
reached by mail surveys and telephone interviews, yielding a response rate of 76 per cent. Of these, 374 had received a RHQ mandate by 1998 (Luostarinen, 2000). The respondents were typically managing directors or other senior managers at the subsidiary.

The second data-collection round in 2010 followed up on the 374 subsidiaries with RHQ mandates and we were able to update the status of 361 (97%) of them. Of these, 140 (37%) were no longer operational in Finland or were otherwise not suitable on various grounds: their operations in Finland had ceased (n=52, 14%), there had been numerous ownership changes (n=35, 9%), the RHQ mandate was lost prior to 1998 (n=30, 8%), or they had been sold to a Finnish company and thus were no longer classified as foreign-owned subsidiaries (n=23, 6%). We conducted structured telephone interviews with the remaining 221 subsidiaries. Generally, executive assistants answered the basic questions whereas marketing managers, country managers, controllers or CEOs were more knowledgeable dealt with specific questions about RHQ responsibilities and organisational changes.

In addition, we selected nine subsidiaries for semi-structured face-to-face interviews conducted between December 2009 and February 2010, the aim being to shed light on RHQ dynamics (Kähäri, 2014). The interviewees were managing directors (one had recently retired), HR directors, or other managers with an insight into the RHQ’s role. The face-to-face-interview data helped to enhance understanding of the phenomenon at hand, but it is not analysed in this dissertation.

Figure 8 depicts our sample framework at these two points in time. Essay 2 focuses on the full and partial loss of the RHQ mandate. The empirical data analysed in this essay represents the 221 RHQ followed up in 2010. Essay 3, on the other hand, focuses on the relocation of the RHQ mandate to another subsidiary outside Finland. A total of 78 RHQ had relocated from Finland to another host country by 2010. Although the majority were relocated after 1998, nine of them had already relocated before the initial data-collection point in 1998. Hence, I draw on data from both data-collection points in the essay. Given the relatively long time period, information on the exact year or the country of the new RHQ was missing for 29 RHQ: the remaining 49 are examined in the essay. All 49 RHQ belong to different MNEs. Five of them had relocated to two different host countries, resulting in 54 observations. As these five observations are not independent, additional analysis are reported in Essay 3 without them.
4.2.2 Survey design

The original survey administered in 1998-99 identified whether the subsidiary had an RHQ mandate at the time or had previously had one. An RHQ was defined according to two key criteria: 1) it should be mandated by the higher levels of the MNE organisation (before or after the initiation of the activity), and 2) it should have explicit decision-making power over its mandated region (Kähäri, 2014, p. 42). The definition was developed in close collaboration with five regional managers of foreign-owned RHQ in Finland (Kähäri, 2014). Whether a certain subsidiary fulfilled the above-mentioned criteria was decided by the researchers. The survey also contained questions about the RHQ, including its year of establishment as a subsidiary in Finland, the establishment mode (green-field vs. acquisition), the subsidiary type (production vs. sales), the number of employees (as of 1997), turnover (as of 1997), import and export share (as of 1997) and four-digit industry classification based on the Finnish TOL1995 classification. The survey also identified the name and origin of the owner or parent company as well as the parent company of the whole group, the RHQ’s position in the MNE hierarchy (i.e. reporting to Scandinavian, European or directly to corporate headquarters) and the country of the intermediary headquarters. Finally, it yielded information on the subunits reporting to the RHQ. Each subunit in a mandated market (i.e. within the geographic scope) was identified, including the year when RHQ responsibilities started and ended (if they had ended).

The follow-up survey replicated the 1998 survey, and also included retrospective questions on the scope of RHQ responsibilities in each of the mandated markets in 1998 and the dynamics of the responsibilities since then. If there had been changes in the mandate, they were justified (i.e. market growth, market decline, internal reorganisation, mergers and acquisitions, new regionalisation, and other reasons), along with the locus of the decision-making (the RHQ, Scandinavian, European or corporate HQ). We also asked about future plans for the RHQ (no change, relocation or additional responsibilities), and about its local activities in Finland, thereby providing a more
A comprehensive view of mandate development and loss. The first 18 interviews comprised a pilot study during which final adjustments were made. Both data-collection rounds were conducted in Finnish, which was the native tongue of most of the respondents and the interviewing researchers.

4.2.3 Descriptive statistics

We collected data only from subsidiaries with an RHQ mandate in Finland, but we also asked questions about the subunits reporting to the RHQ. We therefore had data on two levels of analysis, the Finnish RHQ and the subunits located in the mandated markets. In 1998, the 374 RHQ were responsible for a total of 1,474 subunits in mandated markets. In 2010 we were able to reach 221 RHQ (of which some had lost their RHQ mandate and were continuing as local subsidiaries), along with 885 subunits that reported to or had reported to these RHQ. In the following, I discuss each of these two levels separately for the sake of analytical clarity.

Descriptive statistics of the Finnish RHQ (RHQ level)

All 374 RHQ in our dataset are subsidiaries with RHQ mandates, and hence also have regular subsidiary responsibilities. The oldest foreign-owned subsidiary had been a regular subsidiary in Finland for 191 years before being granted its RHQ mandate in 1991. On average, the subsidiaries had operated as regular subsidiaries for 24 years before receiving the RHQ mandate, although 42 of them received the mandate during the year of their establishment in Finland. The first subsidiary in our sample became an RHQ in 1945, but the main peak period for establishing an RHQ in Finland was in the 1990s, coinciding with the opening of Eastern European markets.

The origins of the MNE, in other words the home country, responsible for the RHQ included the United States (58 RHQ), Sweden (57), Germany (32), the United Kingdom (19), France (16), Switzerland (15), Denmark (14), Japan (11), The Netherlands (9), Norway (7) and others (8) (see Figure 9).
Only eight per cent of the RHQ were engaged in B2C business, whereas the rest operated solely in B2B business. A closer examination of the B2B companies reveals that the majority (54%) of them operated in wholesale industries, and almost a quarter belonged to either the industrial or the service sector (24% and 22%, respectively). It is worth noting that we did not seek any new companies after 1998, hence none of the subsidiaries operates in recently emergent industries such as gaming.

The second data-collection phase in 2010 provided information about the loss and retention of RHQ mandates: we followed up only on the RHQ that had been identified in 1998 and did not explore any new ones. Between 1998-1999 and 2010: 60 of the 221 RHQ had retained responsibility for all their 230 subunits (12 of them had also received new ones); 70 had lost responsibility for at least one of their 366 subunits but retained responsibility for at least one other (i.e. partial mandate loss); and 91 had lost all their 289 subunit responsibilities and thus also their entire RHQ mandate (i.e. full mandate loss).

A closer examination of all 374 RHQ mandates shows that a total of 78 RHQ had relocated fully or partially from Finland to another host country between 1993 and 2010. In addition 54 RHQ had lost all or some of their mandates by 2010 because the subunits in the mandated markets had started reporting directly to the CHQ.

Below I discuss the descriptive statistics of the subunits reporting to the Finnish RHQ in our data.

**Descriptive statistics on the subunit level**

The 374 RHQ identified during the initial data-collection round had a total of 1,474 subunits under their remit at some point in time. The focal subsidiaries in Finland were
made responsible for a few subunits starting in the 1960s, but the main peak was in the 1990s following the opening of Eastern European markets. Eastern Europe had been largely under communist rule since World War II and the economic system was based on tight central planning until 1991 when the Soviet Union was dissolved. The transition opened up new opportunities for Western companies because of the huge growth potential in the new market, but on the other hand it still posed risks related to economic and political instability. Hence, Finland was a more suitable RHQ location than the newly-opened former Soviet markets (Kähäri and Piekkari, 2015). The country also had a long tradition in marketing itself as a gateway to the East on account of its geographical proximity to Eastern Europe, high level of technological know-how, good transport connections and trade agreement with Russia (Luostarinen, 2000). Finland’s EU membership in 1995 further enhanced its attractiveness to RHQ with a geographic scope that included these new high-potential markets.

