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**Head office location –  
Agglomeration, clusters or flow nodes?**

by

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## **Preface**

This paper is part of the project “Norske storbyer fra hovedkontorbyer til filialbyer? (Metropolitan areas in Norway: from location of head offices to host of subsidiaries?). The paper analyse the locational pattern for head offices in Norway. Its discusses different types of head office location, factors influencing the geographical distribution of head offices and the dynamics of head office location (process of change and stability). An earlier version of the paper has been presented at the Regional Studies Association International Conference “Reinventing Regions in a Global Economy” in Pisa, Italy, 12-15 April 2003.



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## **Abstract**

The basic aim of the paper is to establish an understanding of the concentration of head offices to metropolitan areas. Our discussion of the locational pattern of head offices in Norway is based on empirical data from a postal survey among the largest companies in Norway and intensive case studies from a selection of these companies. Survey data are available from 123 head offices (both company head offices and national head offices of multinational companies located in Norway). In addition, case studies are conducted in 21 of these companies. The paper discusses different types of head office location, factors influencing the geographical distribution of head offices and the dynamics of head office location (process of change and stability).

There is an extensive literature discussing the rationale for agglomeration of control functions of large companies. A system perspective, inspired by agglomeration theory and cluster theory, focus on the innovative capacity of cities, its institutional thickness and the diffusion of knowledge, and the destiny of “light” institutions (e.g. meeting places and cultural institutions). However, some of these studies tend to frame urban economies in terms of lines and boundaries and emphasise purely territorial sources of competitiveness. In this paper we introduce a new perspective developed by Amin and Thrift (2002). Cities are structured around flows of people, information and money, and are assemblages of more or less distanced economic relations, that have different intensities at different locations. This implies that head offices must be understood as nodes in an internal, regional and external flow of knowledge and information.

Our study brings new insight into the categorisation of head office location. By emphasising the heterogeneity of head office we have identified five ideal-types (historical location, political location, relocated head offices, hybrid head offices and converted head offices). By intensive study of selected cases we have also identified ownership change as the driving force for an evaluation or discussion of head office location within companies, eventually leading to a relocation of the head office or a change in head office status. In addition, we have illustrated that a multi-level perspective is necessary when analysing head office location. Even if proximity is important in the understanding of location, a study must also emphasise the multiplicity of connections that surpass cluster or city level and that are critical for the operation of the head office.



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## 1. Introduction

*How can we understand head office location in a knowledge intensive urban economy?* This is the basic question raised in this paper. Our theory informed discussion is based on empirical data from a postal survey among the largest companies in Norway and intensive case studies from a selection of these companies. Survey data are available from 123 head offices (both company head offices and national head offices of multinational companies located in Norway). In addition, case studies are conducted in 21 of these companies.

In analysing the location of head office in Norway the focus has been on large companies, i.e., companies with a specific head office function within their organisation. The emphasis has been on the main head office or the top management level of the organisations. As well as the company head office, large firms can have secondary head offices, which are related to divisions or regions. However, because large firms in Norway are our prime concern in our study we have included national head offices of multinational companies in Norway.

A head office is the top administrative level or the corporate centre of the company. There are three core functions or roles for a head office: the strategy role (formulation of corporate strategy, definition of business portfolio, development of the organisational structure of the company) the co-ordination role (exploiting of synergies between business units, the developing of the core competence of the company and providing expert advices for different units), and the control and policy role (basic control over business units, setting performance targets for units, monitoring their achievements, ensure a positive image for the company and influencing political authorities) (Chandler 1966, Rusten 1990, Hungenberg 1993, Young et al 2001, Jakobsen and Onsager 2002).

In general, head offices of large companies are located in metropolitan areas. In Norway, the head offices of 70 of the 100 largest companies (by turnover) are located in the capital region of Oslo. There is an extensive literature discussing the rationale for such agglomeration of control function in large companies. Traditional locational theory, using a firm perspective, emphasised a set of locational advantages for the metropolitan areas: a comprehensive supply of specialised services, the possibility of face-to-face contact with important business partners, the location of important financial and political institutions, a pool of labour with a higher education and the prestige of being located in a metropolitan area (Hutton and Ley 1987, Edington 1994, Hayter 1997). These studies have been followed by contributions using a system perspective in the understanding of the agglomeration of head offices. Inspired by agglomeration theory and cluster theory they analyse the interplay between firm and places and processes of cumulative causation, i.e. growth that is self-perpetuating and self-reinforcing. The focus is on the development of a business milieu in metropolitan areas, the

innovative capacity of cities, its institutional thickness, the diffusion of knowledge, the destiny of “light” institutions (e.g. meeting places and cultural institutions) and the capabilities of this urban system within the economy. In general, metropolitan areas are the focal point within the economic hierarchy (Morgan 1997, Cooke 1998).

However, some of these studies tend to frame urban economies in terms of lines and boundaries and emphasise purely territorial sources of competitiveness. Furthermore, some cluster literature implies that clustering is always beneficial and that the network capabilities of clusters are stable (Porter 1998). In this paper we claim that clusters can deteriorate, that things can change, and that local advantages can turn into stasis and lock-in (Fløysand and Jakobsen 2002). Thus, we will introduce a new perspective that was developed by Amin and Thrift (2002) in their recent book on urban economy. Their alternative is to understand cities as relay stations in a world of flow. Cities are structured around flows of people, information and money, and are assemblages of more or less distanced economic relations, that have different intensities at different locations. This implies that head offices must be understood as nodes in an internal, regional and external flow of knowledge and information. A head office involves a multiplicity of connections, many of which extend beyond the cluster or the city level. These external relations play an important role in processes of collective learning and in the development of a competitive organisational structure within the company. We can label this perspective “the node perspective”.

The basic aim of this paper is to establish an understanding of the locational pattern of head offices. The following issues will be discussed:

- Which types of head office location do occur?
- Which factors influence the geographical distribution of head offices?
- What are the dynamics of head office location (processes of stability and change)?

The paper is organised in the following section: theoretical discussion (section 2), methodology (section 3), empirical evidence (section 4) and concluding remarks (section 5). The last section adds elements to the theoretical debate.

## **2. Theoretical approach: Locational factors, clusters, urbanisation economies, cumulative processes of growth and flow nodes**

In this section we will outline four perspectives on head offices location: traditional neo-classical locational theory, the cluster/milieu approach, the urbanisation approach and the node approach.

### **2.1. A firm perspective on head office location (neo-classical locational theory)**

Within traditional neo-classical locational theory, there is an extensive literature using a firm perspective in explaining why metropolitan centres are especially attractive locations for corporate head offices. A large pool of labour with a higher education is one locational advantage of the metropolitan area. Thus, hiring and recruitment costs for labour will be lower in metropolitan areas than in non-metropolitan areas. In the latter, the cost will be higher because the company will need to recruit over a greater geographical distance to obtain skilled personnel (Hayter 1979). Furthermore, firms outside the capital city or the main metropolitan areas can have difficulties in attracting top business leaders.

Central areas in the economy are characterised by a comprehensive supply of specialised services, such as management, financial, legal and communication services. In these areas, the critical level of demand for establishing these services is met. For a head office that is engaged in knowledge-intensive activities, such as formulation corporate strategy, exploiting synergies between units and business areas and raising capital, the presence of a specialised service complex is important. Local supply cuts the cost of identifying, accessing and using these services (Williamson 1985, Hutton and Ley 1987).