Figure 10 shows the trend in the number of subunits starting to report to Finnish RHQ. There were less than 20 in the 1960s and 1970s, but the number doubled a decade later in the 1980s and skyrocketed in the early 1990s. More specifically, the number of Baltic and Russian subunits within the Finnish RHQ’s geographic scope increased dramatically starting in 1991, whereas Nordic subunits came on the scene much later in 1994, typically in addition to the Baltic and Russian subunits.

Figure 10. Year when the subunits started reporting to Finnish RHQ

The subunits located in mandated markets and reporting to the Finnish RHQ constitute the geographic scope of the RHQ. The mandated markets fall into four main regions, as illustrated in Figure 11: the Baltics, Eastern Europe (other than the Baltics and Russia), Russia and the Nordics. The Finnish RHQ had by far the most responsibilities in the Baltic countries, with 873 subunits under their remit in 1998-99 or earlier. The second largest region in this respect was Eastern Europe (236 subunits), followed by Russia (197 subunits) and the Nordics (115 subunits). The remaining 53 units were located mainly in Central Europe.
The descriptive analysis indicates that 83 per cent of RHQ had export-related sales responsibilities in certain mandated markets in 1998 (termed a narrow responsibility scope in Essay 2). This reflects Lasserre’s (1996) entrepreneurial scouting roles associated with business development such as searching for opportunities and initiating new ventures across the region, discussed earlier. Furthermore, 51 per cent of RHQ had coordinative duties such as business-area, functional, administrative and reporting responsibilities (termed a broad responsibility scope in Essay 2). This, in turn, reflects Lasserre’s (1996) integrative roles aimed at ensuring that the businesses exploit synergies and follow consistent policies across the region (coordination), and at managing certain key functional activities across the region (pooling resources). In terms of the investment motives discussed in Chapter 2.2.1, the majority of the RHQ had market-seeking motives, and half of them also had efficiency-seeking motives. It is worth noting that RHQ may have export-related roles in some of its mandated markets, and coordinative responsibilities in others. Hence, one RHQ may have different roles in different mandated markets.

We were able to reach 221 RHQ that were responsible for a total of 885 subunits in the second data-collection phase in 2010. Figure 12 illustrates the loss of the individual subunits by the Finnish RHQ per year. Given that most of the subunit responsibilities were in the Baltics, they were also more likely to be lost. There was a clear peak in 2008 when Europe began to go into recession. The Great Recession that started in 2008 was particularly severe in Estonia, Latvia and Lithuania (i.e. the Baltics) (IMF, 2012), which also shows as a peak in Figure 12. This re-emphasises the fluidity of RHQ mandates, which can be relatively quickly lost if the mandated markets are facing rapid or significant changes (Kähäri, 2014).
4.2.4 Analysis

The dataset covers two levels of analysis (RHQ and subunit). These levels are analysed accordingly in Essay 2, which focuses on the full and partial loss of the RHQ mandate. The dependent variable on the RHQ level of analysis is categorical, representing full retention, full mandate loss and partial mandate loss. Multinomial logistic regression was used to model the probability of each alternative occurrence. The dependent variable on the subunit level of analysis is subunit mandate loss. Given its binary nature, logistic regression was used to model the probability of the loss of an individual subunit.

In Essay 3, the dependent variable reflects the country to which the RHQ mandate was relocated from Finland before 2010, taking the value of 1 if one of 15 specific host countries was selected, and 0 for other possible sources. Conditional on relocating, each company had 15 alternative host countries to which the RHQ in the sample could relocate (based on our data, see Laamanen et al. (2012) for a similar approach), thus creating $15 \times 54 = 810$-line regression. I applied conditional logit to predict where the RHQ would relocate.

4.2.5 Validity and reliability

In this final section of Chapter 4 I discuss the validity and reliability of the longitudinal dataset used in Essays 2 and 3. As mentioned earlier in Chapter 2.2, given that there is no unified definition of RHQ, researchers and managers have used various terms. Measurement validity was ensured by developing the initial definition in close collaboration with five regional managers of foreign-owned RHQ in Finland (Kähäri, 2014), and further strengthened by using the same definition of RHQ at the first and second data-collection points in 1998-99 and 2010, respectively. The first 18 interviews conducted in the second data-collection round constituted a pilot study during which the
final adjustments were made to the structured survey instrument to ensure that it properly measured the mandate changes and their reasons.

External validity concerns the generalizability of the results (Ghauri and Grønhaug, 2010; Harzing, Reiche and Pudelko, 2013). The sampling frame of the initial data collection in 1998-99 targeted the entire population of 1,509 foreign-owned subsidiaries located in Finland in 1998 (Statistics Finland, 2017). Of these, 76 per cent (1,143) were reached for the study, hence the sample represents three quarters of the whole population at the time. We were able to follow up on 97 per cent of those in the second data-collection round, which further strengthened the external validity of the study. It could thus be concluded that the results are representative of the RHQ population in Finland, and that the findings can be generalized to the Finnish context at this period of time. However, like all data, ours is also bound by context and time, which limits the generalizability of the results across different countries and different time periods (Ghauri and Grønhaug, 2010). Studies on RHQ in Europe and Asia, for example, have shown contradictory results (Ambos and Schlegelmilch, 2010; Lasserre, 1996).

Internal validity refers to causality, hence to the extent to which a change in an independent variable causes a change in a dependent variable (Harzing, Reiche and Pudelko, 2013). This is relevant in Essays 2 and 3, which take a longitudinal approach. Internal validity was taken into account as follows. We collected data 12 years apart, which is long enough to follow how the mandates evolved. On average, the RHQ mandate was lost after 11 years. We also asked the respondents why the changes in the RHQ mandates had taken place, the given alternatives being dynamic market growth, dynamic market shrinkage, internal reorganisation, acquisition, regionalisation or some other reason. In addition, we discussed alternative explanations for our results in Essay 2. It is possible, for example, that RHQ mandates were lost in some cases when key individuals with experience of the mandated markets left the RHQ. However, this kind of individual-level analysis was beyond the scope of the study (see Chapter 1.5).

In terms of the reliability of the study, inter-rater reliability is particularly important given that three of us were conducting structured interviews, each interviewing different RHQ representatives. Inter-rater reliability refers to the extent to which two or more individuals agree about the reporting of an item (Bryman and Bell, 2015). To maintain high inter-rater reliability in our dataset we coordinated our data-collection efforts to make sure that the results did not depend on the interviewer or differences in our subjective judgements. We discussed the questions before conducting the interviews to ensure that we would report similar answers coherently. We also regularly discussed borderline cases within the project group. We decided jointly, for example, whether a subsidiary fulfilled the criterion of having an RHQ mandate. In addition, the fact that we were all female researchers and students on the same MSc programme, of about the same age and background, further facilitated the maintenance of a high level of inter-rater reliability across the dataset.

In terms of stability, both data-collection rounds were conducted in Finnish, which was the native tongue of most of the respondents and the interviewing researchers. The second round in 2010 allowed us to confirm the results of the initial survey collected in 1998-99. We also used company reports and official registries during this round for data-triangulation purposes.
5. SUMMARIES OF THE ESSAYS

This chapter summarises the three essays that constitute the empirical part of this dissertation. Each essay focuses on one of the three stages, in other words the possession, loss and relocation of an RHQ mandate, the aim being to gain an in-depth understanding of RHQ-related locational dynamics. I provide a brief summary of each essay, including the objective, the theoretical background, the determinants and the findings. Table 6 gives basic information about the three essays.

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<tr>
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5.1 Essay 1: The possession of an RHQ mandate

Iiris Saittakari and Joanna Scott-Kennel: Beyond location-specific advantages: Do local business relationships and MNE strategy matter for regional headquarters’ location?