The presence of advanced infrastructure and communication system, such as international airports, in large metropolitan areas can also increase the attractiveness of these locations. A developed infrastructure gives easier access to other units in the companies and to external business contacts (Hayter 1997). Within this perspective it has also been stressed that it can be important for large companies to be located close to government departments and central political authorities, which are usually concentrated in major cities, especially capital cities. It is essential for large companies to be informed about the political regulation of their sector so that they can influence the regulatory system.

Furthermore, prestige which is associated with the location of a head office in a metropolitan area, can be an important locational factor. Firms choose to locate their head office in a highly attractive area to strengthen their status and image in the market (Ahnstrøm 1973, Hutton and

Ley 1987). In a competitive international economy firms will also react to the strategy of their rivals. This can for instance make them locate their head office in the same geographical areas as the market leader (i.e., “follow the leader”) (Veron and Wells 1986, Hennart and Park 1994).

A locational factor emphasised in several studies is that a metropolitan location facilitates face-to-face contact with firms and institutions, such as other head offices, providers of services, political authorities and business contacts. Head offices are essentially engaged in information processing, and face-to-face contact with other important actors is important for the collection, interpretation and dissemination of information (Chapman and Walker 1992, Hayter 1997). Pred (1977:118) discusses the “the specialised-information advantages” of metropolitan areas. He focuses on the so-called “informal information” that can be gathered through business meeting and face-to-face contact. In many cases this is unique information that is important for the operation of the head office within a large firm.

## **2.2. The cluster/milieu approach**

With stronger international competition, a “faster” capitalism and “time-space compression”, (i.e., the transfer of capital, knowledge and goods, at an accelerated rate), the efficient collection and interpretation of information seem to be functions that is assuming increasing importance for the head office of large companies (Harvey 1989, Lash and Urry 1994). This emphasis on structural changes and the head office position within an international economy introduces a systems perspective into the understanding of the agglomeration of head offices. Inspired by agglomeration theory, cluster theory and the theory of innovation systems, new contributions have analysed the interplay between the firm and places and processes of cumulative growth. Whereas many of the neo-classical studies within locational theory focused on static locational advantages, the dynamic efficiency of cities is highlighted in these new contributions. Furthermore, a wider approach which focuses on sets of explanatory factors instead of single determinants for head office location and urban development has been introduced (Porter 1998, Sassen 2000). Thus, the static locational factors of the neo-classical approach have to be analysed in a dynamic perspective.

This new perspective have analysed processes of unequal growth and the reasons why some cities prosper in the new knowledge-based economy. Important factors are high innovative capacity, an agglomeration of important institutions, a rich milieu, a producer services complex and a concentration of management functions and head offices for major firms. As already mentioned, our study highlights the processes of head office location and the dynamics between urban development and head office location.

In general we can distinguish two approaches within studies of urban development: the “cluster” or “milieu” approach and “the urbanisation” or “agglomeration” approach. With the growing complexity of information and knowledge and the greater uncertainty of the economic environment, the region or the city is seen as an important source of competitive advantage for economic organisations operating in a globalized economy (Storper 1997, Amin and Cohendet 1999). A common characteristic of these two approaches is a more intense focus on geographical proximity to explain patterns of economic growth (Beccatini 1990, Scott 1990, Porter 2000). Nevertheless, there are clear distinctions between these two approaches, which will be discussed.

The cluster/milieu approach is related to cluster theory, innovation theory, evolutionary theory and resource-based theory. Porter’s (1990, 2000) concept of clusters as the basis for competitiveness has had an enormous influence on policy makers and on theoretical debates within the literature. Porter stressed that domestic rivalry and geographic industry concentration are especially important in creating dynamic clusters. There will often be fierce rivalry between co-located firms that are able to compare their performance effectively with that of their competitors, thus stimulating processes of innovation (Porter 1990). At the same time, co-localisation can also stimulate horizontal co-operation between firms, which in turn can generate external scale effects (Appold 1995). Studies of processes of innovation has also stressed that the economic practices of business firms are embedded in social relations. In addition, proximity and local ties play an important role in supplying firms with informally constituted assets (Johnston 1991, Maskell et al. 1998, Fløysand and Jakobsen 2002, Jakobsen and Rusten 2003).

Key concepts within these studies of regional and urban growth are the concept of knowledge spillovers, collective capabilities and processes of cumulative causation. Knowledge spillovers are localized and tend to decay rapidly with transmission across geographic space. The intensity of such knowledge spillovers is important for the growth and development of the region (Krugman 1991), and is essential for the understanding of clustering and the reasons why growth rates differ between regions. An important distinction has to be made between formal or informal knowledge. Formal and codified knowledge can easily travel in space through e-mail, fax machines or telephone. By contrast, informal, or in some cases non-codified knowledge, is vague and often “sticky”, i.e., highly contextual. It is best transmitted via face-to-face contact and through frequent and repeated contact. Informal or tacit knowledge is an important asset for processes of regional growth, and “informal knowledge spillovers” that are mainly related to geographical proximity (Maskell et al. 1998). When codified knowledge becomes available everywhere, uncodified knowledge, which is rooted in relations of proximity, attains a more prominent position in deriving competitive advantages (Amin and Cohendet 1999).

The essence of clusters is often found in the presence of specialised knowledge, which develops from spillover mechanisms at the local level. Thus, in these innovation systems geographic proximity is important in facilitating personal exchange of new knowledge between firms (Capello 2002).

Knowledge spillover will also facilitates the development of trust and the establishment of a complex set of local ties, which leads to processes of collective learning (Beccattini 1990, Morgan 1997). Collective learning (i.e., learning that is based on linkages to other firms and actor in the area) within the milieu or cluster can also take place through specialised labour that is highly mobile within the area, but less mobile outside the area, and through stable innovation linkages between actors and firms in the area. Particularly important in these processes of collective learning is the so-called “relational capital”. Relational capital stems from territorial relationships and generates implicit or explicit cooperation among actors, which is based on trust and a sense of belonging to a community that shares the same values (Cappello 2002).

Studies of innovation and urban growth have also introduced the concept of collective capabilities (Lorenzen 2002). The processes of knowledge spillovers and collective learning can facilitate the development of capabilities. According to the resource-based view, the long-term competitiveness of firms depends on the endowment of resources that differentiates them from their competitors (Wernerfelt 1984). Resources become capabilities when they contribute to sustainable competitive advantages. This happens when resources generate differences in efficiency, when they are difficult to imitate, and when there are no strategic substitutes available to rivals (Metcalf and James 2000). Increased specialisation and “time-space compression” in the economy mean that a firm’s specific capabilities are critical to its international competitiveness. Related to the systems approach, the urban milieu may develop collective capabilities, depending upon networks and other relationships among local firms or what we can term “network capabilities”. For successful urban milieus, such network capabilities allow for constant product innovation, technological excellence, information-rich localities and the development of efficient modes of organisation (Maskell et al. 1998).

Studies within the cluster/milieu approach have also emphasised processes of cumulative causation of the dynamic urban production systems. For instance, the existence of knowledge spillovers will decrease the uncertainty of the economic relationship by developing trust, which will lead to collective learning. In turn, this will intensify processes of knowledge spillover, which is important for understanding the reason why head offices are concentrated in large metropolitan areas. In addition, the classical work by Pred (1977) focused on cumulative causation, or what he called cumulative feedback-processes. He saw these processes as important for the concentration of head offices in metropolitan areas: “With each

addition or significant expansion of a high-level administrative activity these advantages tend to be strengthened...(and)...demand accumulates, new or enlarged business services actually materialize...this entire feedback process is reinforced by the fact that since large metropolitan complexes already possess the greatest number of multilocal business organization headquarters, they have the highest probabilities for acquiring the head office functions that are transferred in space..." (1977:117).

### **2.3. The urbanisation approach**

Whereas the milieu or cluster approach focuses on local ties, knowledge spillovers and specialised knowledge, the urbanisation approach emphasises the general advantages related to location in a large diversified urban system, i.e., urbanisational advantages. This approach has been important for studies of regional and urban economies (Knox and Agnew 1994).

Large metropolitan cities are characterised by de-specialisation, and locational advantage are related to an advanced infrastructure, a large "pool" of highly qualified labour and the presence of universities and research centres. Knowledge spillovers within the urban system often related to "scientific knowledge spillovers", i.e., the externalities that firms can profit from, being co-located with an agglomeration of universities and research centres. In addition, there can be specialised sectors within the urban system, where informal knowledge spillovers and collective learning are essential for the development of these sectors. In large cities there is also a full range of other services, such as finance, management and legal services.

The idea of "institutional thickness" can also be related to this line of thought (Amin and Thrift 1994). This concept takes the regional thickness of institutions in a capital city or metropolitan areas as its starting point for understanding urban growth. Institutional thickness is characterised by a strong institutional presence of many types of institutions (including local authorities, government agencies, business service organisations, development agencies, research institutions, financial institutions, large firms and training agencies), high levels of interaction among the institutions in the area and, as a result of the latter, an awareness of a common industrial purpose for the area. In newer approaches there has also been an increased focus on the density of *light institutions* within capital cities, or large metropolitan areas. There is a range of meeting places within the cities, such as conferences, sporting events and cultural events, which are centres of sociability with an economic touch. In addition, interest organisation and various chambers of commerce, play roles in developing the city. The city is characterised not by the specialised knowledge, rooted in a particular kind of business, but by varied and differentiated knowledge situated in a mix of institutions within the city.

Within both the milieu approach and the agglomeration approach, the role of the local authority in developing an attractive urban milieu has been emphasised. Hence, we can observe a recent shift from firm-centred, incentive-based, state-driven and standardized regional economic development policies to bottom-up, region-specific, longer term and plural-actor policies (Hassink 2002).

To summarise, there seem to be two main elements making cities attractive for the location of head office: 1) the thickness of the institutional structure that supports firms, and 2) extensive territorial knowledge spillovers. Together, these elements create a knowledge-rich system. However, as we already have seen, there is a dispute in the literature as to which types of institution that generate attractiveness. The cluster/milieu approach, stresses that the sector specific knowledge spillovers of cities are propelling growth (Glaeser et al. 1992). It is also stated that the growth potential of cities depends essentially on their specialised knowledge base (Simmie and Wood 2002). The urbanisation approach emphasises sector diversity and the richness of institutions as the generator of urban growth (Audretsch 2000).

#### **2.4. The node approach**

The milieu/cluster approach and the urbanisation approach, strongly emphasise the important of the proximity of institutions and knowledge for the understanding of the attractiveness of the city and the processes of head office location. Recently, a new perspective has been introduced, which we can label “the node approach” (Amin and Thrift 2002). Amin and Thrift are critical of the tendency in recent studies to frame urban economies in terms of lines and boundaries. Cities are seen as a central point and a knowledge based agglomerations, with high intensities of face-to-face contact and strong internal flows of knowledge. The overall importance is measured by its place in the global urban hierarchy. The higher its position, the more important it will be as a head office location.

However, according to Thrift and Amin cities cannot be understood as systems of boundaries, or as bounded economic entities. Instead, they read an urban systems as “*relay station in a world of flows*”. Cities are structured around flows of people, images, information and money. They also stress that cities are always both local and global. Their purpose is to limit the strong emphasis on proximity that has characterised recent work on urban development. Proximity does not always matter.

They define cities as assemblages of more or less distanced economic relations, which have different intensities at different locations. Even when economic activities seems to be spatially clustered, for instance within a capital city, they rely on a multiplicity of institutions

and connections that stretch beyond these clusters and play a role in their construction. Much of the existing cluster and milieu literature focuses on local and regional innovation processes, and fails to stress clustered firms' relationships outside a cluster. However, clusters do not exist in isolation. Firms and organisations within the milieu depend on external markets, resources and competence. Head offices have extensive external business networks that extend beyond the cluster level and that are important for processes of learning and development within the organisation (Green et al 2001, Fløysand and Jakobsen 2002).

Nevertheless, the region is important when for instance, it comes to labour supply and research-based knowledge and the existence of light institutions. Also, local networks to suppliers, customers and other business contact, is valuable. However, as industries change rapidly and become more internationalised, skills in coping with new social contexts and operating on a larger geographical scale are often more useful than trust and strong local ties.

Related to our discussion of head office location, the line of thought of Amin and Thrift implies that head offices must be understood as *nodes in an internal (inside the region) and external (outside the region) flow of knowledge and information*. In addition, there will be an intraorganisational flow of knowledge affecting the operation of the head office. This also indicates the importance of a multi-level perspective on head office location. A head office involves a multiplicity of connections, many of which extend beyond the cluster or city level.

The point of departure for our empirical analysis of head office location in Norway is that intraorganisational linkages, linkages within the region and linkages outside the region will always affect the operation of a head office. However in most cases, some of these sets of linkages will be more important to the head office than others. A challenge for our study is to reveal the circumstances under which intraorganisational, regional or external linkages are critical for the operation of the head office, and thus locational processes.

In the empirical discussion of head office location in Norway we will analyse the present locational pattern (4.1), categories of head office location (4.2), explanatory factors for head offices location (4.3) and the dynamics of head office location (4.4). However, we start with an elaboration of our methodology.

### **3. Methodology and data**

Our empirical analysis is based on two dataset; a survey of head offices of the largest firms in Norway and intensive case studies of a selected number of these head offices. A list of the largest companies in Norway was constructed from the database of “Kapital” and “The largest firms in Norway” (Norges største bedrifter). After a preliminary screening, our population was reduced to the 200 largest firms by turnover. All sectors are included, with the exception of investment companies and “pure” sales companies, i.e. companies with a high turnover and a low numbers of employees.

A postal survey of the head offices of these 200 companies, combined with telephone interviews, was conducted. Two of the firms had been exposed to mergers or buy-ups, and our operational population was reduced to 198 firms. We obtained 123 usable returns, representing a response rate of 62%. By balancing the structure of the population, according to sector, size and location, our database can be characterized as representative of head office of large companies in Norway. Nearly all of the questions were completed by a respondent who was part of the firms leadership team. The survey consists of questions related to head office location, locational advantages and disadvantages, the role of the head office and external effects of the head office (the latter is not reported in this paper).

In our database, just over half of the head offices are in companies with at least 1000 man-years (tab.1). In three out of four cases, the status of the head office is the company head office, and the remainder are national head offices of foreign firms in Norway. Furthermore, 42% of the head offices are within companies where manufacturing is the main sector. The main sectors of the other companies are business services, trade, transport/shipping and ICT.

In our analysis, we discriminate between the following head office locations:

#### I) The capital region.

This category includes the capital city of Oslo and surrounding municipalities (all municipalities in Akershus county). The capital region is a diversified national metropolitan centre. The total number of inhabitants in this region in 2003 is about 1 000 000, which is 22% of the total population of Norway.