The first essay focuses on the first stage of RHQ dynamics, in other words on subsidiaries possessing RHQ mandates (see Figure 4, Chapter 2.3.4). The majority of studies on the location of RHQ have thus far focused on the selection criteria (Kähäri, 2014), and many of them only in a hypothetical setting (e.g. Avenell, 1996; Heenan, 1977; Heenan and Perlmutter, 1979; Holt et al., 2010). The focus in this essay is on the actual location. It is based on unique cross-sectional data collected in six countries (for more details see Chapter 4.1).

The purpose of the essay was to critically investigate the relationship between an MNE’s strategic orientation towards either global integration or local responsiveness, host-country-level determinants and subsidiaries possessing an RHQ mandate. Although the majority of the literature on RHQ location has focused on host-country-level determinants such as location-specific advantages (i.e. taxes and political stability) and being geographically close to foreign markets, this essay is the first to assess the importance of local business relationships in a quantitative setting. Hence, the research question: Do local business relationships and MNE strategy matter for regional headquarters’ location?

The essay draws on the contingency perspective (Lawrence and Lorsch, 1967), the aim being to assess the extent to which RHQ location is contingent on whether the country-specific determinants of the host country meet the requirements of the specific MNE strategy. The main determinants examined are local business relationships, location-specific advantages and the MNE strategy: this is illustrated in Figure 13, which depicts the research setting. We divided local business relationships into those with suppliers and those with buyers (Andersson et al., 2001; Forsgren et al., 2005). Location-specific advantages (LSA), on the other hand, are considered either ‘soft’ (i.e. lifestyle) or ‘hard’ (i.e. infrastructure, skilled employees) factors (Ambos and Schlegelmilch, 2010).
According to a comparison between 82 subsidiaries possessing an RHQ mandate\(^7\) and 67 regular subsidiaries, subsidiaries with a mandate are more likely to have strong business relationships with local buyers than regular subsidiaries. These relationships underscore the sales-oriented role of RHQ and the importance of being close to local business buyers, agents and distributors. For instance, RHQ can benefit from economies of scale by offering regional packages for their multinational buyers all at once without having to negotiate individually with the local buyers in each subsidiary’s country (Ho, 1998). We also found that RHQ following a global-integration strategy were attracted to host countries with a favourable lifestyle (quality of life), in other words ‘soft’ location-specific advantages. The implication is that in the context of small economies at least, globally integrated MNEs base their RHQ decisions on more intangible concerns because they do not necessarily have to be close to their mandated markets - unlike RHQ following local-responsiveness strategies (Holt et al., 2008). This finding is not surprising in itself. Indeed, from the perspective of contingency theory (e.g. Lawrence and Lorsch, 1967), one would expect to find that the optimal organisation of RHQ is contingent on the use of a specific strategy within a specific environment. However, it is surprising that relatively few studies on RHQ location incorporate the MNE’s strategy in their analyses.

The above-mentioned findings also contribute to the literature on RHQ. First, the importance of relationships with local buyers challenges the current understanding of why RHQ are located in a certain host country. Second, the demonstration of a link between MNE strategy and the choice of RHQ location implies that understanding the locational decision also requires an understanding of the MNE-level determinants. The

\(^7\) The wording used in the survey was RHQ responsibilities.
essay also responds to calls made by Piekkari et al. (2010), Alfoldi et al. (2012) and Kähäri (2014) for more theory-driven empirical studies to balance the descriptive, managerially focused literature, and to give explicit consideration to host-country attributes associated with the subsidiary’s role (Benito et al., 2003; Birkinshaw and Hood, 2000; Jensen and Pedersen, 2011; Rugman, Verbeke and Yuan, 2011).
5.2 Essay 2: The loss of an RHQ mandate

Perttu Kähäri, Iiris Saittakari, Rebecca Piekkari and Wilhelm Barner-Rasmussen:
Explaining mandate loss of regional headquarters: The difference between full and partial loss

The second essay examines both the full and the partial loss of an RHQ mandate. Previous research on subsidiary mandates has paid significantly more attention to mandate gain and development than to mandate loss, hence it remains unclear why certain subsidiaries lose their mandates. Two research questions are posed: Why do regional headquarters lose their mandates? Do the reasons for full and partial mandate loss differ? We based our responses to these questions on a longitudinal data set comprising 374 RHQ followed over a period of 12 years (see Chapter 4.2 for a detailed description of the data).

We applied the concept of absorptive capacity to shed light on the underlying explanatory mechanisms related to mandate loss (Cohen and Levinthal, 1989, 1990; Zahra and George, 2002). Two different explanatory mechanisms were identified: a lack of RHQ-specific and location-specific capabilities in the cases of full and partial mandate loss, respectively. Full mandate loss is associated with deficient RHQ-specific capabilities (i.e. small size and a lack of focused sales/marketing activities) and insufficient geographic scope to take advantage of synergies between mandated markets. On the other hand, partial mandate loss is associated with factors related to the mandated markets within the RHQ’s geographic scope. Our results show that partial loss is likely when the geographic scope is too wide, in which case RHQ are likely to lose subunit responsibilities in the most challenging mandated markets in terms of distance, strong market growth and weak institutional conditions (i.e. political stability). RHQ therefore lack the location-specific capabilities to respond to changes in these particular markets, resulting in the loss of the individual subunits while retaining responsibility for other subunits. Consequently, the determinants under examination are distance between the RHQ and its mandated markets, capabilities and geographic scope, as illustrated in Figure 14.
Our findings contribute to two streams of research. First, we join the discussion on the disaggregation and changing role of HQ in MNEs by showing how and why subsidiary capabilities and location drive disaggregation processes (see e.g., Andersson and Holm, 2010; Baaij and Slangen, 2013; Barner-Rasmussen et al., 2007; Birkinshaw et al., 2006; Ciabuschi, Dellestrand and Holm, 2012; Nell and Ambos, 2013). MNEs achieve an optimal organisational configuration through both full and partial loss. The distinction between them is important and worthy of attention because it offers a more nuanced and granular explanation of what constitutes geographic regions in MNCs. This is a question of both theoretical (e.g., Ghemawat, 2005; Nell, Ambos and Schlegelmilch, 2011; Nell et al., 2017) and managerial (Ambos and Schlegelmilch, 2010) interest. Second, we contribute to the stream of research focusing specifically on RHQ (Ambos and Schlegelmilch, 2010; Enright, 2005a; Freiling, Kähäri, Piekkari and Schmutz, 2016; Hoenen et al., 2014; Perry et al., 1998). We unbundle the factors influencing the relationship between RHQ and their mandated markets, and add new insights into the explanatory mechanisms behind the fluidity of RHQ mandates, which has recently received increasing attention (Edgington and Hayter, 2013; Kähäri and Piekkari, 2015; Laamanen et al., 2012; Piekkari et al., 2010).
5.3 Essay 3: The relocation of an RHQ mandate

Iiris Saittakari:
How sensitive to liability-of-foreignness costs are regional headquarters mandates? An empirical study of mandate relocation

The third essay examines the relocation of an RHQ mandate to a sister subsidiary in a different host country. There is surprisingly little research on headquarters’ relocation, and most earlier studies either analyse secondary data obtained from databases (e.g. Laamanen et al., 2012; Strauss-Kahn and Vives, 2009) or consider hypothetical relocation criteria (e.g. Perry et al., 1998). My focus in this essay is on the actual relocation of the RHQ mandate (see Figure 4, Chapter 2.3.4), the investigation of which is based on primary data that includes the geographic scope of the mandated markets. Given the unique longitudinal data (see Chapter 4.2 for a detailed description) I was able to test empirically whether RHQ were relocated closer to their CHQ or to their mandated markets. Relocating RHQ mandates closer to the mandated markets would imply that MNEs’ headquarter functions are becoming increasingly disaggregated. On the other hand, locating the mandate closer to CHQ would suggest that several RHQ may be combined into one unit. Therefore, the question of relocating mandates closer to CHQ than to the mandated markets has significant theoretical and managerial implications. Meanwhile the disaggregation of headquarters activities has received an increasing amount of scholarly attention (e.g. Baaij and Slangen, 2013; Nell et al., 2017), “no single question triggered as much interest as how to figure out what should constitute an optimal region” among managers (Ambos and Schlegelmilch, 2010). I also examine location-specific determinants in terms of the corporate tax rate. Figure 15 illustrates the determinants under scrutiny in Essay 3.

![Figure 15. Essay 3: research setting](image-url)
My focus in this essay is on the determinants associated with moving the mandate to a certain host country. This paper builds on the notion of the liability of foreignness, and investigates the extent to which the four sources of costs are associated with the reasons behind the choice of the new host country for the RHQ mandate. These include 1) costs associated with spatial distance (travel, transportation and coordination over distance and across time zones), 2) firm-specific costs based on the firm’s unfamiliarity and lack of roots in a local environment, 3) costs related to the host-country environment such as the lack of legitimacy of foreign firms and economic nationalism, and 4) costs related to the home country such as sales restrictions on certain countries (Zaheer, 1995). It is proposed in this paper that if the RHQ mandate is sensitive to certain costs, it is relocated to a host country in which these specific costs are lower. Conversely, the relocation of the mandate to a host country in which these specific costs are higher implies that they do not have an impact on the mandate, in other words that the RHQ mandate is immune. This raises the following research question: Where are RHQ mandates relocated?

Findings from analyses of 54 mandate relocations from Finland to another country between 1993 and 2010 imply that RHQ mandates are rather sensitive to costs related to spatial distance from the mandated markets in that they are more likely to be relocated geographically closer to them. In fact, they are likely to relocate to a country within their geographic scope, even if the new host country has high FDI restrictions. The fact that FDI restrictiveness does not prevent RHQ from relocating to the country indicates that they are somewhat immune to costs associated with the host-country environment. According to these results, arriving at a full understanding of the (re)location of an RHQ mandate requires consideration of the geographic scope. The corporate tax rate was found not to be significantly associated with RHQ relocation.

This study responds to calls for a systematic approach to examining RHQ relocation given that more RHQ are expected to relocate in the future (Holt et al., 2008; Laamanen et al., 2012). The finding that they are likely to relocate closer to their mandated markets implies that headquarters activities may be disaggregated to a larger number of RHQ with a smaller geographic scope. For example, five of the 49 RHQ examined in this essay were relocated to two different locations (e.g. separating the Baltics and Russia or the Nordics and Central and Eastern Europe in their own sub-regions with RHQ).

The study also contributes to the literature on the liability of foreignness in responding to calls for the holistic assessment of various liabilities and the identification of different sources of liability (Zaheer and Mosakowski, 1997; Sethi and Guisinger, 2002). The findings should also be of interest to host-country policy-makers given that host countries actively compete among these countries to attract company headquarters. The presence of major headquarters creates a positive reputation for the host country in terms of generating high-value-added activities and jobs, and conveying the message that the country is competitive and worth further investment (Ambos and Schlegelmich, 2010; Avenell, 1996; Benito et al., 2011; Strauss-Kahn and Vives, 2009).
6. DISCUSSION AND CONCLUSION

My aim in this dissertation was to answer the following research question: Why, when and where do subsidiaries have RHQ mandates? I created the theoretical framework, presented in Chapter 3, to identify the key determinants associated with this question. In this concluding chapter I draw the findings from the three essays together, first discussing each aspect of the research question individually and then in the light of the different stages of RHQ mandate dynamics. The findings presented are specific to subsidiaries with an RHQ mandate, which constituted the empirical context of the study. However, the framework in itself contributes to our understanding of the locational dynamics of any type of headquarters because it combines the key determinants that emerged in the literature on the location of MNE activities and headquarters in general (i.e. three degrees of internationalisation) combined with literature on RHQ location. I then discuss the theoretical contributions and offer suggestions for future studies, ending with a discussion of the managerial and policy implications.

6.1 Main findings

6.1.1 Why do subsidiaries possess RHQ mandates?

The answer to the ‘why’ question lies primarily in the MNE-level determinants identified in the theoretical framework, in other words its investment motives, strategy, industry and geographic scope as well as its local business relationships. Consistently with the contingency model of the MNE’s environment-organisation fit (e.g. Lawrence and Lorsch, 1967), identifying the reasons why subsidiaries possess RHQ mandates further defines the host-country- and subsidiary-level determinants that are the most relevant for the particular MNE. Figure 16 illustrates my key findings on this question.

Figure 16. Key findings associated with why subsidiaries possess RHQ mandates
**Investment motives** may vary within certain types of headquarters. The RHQ empirically examined in this dissertation are local subsidiaries that have been given a RHQ mandate largely for market-seeking and/or efficiency-seeking purposes. This reflects recent findings reported by Chakravarty et al. (2017) according to which market-seeking motives are the most common when it comes to establishing a mandated RHQ, followed by efficiency-seeking motives.

Market-seeking and efficiency-seeking investment motives are related to Lasserre’s (1996) notion of entrepreneurial and integrative roles: the former involve business development in mandated markets whereas the latter entail the coordination and pooling of resources across the geographic scope. Essay 2 examines export-related responsibilities, which could be classified as entrepreneurial scouting roles associated with business development such as searching for opportunities and initiating new ventures across the region (Lasserre, 1996). We found that RHQ with export-related responsibilities (called a narrow responsibility scope) in their mandated markets were more likely to lose their responsibility for the individual subunits, and thus to experience a partial mandate loss. This finding is not surprising in itself: it is natural that the least promising export markets are dropped from the geographic scope. What is surprising, however, is that RHQ may have various roles depending on the mandated markets. Prior research tends to assume that one RHQ has one aggregate role (Lasserre, 1996).

Also DHQ tend to be established for efficiency- and/or market-seeking purposes. DHQ are based on product or geographic markets, are typically used to manage increasing size, operational diversity and the geographic dispersion of the MNE (Benito et al., 2011). Thus, the results of the empirical part of this dissertation are largely applicable to the dynamics of DHQ locations as such. In fact, Benito et al. (2011) included RHQ within their concept of DHQ. CHQ, on the other hand, typically have strategic asset-seeking motives, as exemplified in the opening example of Nordea. They are responsible for the MNE’s strategy and for handling the relations of the enterprise as a whole with legislatures and other governmental bodies concerning taxes, tariffs and regulation (Chandler, 1991). The relocation of core CHQ parts abroad may bring strategic benefits such as better communications and knowledge exchange with foreign stakeholders, as well as access to higher-quality international strategic resources (Baaij and Slangen, 2013).

**MNE’s strategy** is the focus in Essay 1. The findings indicate that subsidiaries possessing RHQ mandates are more likely to follow a global-integration strategy than regular subsidiaries. Regional strategies were created as a response to simultaneous demands for global integration and local responsiveness (Lehrer and Asakawa, 1999). However, an MNE strategy favouring a global rather than a local orientation seems to be a particular reason for having RHQ-mandated subsidiaries. Furthermore, like all MNE-level determinants, the strategy is likely to have an impact on which host-country-level determinants are the most relevant for a specific MNE. The findings reported in Essay 1, according to which the MNE strategy moderates the importance of the location-specific advantages, supports this notion. These results are discussed in more depth later in this chapter.

Changes in structure and acquisitions are also significant aspects of the MNE’s strategy. We controlled for acquisitions in the study reported in Essay 2, but it did not seem to be
a significant determinant of full or partial mandate loss. Although this control variable was not significant in our data, it cannot be excluded that a closer analysis would find it being associated with locational dynamics. After all, changes in an MNE’s strategy, structure and acquisitions have been reported in earlier studies as reasons for relocating the RHQ mandate from one country to another (Ambos and Schlegelmilch, 2010; Kähäri and Piekkari, 2015; Perry et al., 1998). However, unless RHQ mandates are granted for legitimacy issues for recently acquired subsidiaries (see Lunnan et al., 2011) acquisitions do not explain why or where certain subsidiaries possess RHQ mandates.