#### II) Specialised regional metropolitan areas

This category includes the regional metropolitan areas of Bergen and Stavanger. The Bergen region includes the municipality of Bergen and the surrounding municipalities of Os, Fjell and Askøy. According to criteria for centrality and settlement destiny developed by Statistics Norway (SSB), these municipalities form a functional region. The total number of inhabitants

in this region is 290 000 (6,4%). The Stavanger region includes the municipality of Stavanger and the surrounding municipalities of Sandnes, Sola and Randaberg, which form a functional region, with 195 000 (4,3%) inhabitants. The term “specialised regional metropolitan areas” indicates that one or a few sectors dominate the regional economy. The Stavanger region is dominated by the petroleum sector, whereas shipping and fisheries/fish farming are the main sectors in the Bergen region.

### III) Non-metropolitan areas (other areas)

The third category is other areas, or non-metropolitan areas. The total numbers of inhabitants in other areas are 3067 000 (67,4%).

Table 1. Characteristics of companies in our database

	<b>All companies (N=123)</b>	Head office in capital region (N=67)	Head office in specialised regional centre (N=17)	Head office in non-metropolit. areas (N=39)
<b>Size of company *)</b>				
Less than 1000 man-years	<b>44%</b>	36%	53%	54%
1000 or more man-years	<b>56%</b>	64%	47%	46%
<b>Head office status</b>				
Company head office	<b>75%</b>	70%	65%	87%
National head office of foreign owned company	<b>25%</b>	30%	35%	13%
<b>Sector</b>				
Manufacturing (**)	<b>42%</b>	30%	65%	51%
Business services, trade, transport, ICT etc	<b>58%</b>	70%	35%	49%

Note: \*) For foreign owned companies we refer to the numbers of man-years in Norway; for other companies we refer to the total number of man-years for the company (both in Norway and internationally).

\*\*\*) Including the petroleum sector

In our database there is a larger share of companies with at least 1000 man-years in the capital region. Studies have shown that the concentration of head offices in the capital region in Norway is particularly intense among the largest companies (Jakobsen and Onsager 2002). With respect to head office status, there are fewer foreign owned firms in non-metropolitan areas. In general, studies have illustrated a lower share of foreign-owned companies in non-metropolitan areas (Jakobsen and Rusten 2003). In our database there are also fewer head offices of companies with industry as their main activity in the capital region than in the non-metropolitan areas. This is corresponding well with the overall picture of the economical structure within these areas. Like other western countries, Norway has a larger share of firms within the manufacturing sector outside the capital region.

To obtain more detailed information about head office location histories, reasons for the relocation of head-offices and specific advantages and disadvantages related to the existing location, the survey was followed up with 21 intensive case studies. Different criteria were used in the selection of cases: geography (head office located in the capital region and head office in regional centres), sector (head office of companies within traditional industry sectors and within new sectors) and status/ownership (company head office and national head office within foreign owned companies). We also tried to choose companies where the head office had been located in at a given location for a certain period as well as companies that had relocated their head office. In all cases, the person(s) interviewed was part of the executive group of the company (e.g., CEO/president, executive vice president etc.).

Table 2. Case studies of head offices according to location, size, status and main sector (real numbers) (N=21)

	<b>All head offices</b>	Head offices in capital region	Head offices in specialised regional centre
<b>Number of cases</b>	<b>21</b>	<b>11</b>	<b>10</b>
<b>Size of company *)</b>			
Less than 1000 man-years	<b>9</b>	5	4
1000 or more man-years	<b>12</b>	6	6
<b>Head office status</b>			
Company head office	<b>11</b>	6	5
National head office in foreign owned company	<b>10</b>	5	5
<b>Sector</b>			
Manufacturing **)	<b>13</b>	7	6
Business services, trade, transport, ICT etc	<b>8</b>	4	4

Note: \*) For foreign owned companies we refer to the numbers of man-years in Norway, for other companies we refer to the total number of man-years for the company (both in Norway and internationally).

\*\*) Including the petroleum sector

Table 2 shows the distribution of our cases according to geography, head office location, size, status (ownership) and main sector. We have limited our studies to cases in the capital region and in the regional centres of Bergen and Stavanger, because these are the most important for head offices location.

## **4. Analysing the location of head offices in Norway**

### **4.1. The locational pattern: an overview**

There is a strong concentration of head offices in metropolitan areas, and especially in the capital region in most countries with an advanced economy. Head offices of large companies are concentrated in cities at the higher level of the hierarchy system, where economic and political decisions affecting the rest of the urban system are made (Ross 1987, Lyons 1994). In United Kingdom 74 of the 100 largest manufacturing firms have their head offices in the London region (Healey and Watts 1987). In Canada 75 of the 100 largest manufacturing firms have their head offices in Toronto or Montreal (Ley and Hutton 1987). In Australia, 60 of the 100 top Australian corporations, had their headquarter in Sydney in 1989 (Sassen 2000:98). In United States the pattern is a more disperse, although 40% of U.S. firms with at least half their revenue from international sales had their headquarters in New York City in 1990 (Sassen 2000:82). Command functions are still concentrated in major cities, despite information technology facilitating dispersal (Sassen 2000:22).

Head offices need a producer service complex which can provide the company with specialised services and financing. This producer service complex is likely to be concentrated in important urban centres, where there is a high level of demand and important input-factors, such as research based knowledge, highly qualified staff etc. Cities are the main “production sites” for the leading producer services of the knowledge economy. However, headquarters do not always have to be co-located with providers of services, and for some of the head offices the location of their providers of services is less important. Sassen (2000:73) claims that especially headquarters of highly innovative and complex lines of business tend to locate in major cities. Still, some of the largest firms within the economy are manufacturing firms, and many of these have their head office near their major factory complex, which often is located outside the capital region or the national business centre. There are also cases where head offices of large firms have moved out of the capital city, because they prefer specialised regional milieus, as was the case with some of the departures of headquarters from New York in the 1970s (Sassen 2000:82).

In 2000 the head office of 70 of the 100 top companies were located in the capital region (tab.3). That position has been more or less stable since 1970, with a weak tendency towards increased concentration. The specialised regional centres have also strengthened their position. But the increase has come in Stavanger, where 10 of the top 100 companies in Norway have located their head office. Stavanger has become the Norwegian petroleum capital, and a large number of companies within this sector, both national and foreign companies, have located their head office in Stavanger. On the other hand, Bergen’s position

seems to have declined, especially during the 90s. One should, however, be careful in interpreting these figures. Our sample includes only the top 100 companies. Companies that one year are among the top 100, can be outside the next year as a result of variation in turnover. This is the case for Bergen, where some of the companies which were among the top 100 during the 1990s had a position slightly below in 2000. Among the 110 top companies in Norway, Bergen had 8 head offices in 2000.

Table 3. The location of the head office for the top 100 companies (in turnover) in Norway 1970-2000 \*)

	1970	1975	1980	1985	1990	1995	1998	2000
The Capital region	65	68	64	75	69	70	72	70
Specialised regional centres	12	11	15	13	16	16	15	15
-The Bergen region	(9)	(6)	(6)	(9)	(8)	(9)	(7)	(5)
-The Stavanger region	(3)	(5)	(9)	(4)	(8)	(7)	(8)	(10)
Non-metropolitan areas	23	21	21	11	15	14	13	15
Sum	100	100	100	100	100	100	100	100

Note: \*) The data includes both company head offices and national head offices for foreign owned companies.

Source: Norges Største Bedrifter

The number of head offices among the 100 top companies has declined in non-metropolitan areas, particularly in the early 1980s, a period of marked decline within manufacturing industries which traditionally had a strong position in the non-metropolitan areas.

#### 4.2. Categories of head office location

*Which types of head office location do occur?* Through our empirical research we have identified a certain degree of heterogeneity. Some head offices locations are stable, while other has gone through several changes. Some are a consequence of political decisions other of changes in ownership. We also found variation between firms in tackling locational challenges. With our case studies as a point of departure we have defined five different categories of head office locations.

The first category can be labelled "*historical location*". The historical origin of the firm explains its head office location. This can be illustrated by case C4 (C=the capital region of Oslo) and case B2 (B=Bergen)

Case C4 is an Oslo manufacturing firm, employing about 550 people. It was established in Oslo in the 1930s as a family business, but has been listed at the stock exchange since 1998. All of its production took place in Oslo until the mid 70s, but then some of the production units were re-located to rural areas, to reduce the operation costs. The company has also a production site in Sweden, but the head office remained in the capital. Most of the production is exported. The head office remains where the company originally was established. One respondent told "*we have never discussed a relocation of the head office, and I can't see why*

*we should do that in the foreseeable future*". The company claims that head office location in Oslo profit from a supply of highly qualified labour, good communications and an adequate supply of specialised services.

Case B2 is a diversified company with its head office in the regional centre of Bergen. It is a traditional family owned company with its main activities within international shipping and aquaculture. It is also involved in transport. It employs about 900 persons. Shipping, aquaculture and transport is managed from the head office in Bergen, while the company has production sites for fish farming and processing in Rogaland (Norway), Canada and Chile. Bergen has a strong milieu both within aquaculture and shipping, which provides the company with locational externalities, such as knowledge spillovers. One respondent told that *"we are patriotic and we want to stay in Bergen. I also think it is easier to find your place in a "small" city like Bergen than in the capital region"*

The second category is *"political location"*. In such cases, the political authority has been instrumental in the head office location. It can be illustrated by case S1 (S=Stavanger).

Case S1 is the most important operation company within the petroleum sector in Norway. Its head office, as well as some of its production activities, are located in Stavanger, where 3000 of a total of 17000 employees are working. The company has operations sites in other Norwegian cities, as well as abroad. It is a public owned company. When it was established in 1972 different locational alternatives were discussed. Stavanger was chosen because the government wanted to stimulate the growing petroleum milieu in this region. In addition, the Norwegian Petroleum Directorate was also located in Stavanger. Already in the late 60s a couple of foreign oil companies had established themselves in Stavanger, because of its proximity to the first oil fields of the North Sea. Stavanger also worked hard to convince the government that Stavanger was the right place for a new national oil company, and this proactive role of the local authority of Stavanger to some extent influences the locational decision. Today Stavanger is the "petroleum capital" of Norway, with an agglomeration of firms, institutions and different interest organisations.

The third category of head office location is labelled *"relocated head offices"*. Traditionally, there has been a trend for large companies to move its head offices from regional to national centres. But, some companies have chosen to relocate their head office to a specialised regional milieu in order to obtain agglomeration effects, i.e. knowledge spillover. Cases C2 and C7 are company which have relocated to the capital region, while cases S3 and S4 are companies which have re-located to a specialised regional milieu.

Case C2 is a diversified company noted at the Norwegian stock exchange. In total the company has 32 000 employees in Norway and abroad. Its main activities are within food production, chemical production and media (newspapers, television etc). The present company is a result of a merger between two different companies in the mid 1980s. Both companies had their head offices and main activities outside the capital region. The capital region was seen as adequate choice for the location of the head office of the new company. Our respondent stated: "From Oslo we can coordinate our future national and international expansion". The proximity of a media milieu (newspapers, television etc), a financial milieu and the Norwegian stock exchange (which is located in Oslo) are seen as locational advantages of the capital region.

Case C7 is a large Norwegian company within banking and finance. The total number of man-year is 7000. It was established in 1989 after a merger between two finance companies, one with its head office in Bergen, the other with its head office in Oslo. The Bergen company was the leading partner in this merger, and Bergen retained the head office of the new company. It was important for the company, that an important part of its strategical activities was located in Bergen in order to satisfy both customers in the Bergen region, and to satisfy the government which should approve the merger. The government wanted to restrict the concentration of financial institutions to the capital region. The head office location had to some extent a symbolic function. By choosing Bergen the company wanted to communicate a message which would satisfy both national authorities and the Bergen region. But, even before the merger the Bergen company had moved many of its main management functions to the capital region, which was an expanding market for the company during. In particular, the company strengthened its position as a financial partner for many of the large national and international companies with head offices in the capital region. Gradually, a relocation of importance head office function has taken place, and at present the head office is located in the capital, both in practice and formally. One respondent argues: *“We want to be close to our main customers. But we also want to influence the national policies, which are important for our activity. All leading financial and government institutions in Norway, and also business organisation, are located in Oslo.”*

These two cases illustrates the drift towards the capital. But there are also companies which have re-located to a specialised regional milieu.

Case S3 is a foreign owned company within the petroleum sector, with head office in Stavanger, and employing 330 persons in Norway. This company was a result of a merger between two multinational oil companies in the year of 2000. One of these companies had its Norwegian head office in Norway in Oslo, the other in Stavanger. After the merger followed a comprehensive discussion about location of national head office of the new company. Stavanger was chosen partly because the company wanted to profit the petroleum cluster in this region. The new company also wanted to signalise to national political authorities and to important industrial actors that it wanted to be perceived as an “operator”; a company involved in extraction and production. It was therefore logical that administration as well as operation activities should be located in Stavanger.

Case S4 is another foreign owned company within the petroleum sector. It has about 1000 employees in Norway, and moved its head office from Oslo to the specialised centre of Stavanger. Before 2000, the company had its head office in the capital. In addition, its downstream activities (for instance the operation of gas stations) was coordinated from the capital, but the management of upstream activities (extraction of petroleum and gas) has already moved to Stavanger. In 2000 the company was reorganised on a global level. One implication was that the downstream activities in Norway should no longer report to the national head office. The main operations for the remaining Norwegian branch was extraction and production of oil and gas. To achieve proximity between these operations units and the head office, the company decided to re-locate its national head office to Stavanger.

The fourth category of head office location is *“hybrid head office”*, where head office functions are divided between various locations. Case B3 illustrates this category.

Case B3 is a communication equipment company, mainly exporting its production. The total number of man-years within the company is 1800. Its main production and research unit is in Bergen (about 750 man years), but it has also an important production and research unit in Oslo (about 270 man years). In addition the company has production units abroad. The company is noted at the stock exchange, and has always had its head office in Bergen. However, during the last couple of years there have been some changes in their organisational structure. The CEO and two other directors who are part of the leader group are located in Oslo, while the rest of the leader group is located in Bergen. Support functions for the leader group have been established both in Bergen and in Oslo. In addition, meetings within the leader group and of the board are taking place in Bergen and Oslo alternatively. Recruitment of members of the leader group is the reason for this split in head office location. The company does not insist that new members of the leader group must be located in Bergen, but can choose between Bergen and Oslo. Our respondent told us: *“If we find someone that is suitable for a key position, we will not insist that he/she has to work in Bergen. The place where they are suppose to have their office is not that important, since our directors travel a lot during the year.”* For this international company the functional organisation of management becomes more important than the territorial organisation.

The final category of head office location is *“converted head offices”*, i.e. head offices of national enterprises, which have been incorporated in multinational firms. When foreign firms purchase a national firm, the status of the latter changes from corporate/company head office to national head office within a multinational firm. This status change may imply a weakening of the activities and position of the head office. But status change may also give the national head office a favourable position within the multinational organisation. Converted head office locations are illustrated in cases B5, C1, C10, C11 and C8.