Certain subsidiaries possess RHQ mandates to exploit local business relationships. According to the findings reported in Essay 1, there is an association between local business relationships with buyers and subsidiaries with RHQ mandates, but no such relationship with local suppliers. These results, as well as the lack of association found between manufacturing activities and subsidiaries with an RHQ mandate (also reported in Essay 1), further highlight the importance of RHQ as sales rather than production oriented unit. Being close to the local buyers enables RHQ to assemble regional packages for multinational clients: this supports the findings reported by Ho (1998) as well as our example of the Finnish IT firm ‘Alpha’ (Essay 1), which located its RHQ close to the corporate headquarters (CHQ) of its key distributors. This dissertation is the first to show the importance of local business relationships in a large-scale quantitative setting. The results also support Chakravarty et al.’s (2017) findings that RHQ are more likely to establish a distribution than a production network. Although local business relationships are widely acknowledged in the context of centres of excellence (Andersson and Forsgren, 2002; Frost et al., 2002), their importance for RHQ has received surprisingly little attention. This finding radically changes the current understanding of why RHQ are located in certain host countries.

The MNE’s industry is examined in Essay 1 in terms of RHQ selling their products directly to end customers (B2C) or solely to other businesses (B2B). It is suggested that, compared to regular subsidiaries (i.e. without an RHQ mandate), RHQ engaged in both B2C and B2B trade are more likely to have strong local business relationships with buyers. The implication here is that the above results concerning the importance of these local business relationships are not limited to B2C businesses.

The geographic scope of mandated markets reporting to the RHQ (examined in Essays 2 and 3) further explains why certain subsidiaries have RHQ responsibilities. The findings reported in Essay 2 highlight the importance of RHQ in taking advantage of synergies between its mandated markets. A geographic scope that is too wide is associated with the loss of subunit responsibilities in the most challenging mandated markets, thus resulting in partial mandate loss. This finding reflects the work of Galunic and Eisenhardt (1996, p. 255), who refer to a “focus logic” for mandate change in which the divisional headquarters (DHQ) of rapidly growing, new core businesses drop peripheral business areas to focus on the core business. A narrow geographic scope, on the other hand, is associated with full mandate loss given that RHQ cannot leverage the synergies between its mandated markets. Essay 3 further posits that the geographic scope also matters in terms of RHQ relocation: RHQ mandates are likely to be relocated to their mandated markets, the implication being that taking advantage of synergies is easier if the RHQ is located in the region. Understanding the role of geographic scope has especially received many requests recently (Belderbos et al., 2017; Kähäri, 2014).
6.1.2 When do subsidiaries possess RHQ mandates?

The question of ‘when’ is largely associated with the temporality of the mandate. Whereas country-level and some MNE-level determinants, especially industry, are relatively constant, the geographic scope of the region and the subsidiary-level determinants are subject to change. Hence, the answer to the ‘when’ question is, for the most part, associated with subsidiary-level determinants and the geographic scope of the region, as illustrated in Figure 17.

![Figure 17. Key findings associated with the question of when subsidiaries possess RHQ mandates](image)

Capabilities are the main focus in Essay 2, which posits that subsidiaries are likely to retain RHQ mandates only if they have enough RHQ-specific capabilities and sufficient geographic scope to take advantage of the synergies between mandated markets. More specifically, the results indicate that being large (number of employees) and having a sales/marketing-focused activity scope are necessary RHQ capabilities. This finding emphasises the importance of being specialised in sales and marketing, which in turn allows RHQ to accumulate a relatively rich stock of market knowledge (Ambos, Schlegelmilch, Ambos and Brenner, 2009) rather than having a broad activity scope based on production activities. The association of capabilities with locational dynamics further supports the findings of Birkinshaw and Hood (1998) indicating that subsidiary-level mandate changes are driven or followed by capability changes. Both Ambos and Schlegelmilch (2010) and Birkinshaw (1996) also refer to the importance of focal subsidiaries’ capabilities for obtaining and retaining the RHQ mandate.

Existing literature on RHQ, and on headquarters in general, does not distinguish between mandates that are given to existing subsidiaries and those that are established as green-field entries in form of dedicated RHQ (Alfoldi et al., 2012). It thus seems that the importance of focal-subsidiary capabilities has been underestimated, especially in the literature on the location of headquarters in general (see Table 1 in Chapter 2.2.4). Essay 1 further reports that subsidiaries with RHQ mandates contribute more knowledge to other MNE units than regular subsidiaries. This emphasises the role of RHQ in value
creation for the MNE, which may also lead to other sister units becoming dependent on the RHQ (Forsgren et al., 1992).

Geographic scope helps to explain not only ‘why’ (discussed in the previous subsection) but also ‘when’ subsidiaries have RHQ responsibilities. According to the results reported in Essay 2, when the geographic scope is too wide, RHQ are likely to lose subunit responsibilities in the most challenging mandated markets in terms of distance, strong market growth and weak institutional conditions (i.e. political stability). Thus, the Finnish RHQ lost subunit responsibilities mainly in Eastern Europe and Russia. Hence, the location-specific advantages of the mandated markets play a role in determining when individual subunit responsibilities are lost, an insight that supports earlier findings reported by Kähäri and Piekkari (2015) implying that change in mandated markets in terms of market growth or contraction is one reason for the loss of an RHQ mandate.

It is also suggested in Essay 3 that RHQ mandates are likely to be relocated closer to or even within the mandated markets when the location-specific advantages of its mandated markets equip them to host RHQ. A closer examination of the data analysed in Essay 3 reveals that, soon after the fall of the Iron Curtain, RHQ responsible for Russian, the Baltics and Eastern European markets were established in Finland instead of directly in these markets. Of the 54 relocated RHQ mandates, 53 were responsible of Russia, the Baltics and/or Eastern European countries. Of them, 25 RHQ were relocated to these countries in the 2000s. The relocation took place even though the new host countries receiving the RHQ mandate in the Eastern Europe (except Czech Republic) and Russia were associated with higher FDI restrictiveness than Finland (OECD, 2017). However, these countries had opened up considerably for foreign direct investment between 1997 and 2010 (OECD, 2017). The above-mentioned relocation patterns suggest that there needs to be a certain level of market liberalisation, albeit not very high, before the host country is considered a viable location for an RHQ mandate. Hence, RHQ location is likely to be re-evaluated when there are changes in the local conditions of the mandated markets, or changes in the number of countries included in the geographic scope.

In sum, the results reported in the individual essays support findings of prior studies indicating that RHQ are dynamic and prone to relocation (e.g. Dunning, 1988; Laamanen et al., 2012). Of the followed 361 Finnish subsidiaries with an RHQ mandate in 1998 or earlier, 140 were no longer operational in Finland or were otherwise irrelevant (because they had transferred to local ownership, for example). The remaining 221 were still operating in Finland in 2010. Of them, 91 had lost their RHQ mandate altogether, and 70 had partially lost it. A total of 78 RHQ had relocated from Finland to another host country between 1993 and 2010.

It should be noted that the loss of the RHQ mandate does not necessarily mean failure: it may simply be that the mission has been accomplished and that there is no longer a need for RHQ in that area (Parks, 1969; Lasserre, 1996). It was also made clear in our telephone interviews that in some cases the loss of the RHQ mandate came as a relief to the subsidiary managers, and some even initiated the process.
6.1.3 Where are the subsidiaries with RHQ mandates located?

The question of ‘where’ RHQ are located largely depends on country-level determinants, as illustrated in Figure 18. The theoretical framework presented in Chapter 3 divides these determinants into three categories: local business relationships, distance and location-specific advantages.

![Figure 18. Key findings associated with where subsidiaries with RHQ mandates are located](image)

**Local business relationships** explain ‘why’ (discussed earlier) and ‘where’ subsidiaries have RHQ mandates. The importance of local business buyers in locating RHQ is pointed out in Essay 1, the implication being that RHQ mandates are located in host countries with prominent networks of business buyers and agents. Although a few earlier studies highlight the role of a single RHQ in expanding networks of business partners and selling regional packages to multiple subsidiaries of the MNE at the same time (Perry et al., 1998; Ho, 1998), the present work is the first to show the importance of local business buyers in a large-scale setting. Previous studies have mainly emphasised the importance of being close to the main markets (Heenan, 1977; Heenan and Perlmutter, 1979; Håkanson and Ambos, 2010; Perry et al., 1998), but this finding further points out the need to be close also to the main business buyers, regardless of where the end customers are located. This finding is thus a novel insight that enhances understanding of the reasons for locating in a certain country and thus also RHQ roles.

**Distance** is analysed in Essays 2 and 3. Complementing the finding mentioned above that subsidiaries with RHQ mandates are located in host countries with important local business buyers, it is pointed out in Essays 2 and 3 that they are also located geographically close to their mandated markets. It seems from the findings reported in Essay 3 that RHQ are likely to relocate geographically closer to their mandated markets, even if the new host countries are associated with higher FDI restrictiveness. As discussed above, 25 of the 53 RHQ responsible of Russia, the Baltics and/or Eastern European countries were relocated to these countries in the 2000s. The results discussed in Essay 2 support this finding: individual subunits located in the geographically and institutionally most distant mandated markets are likely to be lost in the case of partial mandate loss. The issue of distance has received considerable attention since Heenan...
and Perlmutter (1979) raised the question of whether MNEs prefer to locate their RHQ closer to the markets of major countries or to corporate headquarters. It is agreed in much of the literature that RHQ are likely to be located relatively close to their mandated markets because of the easy access and shorter travel times, lower travel costs, more frequent visits, higher trust and a better understanding of the mandated region (Heenan, 1977; Heenan and Perlmutter, 1979; Håkanson and Ambos, 2010; Kähäri, 2014; Perry et al., 1998). However, distance has typically been examined in the context of the initial location decision, thus the results of this thesis bring new insights in emphasising the importance of distance at the relocation stage. It seems that these MNEs disaggregate their headquarters activities closer to the markets, a finding that complements the results discussed earlier that RHQ mandates are more likely to be relocated to a host country that is within their geographic scope. However, an interesting exception in my data is RHQ relocated to Sweden. Out of 54 RHQ relocations, 11 were relocated to Sweden despite an increase in the geographic distance. This finding re-emphasises the attractiveness of Sweden, as discussed in the introductory chapter of this thesis.

Moreover, as pointed out in Essay 3, the distance between RHQ and CHQ does not seem to be associated with RHQ relocation, although the bigger the distance the fewer opportunities there are to establish and maintain personal relationships with colleagues at CHQ and outside the region (Piekkari et al., 2010). It is worth noting the expectation expressed in previous literature that RHQ are established if the distance between CHQ and the mandated markets is large. However, according to our data, of the 374 RHQ located in Finland in 1998 or earlier, 57 belonged to a Swedish MNE and 32 to a German MNE: the implication is that a regional structure led by RHQ is not uncommon even if the CHQ is located close to the mandated region. In some cases, the mandated markets in Eastern Europe or the Baltics were, in fact, closer to the CHQ located in Germany than to the RHQ located in Finland.

*Location-specific advantages* are typically analysed in the literature to determine ‘where’ RHQ are located. As pointed out in Essay 1, in our data neither ‘hard’ (i.e. infrastructure, skilled employees) nor ‘soft’ (i.e. quality of life) location-specific advantages are directly associated with a subsidiary’s possession of RHQ mandates. However, the *MNE strategy* seems to moderate the importance of these location-specific advantages, the implication being that subsidiaries belonging to globally integrated MNEs are more likely to have RHQ mandates if the host country offers a favourable quality of life, which represents a ‘soft’ location-specific advantage. This finding is consistent with those reported by Holt et al. (2008), who studied the link between MNE strategy and various location-specific advantages in hypothetical RHQ location-selection criteria. RHQ following a global integration strategy are not restricted to being close to their mandated markets, and thus they have more freedom to select the host country based on more intangible concerns (Holt et al., 2008). This finding is not surprising in itself, in that from a contingency-theory perspective (e.g. Lawrence and Lorsch, 1967) one would expect the optimal organisation of RHQ to be contingent on the use of a specific strategy within a specific environment. However, it is surprising that only a few studies have examined host-country-specific determinants in relation to MNE strategy.

In terms of relocation, the findings discussed in Essay 3 also indicate that the corporate tax rate and political stability or quality of life, perhaps the most commonly used proxies
for ‘hard’ and ‘soft’ location-specific advantages, respectively, are not associated with RHQ relocation, either. However, the examination of tax rates requires some caution in that RHQ may not pay the listed rates. The presence of RHQ, as of any headquarters, is highly important for the host country, which might therefore allow headquarters to negotiate better terms, and thereby to exploit institutional-ownership advantages (Dunning and Lundan, 2008a, 2008b), as discussed in Chapter 2.2.1. In fact, MNE’s negotiations with the host country governments may even be easier in case of lower political stability, which is typically associated with lower transparency.

The findings reported in Essay 3 further indicate that a high FDI restrictiveness does not prevent RHQ relocation to the country, as discussed above. In fact, our data shows that RHQ mandates were relocated in the mandated markets even if the new host country had anti-FDI restrictions. For example, 6 out of 54 mandate relocations analysed in Essay 3 were relocated to Russia where the FDI restrictiveness, as measured with the OECD FDI Regulatory Restrictiveness Index, remains to be higher than in other host countries in our sample.

My findings that location-specific advantages are not associated with ‘where’ mandated subsidiaries are located are in conflict with much of the literature on RHQ location to date (e.g. Avenell, 1996; Heenan, 1977; Heenan and Perlmutter, 1979; Laamanen et al., 2012; Yeung et al., 2001; Yoost and Fisher, 1996). There may be various reasons for this. First, these studies do not differentiate dedicated RHQ from subsidiaries with an RHQ mandate (the focus of this dissertation), a point that Alfoldi et al. (2012) recently emphasised. Location-specific advantages may be more likely to be associated with dedicated RHQ, which are established as green-field entries and thus the focal subsidiary’s capabilities are not an issue. Second, earlier studies have not identified an investment motive: RHQ may have been primarily manufacturing-oriented (i.e. resource-seeking) in the 1970s and 1980s (Egelhoff, 1988), whereas it is generally suggested in recent studies that most RHQ mandates are granted for market-seeking or efficiency-seeking purposes (Chakravarty et al., 2017). Location-specific advantages such as production costs and natural resources would be more significant for the resource-seeking RHQ. Third, many studies on location-specific advantages examine hypothetical location criteria (e.g. Avenell, 1996; Heenan, 1977; Heenan and Perlmutter, 1979; Holt et al., 2010) rather than looking at where RHQ are actually located (Kähäri, 2014). In the real decision-making the RHQ may have been able to negotiate better terms to give it an advantage over its competitors (Cantwell et al., 2010), but this bargaining cannot be identified from information on listed corporate taxes, for example. Fourth, the location-specific advantages examined in my essays include the traditionally used proxies for ‘hard’ and ‘soft’ location-specific advantages such as corporate tax rate, political stability and quality of life. However, there may be other location-specific advantages, such as global city connectivity (Belderbos et al., 2017) that are important determinants of RHQ location but not measured in my essays.

6.1.4 Determinants associated with different stages of RHQ dynamics

This section summarises the results of my research with regard to the possession, loss and relocation of an RHQ mandate. As noted earlier, given the difficulties involved in
collecting relevant information the emphasis in most of the literature is on the RHQ location selection criteria rather than on the actual location, loss and relocation (Kähäri, 2014; Laamanen et al., 2012). The two unique datasets analysed in this dissertation are large in scale and include primary data obtained from RHQ covering issues such as strategy and capabilities, which is not easily gathered from secondary databases. I could therefore examine the actual location, loss and relocation of the mandate in the three consecutive essays.