Case B5 is an insurance company operating on the national market. It employs about 1400 people, and the national head office and main operation site is in Bergen. In 1989 a Swedish company purchased this national company. During the last couple of years there have been several changes in ownership, mainly as a result of structural changes within Nordic banking, finance and insurance. In 1999 the company got a Danish owner, the next year it had Swedish owners for a short period, and from 2001 the owner once again is Danish. During this period there phases of strong external control and phases of extensive national autonomy have alternated. The experience of the company is that the first period after a take over the new owner focused on increased efficiency, standardisation and the realising of synergy effects. This involves strong external control of the national branch. But after a while the foreign owner accepts that the national branch needs a certain degree of autonomy to operate efficiently, and this implies a more autonomous position. A respondent from this insurance company describes effects of foreign ownership: *“Over time we have managed to maintain important strategic and operational functions and our skill. Changes in ownership and external threats have encouraged the development of a strong internal culture and a sense of belonging to the region.”*

Case C1 is a traditional food company purchased by a multinational company in 1993. About 1000 man years are related to its operations in Norway. The company have its head office and a production site an the capital region. After the take over the location of the Nordic head office of this multinational company was discussed. The Norwegian political authorities insisted that the location should be in Oslo. But the final decision of the

multinational company was influenced by the fact that Nordic operations of the purchased company were coordinated from Oslo. Other Nordic metropolitan areas were more central for the coordinating of activities in the region. Still, the Nordic head office of this multinational company was located in Oslo.

Cases C10 and C11 have their origin in a Norwegian pharmaceutical company, exporting a large share of its production. The company had its head office in the Oslo region, where also some of its production and research units were located. In 1997 a foreign company purchased this company. The original firm was split in two different companies, and one of them (case C10) was sold to another group of foreign investors. This group decided to relocate the head office of the company and its research unit to a “medical-cluster” in Denmark, even if the Norwegian authorities were against this operation. The remaining activities in Norway are production sites, employing about 600 people. The other firm (C11), also lost some of its administrative and management functions, but some management functions has remained in Oslo. In addition, and more important, the research and development activity in Oslo has been strengthened. In total this international company has 600 persons working in research and development, and about 350 of them are located in Norway. Our respondent stated: “New owners strengthened our supply of research capital and resources, and it has also strengthened the marketing and distribution of our products”.

The final case, C8, is a banking and finance company with its head office in Oslo, employing about 4500 person. In 2001 this company was purchased by a Nordic finance constellation. Customers and political authority in Norway feared that this would result in strong external control and relocation of skills and management functions from Oslo to the company head office of this Nordic constellation in Stockholm. But so far, this does not seem to be the case. The national head office in Oslo has retained a certain degree of autonomy and has strengthened its position in some areas. This is supported by a key representative from NHO (The Confederation of Norwegian Business and Industry), who states: “*We observe that the bank has increased its loan capacity.*” He also says that the bank shows an ability to make quick decisions. Further, a representative for the national head office in Norway says: “*When the manufacturing industries become more international, it is also an advantage that the financial institutions are becoming more international.*” It is also important for the position of the Norwegian division, that an executive from the original Norwegian company has been included in the group of directors (“group executive management”) of this Nordic finance company.

These five categories of head office location are ideal types. A given head office can be a combination of different types. For instance can a relocated head office also be a political location if the main reason for relocating is political conditions.

#### **4.3. Explanatory factors for head office location**

Our presentation of selected cases show that *different factors influence the geographical distribution of head offices*. Our theory-based empirical study points to three main explanatory factors, behind head office locations: historical conditions, political conditions and locational conditions. In addition, we have found that ownership change is a causal

process which triggers off changes in head office locations. In the following, we will examine these factors, starting with historical conditions.

### Historical conditions

The birth of new companies, the endogen growth of existing companies as well as the death or the stagnation of companies affect the distribution of head offices. Processes of endogenous growth characterise some areas, while other are in decline (Wheeler 1992, Lyons 1994, Sassen 2001). Firms also get “embedded” in a location, for instance by establishing local economical linkages and by the simple fact that workers, and in some cases, the main owner live in the area. The competence and skill of the firm is embedded in its staff, a critical factor in a knowledge-based economy. There is “a path dependency” both at firm and regional level, where the development of firms follows given trajectories. The position of the firm and the industry in each time period bears the seeds of its position in the following period (Nelson and Winter 1982:14). The existence of sunk costs, related to the existing location, and the difficulty in moving the competence of firms, restrict the possibilities of a physical relocation of a head office, even if there are potential locational advantages at the new location.

### Political conditions

There are two sides to this argument. First, and most important, national authorities can influence, and even determine the location of public owned firms and their head offices. To attain specific regional policy goals they can locate public owned firms outside the capital region, for instance in specialised regional production systems with growth potential. The reasons for this policy can be to achieve a more dispersed distribution of resources, to ensure a more efficient use of the total national resource base, or ideological aims of a more “equal” society. Secondly, by using different incentives, regional authorities can make a given location more attractive, while national authorities can introduce regulations which makes a location in some regions more attractive than in others.

### Locational conditions

The locational advantages and disadvantages of a city or a region in attracting head offices will affect the geographical distributions of head offices. In our theoretical discussion we distinguish between *urbanisational advantages*, which are general benefits related to a diversified urban milieu (different kinds of services, infrastructure, education and research institutions, a comprehensive labour pool, an information rich environment etc.) and milieu or *cluster advantages*, of a specific specialised milieu (knowledge spillovers, specialised services, specialised labour pool). In many cases the reasons for the relocation of a head office are a combination of locational disadvantages related to existing location and potential locational advantages in a new location.

Historical , political and locational conditions are not static. A discussion of head office location within an organisation will be triggered off by processes of change, such as endogenous growth within the company, changes in the attractiveness of a region or new political regulations. However, our cases have illustrated that ownership change seem to be the driving force of evaluation or a discussion of head office location within the company, leading to an eventual relocation of the head office or a change in its status.

### Ownership change

Changes in ownership occur in different ways. The importance of merger for shifts in head office location has been documented in several studies (Green and McNaughton 1989, Green 1987). Secondly, when firms are bought up by other firms, changes in the distribution of head offices may occur. The general picture has been a tendency for metropolitan-based firms to take over provincial ones, rather than the opposite (Leigh and North 1978, Green and McNaughton 1989). Thirdly, location of head offices are affected by internationalisation processes, either involving inward foreign direct investment or outward foreign direct investment. When foreign firms purchases national firms (inward foreign direct investment) the status of the head office of the purchased firm will change from company head office to a national or regional head office within a transnational firm (Jakobsen and Rusten 2003). When firms carry our substantial investment abroad (outward foreign direct investment) a discussion may arise within the company about a possible relocation of the company head office to an international metropolitan. However, our selected cases have not produced evidence of such locational discussions.

In many cases the explanatory factors are interdependent. Changes in ownership can facilitate a discussion of a relocation of the head office, and the outcome of this discussion will be affected by the firm's embeddedness in a region, the existing political regulation and locational advantageous and disadvantageous of selected regions.

These different conditions and processes of change can generate four head office outcomes. The first outcome is *no change*. The birth of new firms involves the setting up of an administrative centre, or a head office. In a more mature phase for the company, changes in ownership or locational conditions may lead to a discussion of the head office location, but it many cases firms choose to maintain their initial location, partly because of regional embeddedness and partly because of the cost of relocation (Sassen 2000). Secondly, there is *the relocation of head office*. Traditionally the physical relocation of head office for large companies has been a move from regional centres to national centres, and especially to the capital region (Chapman and Walker 1992). But firms can also chose to relocate their head office to specialised urban milieus to achieve milieu effects, i.e. knowledge spillovers etc. One should also remember that even if firms grow and expand, this does not automatically

leads to an relocation of the head office to a more attractive or central area. Problems related to the moving of competence and the existence of sunk cost is obstacles, or inertia, for a relocation. Thirdly, there is the *change in head office status*. As already mentioned, when a foreign firm purchases a national firm, the result can be a change of status for the head office of the latter from corporate head office to a national or regional head office within a multinational or transnational firm. In most cases this change in status will also have locational implications. The activities at the head office can be downsized, but it can in some cases be upgraded if the head office becomes a regional head office, for instance for the Nordic countries, within the multinational cooperation. Finally, there is the “*death*” or removal of head offices. A decline within a company or within a region can involve bankruptcy and the closing down of firms and their head offices. However, in many cases rivals purchase large firms before they are being closed down.

Finally, there will be some kind of feedback, where locational outcomes affect for instance the locational conditions. As illustrated in the theory, there are processes of cumulative causation. The location of a head office in a region will make this region more attractive for new head office locations for instance by strengthening the market for specialised labour and specialised services. On the other hand, the death of a head office may lead to regional decline. Explanatory factors and different outcomes are illustrated in figure 1.

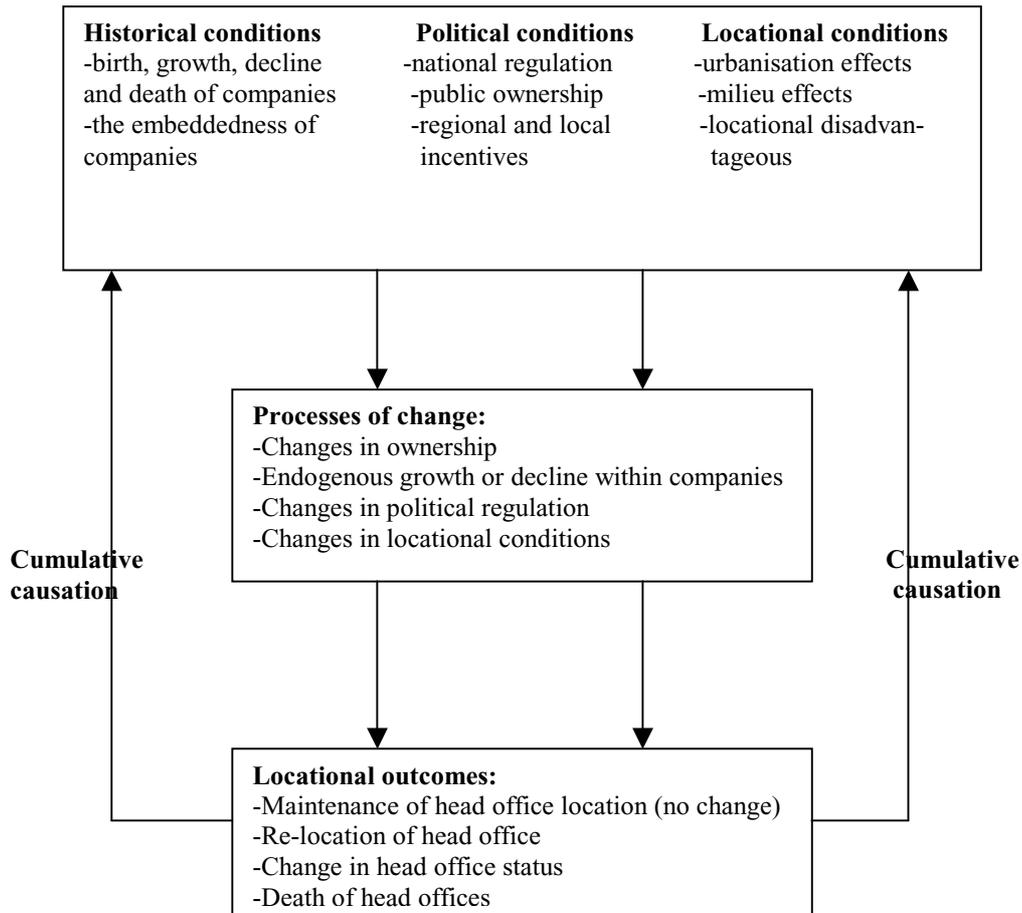


Figure 1. Factors influencing head office location

This analytical model can be used to categorise and systematize the process of head office location in our case studies (tab.4). Eight of 21 cases have maintain its head office location throughout their history, seven firms have re-located their head office, while six firms have changed head office status from company head office to national/regional head office within a multinational firm. Five of these six cases, have maintained their existing head office location, but the activity and the role of the head office has been changed.

Change in ownership is a very important factor behind processes of locational change. As already mentioned, foreign firms purchases of Norwegian firms have triggered off change in head office status. In addition, 4 of 7 relocations of head offices are triggered off by ownership change. The remaining three relocations are generated by a desire to exploit advantageous of a new location, as well as internal changes within the organisation, for instance the introduction of a new company strategy.

Table 4. Important explanatory factors for head office location within our case studies

Case No. *	Historical conditions	Political conditions	Locational condition	Change in ownership	Outcome **
B1	X				I
B2	X				I
B3	X				I
B4	X				I
B5			X	X	III
B6			X	X	III
C1		X	X	X	III
C2			X	X	II
C3	X				I
C4	X				I
C5				X	III
C6			X		II
C7			X	X	II
C8				X	III
C9			X		II
C10				X	II
C11				X	III
S1		X	X		I
S2			X		I
S3			X	X	II
S4			X		II

Explanation: \*) The letter shows existing head office location: B=Bergen, C=the capital of Oslo, S=Stavanger

\*\* Different outcome: I) Maintenance of head office location (no change), II) Relocation of head office, III)

Change in status for head office

Source: Case studies

Our data also illustrate that locational conditions are important in processes of change, for instance changes in ownership or strategy. These changes generate a discussion of head office location. Locational conditions are also of importance when firms evaluate different locational options before investing in an area. Furthermore, political conditions, for instance public ownership or political regulations, can affect locational outcomes. But often the final result is a combination of political conditions, locational advantageous and, in some cases, the regional embeddedness of firms. Finally historical conditions are especially important for the maintenance of the head office outside the capital. Firms are embedded in local culture and develop strong local ties, which restricts the possibilities of a relocation of the head office.

#### 4.4. The dynamics of head office location

With our analytical model of factors influencing head office location as a point of departure, the next part of the paper outline processes of stability and change. *How satisfied are companies with their existing location and what are the possibilities for a relocation of the head offices?* When elaborating these issues we will first analyse advantages and disadvantages related to existing location. This issue is important for the degree of satisfaction

with head office location among existing companies. Secondly, we will analyse possibilities for a relocation.

#### 4.4.1. The advantages of existing location

In elaborating the dynamics of the locational pattern we have asked head offices to measure locational advantages related to existing location. In the survey we listed potential locational advantages and the respondents have measured them on a scale from 1 (not important at all) to 6 (very important). The result is reported in table 5.