RHQ mandate location

I examine the location of the RHQ mandate in Essay 1, focusing on subsidiaries that possess such a mandate (see Figure 4, Chapter 2.3.4). The findings highlight the importance of local business relationships with buyers as well as the MNE strategy in moderating the location-specific advantages. In addition, RHQ are more likely than regular subsidiaries to contribute knowledge to other MNE units. This contributes to the literature in showing an association on all three levels of analysis (country, MNE and subsidiary) with subsidiaries possessing an RHQ mandate. Most existing literature on RHQ location highlights the importance of either host-country-related determinants (e.g. Avenell, 1996; Heenan and Perlmutter, 1979; Lasserre and Schütte, 1999; Yeung et al., 2001) or determinants on the subsidiary and MNE levels (e.g. Ambos and Schlegelmilch, 2010; Mori, 2002).

RHQ mandate loss

Essay 2 focuses on the loss of the RHQ mandate. The results indicate that full loss is largely attributable to RHQ capabilities associated with deficiencies in sales and marketing expertise, and to its size. This further supports findings reported by Birkinshaw (1996) and Ambos and Schlegelmilch (2010) indicating that the subsidiary’s capabilities constituted the major determinant in terms of both gaining and avoiding the loss of the mandate. It is further shown in Essay 2 that partial mandate loss is associated with deficiencies in responding to change in the most challenging mandated markets. This is a novel finding in that the mechanisms of partial and full mandate loss have not been differentiated in earlier studies.

As pointed out earlier, the loss of the RHQ mandate in general has not received much attention in the literature thus far. Laamanen et al. (2012) found an association between high taxes and high employment in the host country and the decision to relocate the mandate from the current host country. According to Kähäri and Piekkari (2015), on the other hand, internal MNE factors such as changes in strategy and structure, as well as in the mandated markets, are associated with mandate loss. The few other studies on the topic emphasise the importance of local business relationships in avoiding mandate loss in that they strengthen the RHQ’s role within the MNE (Ho, 1998). Dörrenbächer and Gammelgaard (2010) further found that insufficient linkages to local business partners led to the removal of regional production charters. Birkinshaw (1996), in turn, argued that subsidiaries pursuing opportunistic ventures that had never received formal
recognition of their mandate from headquarters were more likely to lose it. According to the definition of a mandated RHQ, however, the mandate has to be assigned by headquarters, although the process may be initiated by the subsidiary or co-constructed over time (Alfoldi et al., 2012, 2017; Kähäri, 2014), therefore these opportunistic ventures are not classified as RHQ as such.

**RHQ mandate relocation**

The question of whether RHQ are mobile or not has received a fair amount of research attention (Kähäri, 2014) but, surprisingly, the determinants associated with RHQ relocation have not (Laamanen et al., 2012). Most studies thus far have focused on ‘whether to relocate’, thus the reasons for RHQ relocation rather than on answering the ‘where’ question (see Figure 4, Chapter 2.3.4). Birkinshaw (1996) found that the location of the mandate is likely to change as the location-specific advantages shift over time and the subsidiary cannot adapt to such changes. According to Kähäri and Piekkari (2015), the reasons for mandate relocation to another host country are associated with the decreasing locational advantage of the current host country in comparison with mandated markets, whereas Perry et al. (1998) found that relocation was associated with changes in corporate strategy and new investment decisions.

I examine the actual RHQ mandate relocation in Essay 3, and conclude that they are likely to be relocated geographically closer to their mandated markets, even if the new host countries are associated with higher FDI restrictiveness. This insight is consistent with earlier findings that RHQ are relocated either to their lead markets or to other markets that mirror their structural changes (Ambos and Schlegelmilch, 2010). It is also in line with the recent studies on the disaggregation of headquarters activities (Baaaj and Slangen, 2013; Nell et al., 2017) in showing that RHQ mandates are likely to be relocated closer to the mandated markets, and even to markets within their geographic scope. The implication is that headquarters activities are being increasingly dispersed, in some cases even increasing the number of RHQ while limiting the geographic scope of each one. I also point out in Essay 3 that, in my data, location-specific advantages such as political stability or tax rate are not associated with relocation. This contradicts the findings of Laamanen et al. (2012), according to which RHQ are likely to relocate to host countries with low taxes.

**6.2 Theoretical contributions**

This dissertation provides the following theoretical contributions. First and foremost, it is among the first systematic studies to identify the key associated country-, MNE- and subsidiary-level determinants of headquarters’ location in one framework. In particular, the findings related to the significance of investment motives, local business relationships, focal-subsidiary capabilities and headquarters’ geographic scope bring novel insights to the determinants examined in prior research and respond to requests for further research in the area (Belderbos et al., 2017; Kähäri, 2014). Albeit methodologically challenging, the analysis of location benefits from having
The literature reviewed in this dissertation illustrates that an in-depth examination of subsidiary capabilities and MNE-level determinants is best captured by case studies (e.g. Ambos and Schlegelmilch, 2010; Barner-Rasmussen et al., 2007; Birkinshaw 1996). Country-level determinants, on the other hand, are often studied in large-scale quantitative studies in which it is challenging to capture the subsidiary- and MNE-level determinants. However, recent studies by Belderbos et al. (2017), Laamanen et al. (2012) and Schotter et al. (2017) are notable exceptions, which have been able to find proxies also for MNE- and/or subsidiary-level determinants in their large secondary databases.

The understanding of location would especially benefit from analysing the determinants on all three levels in relation to each other. For example, Essay 1 finds that RHQ favour different location-specific advantages depending on MNE strategy. This is in line with contingency theory (e.g. Lawrence and Lorsch, 1967; Thompson, 1967), which assumes that an optimal fit for the headquarters and its location can be achieved through the selection of a location that provides the best match for a certain activity.

Second, I propose that the different types of headquarters and their locational determinants could be better understood in terms of their motive for investment (i.e. resource-, market-, efficiency- or strategic-asset seeking) rather than the traditional corporate, divisional or regional classification. To the best of my knowledge, this study is amongst the first to highlight the importance of the investment motives from a locational perspective. In his 1988 work, Dunning (p. 278) stated that the choice of RHQ location “stems largely from the functions it is intended to perform and the benefits it is expected to provide”, but the literature on headquarters has paid surprisingly little attention to it since. The RHQ examined in this dissertation are largely market- and/or efficiency-seeking. As these motives are common to both RHQ and DHQ, the findings of the empirical part of the thesis are applicable to both, but are less relevant to resource-seeking RHQ. For example, RHQ studied in this dissertation are likely to have strong local business relationships with buyers as they largely have market- and efficiency-seeking investment motives. Resource-seeking RHQ, on the other hand, would most likely have strong local business relationships with suppliers.

Third, this study identifies the different stages of headquarters’ locational dynamics. The proposed stages are headquarters mandate location in a specific host country (incl. mandate gain and mandate possession), mandate loss, and mandate relocation from one host country to another (including the relocation decision and the actual relocation). These stages are preceded by the initial relocation of the headquarters mandate from the MNE’s home country to a host country. These different stages have not received sufficient analytical clarity in prior research. In particular, the literature does not make clear the distinction between the initial mandate relocation abroad and the mandate relocation from one host country to another (see Figure 4 in Chapter 2.3.4), despite their dissimilarities from a theoretical standpoint. For example, the initial relocation abroad increases the costs related to the liability of foreignness (Zaheer, 1995), whereas relocation from one host country to another often aims to decrease these costs, as discussed in Essay 3. The literature reviewed in this dissertation also suggests that the drivers of these two types of relocation differ. The reasons for the initial headquarters relocation abroad are associated with MNE-level determinants such as the level of internationalisation and ownership, and decreased attractiveness of the home country...
The reasons for the relocation from one host country to another, on the other hand, are more likely to be associated with a wider range of country-, MNE- and subsidiary-level determinants, as illustrated in the theoretical framework presented in Chapter 3. Thus, these two types of relocations warrant separate analysis.

The fourth and final contribution to the literature on headquarters location concerns co-location of the headquarters mandate and subsidiaries. Very few studies acknowledge that headquarters mandates may be granted to existing subsidiaries (e.g. Benito et al., 2011; Lunnan et al., 2011). Whereas Alfoldi et al. (2012) criticise earlier RHQ studies for not distinguishing between dedicated RHQ and subsidiaries with a RHQ mandate, the same criticism can be extended to the literature on headquarters’ location in general. Granting headquarters mandates to foreign subsidiaries brings new value-creating opportunities to the MNE in terms of allowing the continuous alignment of business mandates with divisional skills to keep pace with co-evolving markets and technologies (Galunic and Eisenhardt, 1996). Establishing headquarters as a green-field entry, on the other hand, brings potentially fewer cost and efficiency advantages (Alfoldi et al., 2012), and is also more time-consuming than delegating a mandate to an existing subsidiary. Consequently, the literature on headquarters has placed less emphasis on subsidiary-level determinants, such as the capabilities of the subsidiary.

6.3 Suggestions for further research

My suggestions for future studies largely derive from Chapter 1.5 in which I discuss the limitations and boundaries of this dissertation. First, on the whole I have examined the determinants associated with three stages of locational dynamics, namely location, loss and relocation separately, and would therefore welcome longitudinal studies focusing on these stages as well as the triggers between them. Such an examination would require large-scale longitudinal research covering a commonly used time span of at least 10 years (see e.g. Klier and Testa, 2002). Analyses of data collected in CHQ, RHQ and mandated markets would enhance understanding of the MNE’s regional strategies, the regional disaggregation of headquarters activities and roles, and the geographic scope and country-specific determinants of the mandated markets.

Second, the findings of my dissertation suggest that some MNEs disaggregate their headquarters activities to a larger number of RHQ. In turn, the descriptive statistics discussed in Chapter 4.2 indicated that 54 of 374 MNEs in our sample aggregated the headquarters activities by eliminating the RHQ level altogether in that the subunits in the mandated markets started reporting directly to the CHQ. The reasons behind the disaggregation and aggregation of headquarters activities warrant more research.

Third, I call for future research that includes individual-level analysis of how the nationality, language and managerial skills (Ambos and Schlegelmilch, 2010) and willingness to relocate (Baldrige et al., 2006; Feldman and Bolino, 1998) of individual managers relates to RHQ locational dynamics. I also see a need for studies examining locational determinants on the city level, given the suggestion in recent studies that highly connected global cities attract RHQ (Belderbos et al., 2017).
Fourth, I have focused on subsidiaries with an RHQ mandate, and therefore encourage future research on the locational determinants associated with dedicated RHQ as well as other types of headquarters. The RHQ I examined in this dissertation were established for market- or efficiency-seeking purposes. Given the tendency of headquarters activities becoming more dispersed (Nell et al., 2017), I suggest that the classification into regional, divisional and corporate headquarters is no longer sufficient. Hence, studies that differentiate headquarters based on their investment motives (i.e. resource-, market-, efficiency- or strategic-asset-seeking) would be welcome. Investment motives are also associated with the entrepreneurial and integrative roles, among others, that are assigned to the RHQ (Lasserre (1996). Whereas prior research assumes that one RHQ has one aggregate role (Lasserre, 1996), this thesis finds that the RHQ may have various roles depending on the mandated market. This deserves to be examined in more depth in the context of locational dynamics.

Finally, there would be a need for studies focusing on the bargaining power of MNEs and the negotiations behind the decision-making related to headquarters location. In the opening case of Nordea, for example, the company was very open about trying to persuade Sweden and Denmark to join the European Banking Union. It would be especially interesting to know how much the bargaining influenced the selection of location in general, as well as how much listed location-specific advantages such as tax incentives differ from what the MNE actually pays.

6.4 Managerial implications

The managerial implications of this dissertation fall into two categories: those related to subsidiary managers and those related to CHQ (or other higher-level HQ) managers. First, subsidiary managers who aim at gaining or retaining their RHQ mandates need to ensure that their subsidiary plays a more important role than its sister subsidiaries. RHQ’s role in sales and marketing highlights the importance of developing expertise in these activities. Furthermore, building up the subsidiary’s role in terms of contributing knowledge to other MNE units and expanding the number of employees increases the likelihood of having and retaining RHQ responsibilities.

Second, the implications for CHQ managers are associated with the changing location-specific advantages in each of the mandated markets under the RHQ’s remit (i.e. geographic scope): if the geographic scope is too wide, or too narrow, the RHQ is not able to leverage the synergies between them. In addition, the opening of Eastern European markets in the 1990s after having been largely under communist rule since World War II opened up new opportunities for MNEs to relocate their RHQ directly in these markets. It is therefore crucial for CHQ managers to acquire an up-to-date understanding of the changing operating circumstances in the region in order to assess where the RHQ add the most value.
6.5 Policy implications

The first step in finding out what local governments can do to keep and attract headquarters is to understand the determinants of their location (Strauss-Kahn and Vives, 2009). It is suggested in this dissertation that traditional location-specific advantages such as a favourable corporate-tax rate may not be as relevant to RHQ as indicated in prior research. However, capable subsidiaries are more likely to have and retain RHQ responsibilities. This supports Ambos and Schlegelmich’s (2010) proposal that, rather than tax dumping, policy makers should be supporting local subsidiary managers in their internal competition within the MNE.

The significance of the RHQ’s local business relationships with buyers, rather than suppliers, is an intriguing finding especially from the policy perspective. The implication is that host countries with a strong presence of distributors and agents are likely to attract RHQ, which are typically established for market- or efficiency-seeking reasons. Being close to business buyers allows RHQ to offer regional or even global packages to their multinational clients (Ho, 1998). This finding may explain why RHQ in the Nordic countries are more likely to be located in Sweden or Denmark rather than Finland (see Berthling and Andresen, 2015). Many multinational distributors and retailers originate in Sweden and Denmark. Finland, on the other hand, is known for its export-led production clusters in forestry, metal engineering, chemicals and plastics (Steinbock, 2011). Hence, the largest Finnish companies are primarily industrial, which are not as attractive to sales- and marketing-oriented RHQ. The presence of distributors’ and other buyers’ headquarters in particular is likely to attract RHQ. Hubs of various kinds of headquarters would not only bring prestige to the country but would also involve a pool of talent in terms of corporate elites, resulting in value-added jobs and higher income-tax revenues.

The findings of this thesis also suggest that full RHQ mandate loss is associated with RHQs’ small size and lack of sales focus. This finding emphasises the importance of being specialised in sales and marketing, which in turn allows RHQ to accumulate a relatively rich stock of market knowledge (Ambos et al., 2009) rather than having a broad activity scope based on production activities. To this end, it is pivotal that there are highly capable sales and marketing personnel available in the country.

Given the finding that RHQ are located relatively close to mandated markets, policy makers would be well advised to pay attention to the geographic scope of potential RHQ. The fact that Finland is located in a distant corner from the European perspective but in a central position as far as Asia is concerned highlights the potential of Asian MNEs. Finland was known as a gateway to the East in the 1990s, but as the findings of this study illustrate, a large proportion of the Finnish subsidiaries in our sample had lost their RHQ mandates either fully or partially. It is therefore crucial for policy makers in Finland to extend their scope beyond Western MNEs entering the East. MNEs originating from Asia could offer new potential, and perhaps Finland could become a ‘gateway to the West’.
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The location and relocation of headquarters have significant managerial and policy implications as they may bring considerable cost savings for multinational enterprises, and create high-value-added jobs and enhance the reputation of host countries. However, there is inadequate understanding of why headquarters are set up in certain host countries at specific points in time. This dissertation examines the locational dynamics of headquarters, with a specific focus on regional headquarters mandates. They constitute an ideal context in which to study locational dynamics, as they are easy to relocate from one subsidiary to another. The empirical investigation draws on two unique datasets and focuses on Finnish subsidiaries with such regional mandates. The thesis is amongst the first large-scale study to systematically examine headquarters’ locational dynamics.