Table 5. Location advantages related to existing location  
(firms have measured advantages on a scale from 1 (not al all) to 6 (very important))

Locational advantageous	<b>All companies</b>	Head offices in capital region	Head offices in specialised regional centres	Head offices in non-metropolitan areas
1. Supply of highly qualified labour	<b>4,57</b>	4,67	4,69	4,34
2. The possibilities for establishing informal contacts with business partners	<b>4,26</b>	4,33	4,41	4,08
3. Easy accessibility for other units in the company	<b>4,23</b>	4,32	4,47	3,97
4. Proximity to selected business milieux	<b>4,22</b>	4,21	4,65	4,05
5. Accessibility to specialised services (legal activities, financial institutions, management consultant etc)	<b>4,02</b>	4,15	4,25	3,68
6. Accessibility of information about the sectors/business areas the company is involved in	<b>3,84</b>	3,81	4,31	3,68
7. The proximity political institutions	<b>3,79</b>	4,20	3,47	3,21
8. Prestige	<b>2,59</b>	2,80	2,35	2,32
<b>Mean (in total)</b>	<b>3,99</b>	<b>4,11</b>	<b>4,13</b>	<b>3,71</b>
N	120	66	16	38

Source: Survey

The survey shows that in general “supply of highly qualified labour”, ”possibilities for establishing informal contacts with business partners”, “easy accessibility for other units in the company” and “proximity to selected business milieux” are appraised as the most important locational advantageous at existing location. There are however variations between companies according to their location. The total score is higher for head office in the capital region and in specialised regional centre, indicating that these areas are more attractive than a location in a non-metropolitan areas.

However, head offices in the capital region and in specialised regional centres are emphasising different advantages. Milieu effects, for instance “proximity to selected business milieux” and “accessibility of information about the sectors/business areas the company is involved in” are especially important for head offices in specialised regional centres, while urbanisational effect, for instance “proximity to important political institutions” is of greater importance for head office in the capital region. Also “prestige”, another urbanisational effect, gets higher score among head offices in the capital region. However, this seems to be a locational advantage of little importance.

Still, there may exist other locational advantages which are not listed in our questionnaire but of importance for head offices location. Through our case studies we have examined in greater detail locational advantages of head office in the capital region and in regional specialised centres

Several firms in the capital region emphasise the proximity of political institutions. A spokesman for the head office of a financial company states: *“It is important to be close to national political institutions. When political issues of importance for our industry come up, we can present our views in an early stage of the political process.”* Large companies in particular find it useful to allocate resources for lobbying (Hayter 1997).

For a large company which is listed on the stock exchange, and who also operates as a professional investor, proximity to the stock exchange are of importance. The national stock exchange is in most cases located in the national business centre. A spokesman for one of the largest companies in Norway says: *“It is important to be near the stock exchange in order to collect all the information we need for our operations. It would also be more difficult to establish an efficient investor network.”* To operate as a professional investor, a firm needs to be part of a comprehensive network of actors and organisations which can support their activity.

Several of the companies also stated that the capital is the national business centre with a “density of light institutions”, or “meeting-places”. One respondent said: *“In the city there are several meeting-places, where we can mingle with other businessmen, and meet in a more informal way. You have different conferences, cultural events and so on. In addition, many of the interest organisation are located in the capital and have their annual meetings here.”*

Also the centrality, or the capitals position at the top of the national urban hierarchy, was emphasised. One respondent told us: *“We are coordinating our national operation from the capital and have established linkages with our units in different regions and to our mother*

*company abroad.*” The capitals central position within the communication system makes business contacts with other units in the organisation easier.

The capital also has a rich and diversified supply of business services market. A respondent stated that “the market in the region supply us with the competence we need.”

Our survey has also indicated that the capital region provides the firms with a pool of highly qualified labour. A spokesman for one of the head offices said: *“To be part of a comprehensive labour market makes it easier both to increase the number of employees and to downsize our activities.”* Our respondents found that the cost of recruiting is lower in Oslo than in other part of Norway.

We now turn to a discussion of locational advantages of head office in the regional specialised centres of Bergen and Stavanger. Head offices in these areas especially emphasise milieu effects. A respondent in a shipping company in Bergen underlines the complementary of the regional shipping milieu: *“There is a complete shipping cluster in this region. You have other shipping firms, and you have brokers, banking and insurance companies specialised in shipping. Also producers of equipment and other services and the education institutions are important for the milieu. It is easy for us to get the support we need.”* The Bergen region has also a strong position within fish farming. A manager emphasises knowledge spillovers in this milieu: *“There is a great deal of openness. I discuss market possibilities, the production technology and the disease situation with our competitors in the region. There is a general opinion that we have some common challenges.”* As mentioned earlier, Stavanger has a strong position within the petroleum sector. A respondent of a company that is part of this regional petroleum-cluster states: *“There is a large milieu in this region and we have developed an unique competence. It is a very dynamic milieu, and this makes the region attractive for new locations. There is also a tradition for co-operation in dealing with common problems and challenges.”* In general the milieu effects of the regional specialised centres seem to be related to the complementary of these milieus, which include most of the important element of a specialised regional cluster (Reve and Jakobsen 2001), processes of knowledge spillovers and capabilities for collective action (Lorenzen 2002). However, these locational advantages will principally be enjoyed by head offices within the core sectors of these specialised clusters.

Practical and industry specific business knowledge seems to be essential for the operation of head offices in these regional centres. This implies a co-location between the head office and other operational units of the company (production, research and development, purchasing, marketing etc). Thus, our survey confirms that a head office in the regional specialised centres to a greater extent is co-located with other operations within the company, than head offices

in the capital region, which concentrate on “pure” head office tasks. According to our survey 47% of companies with head offices in regional specialised centres have co-located production with their head office, 59% have co-located R& D with their head office, 71% have co-located sales and marketing activity with their head office, while 82% have co-located purchasing activity with their head office (N=17). Among head office in the capital region, the following is reported: 27% have co-located production with their head office, 45% have co-located R& D with their head office, 54% have co-located sales and marketing activity with their head office, and 60% have co-located purchasing activity with their head office (N=67) (Source: Survey)

Another locational advantages reported from our case studies of head offices in regional centres are a form of “patriotism”. This advantages is not only limited to companies which are part of a specialised production system, but can be a general characteristic among companies outside the capital or the main metropolitan areas (Putnam 1993). Both among local political authorities and local investors there is patriotism or a strong enthusiasm in supporting regional prosperity and growth. A local political enthusiasm is especially reported from the Stavanger companies. A respondent of a head office claims: *“The local authorities in the region have been helpful. They engage themselves in the industry and develops favourable conditions”* Another says: *“They are supportive. I do not think you would achieve the same kind of local support for you activity in a large metropolitan area.”* Local authorities often contribute to the development of the infrastructure of the region, not least in the regional education and research system. They also involve themselves in lobbying national political authorities.

The historical embeddeness of firms facilitate the development of patriotism, especially when the ownership is local. A respondent of a company with head office in Bergen says: *“We have a long history in this city. The city has been important for our development, and the owners and the management of this company wants to facilitate a further development of the city. There is idealism in this company. If for instance we have two different potential business partners, possessing the same assets and competence, we prefer to engage partners located in this city.”* The idea of patriotism is related to the interplay between city and firm, and the development of a common understanding and shared expectations about behaviour of economical agents in an area (Camagni 1991, Lorenzen 2002). Existing companies have been included in this local production culture through processes of learning and networking, and it can only be achieved by newcomers through the same learning processes (Lorenzen 2002).

Our case studies also show that the regional labour market is looked upon as a locational advantage. Several of the companies in the regional specialised centres insisted that the work force was more stable than was the case in the capital region. A respondent of a head office

said: *“We have a very stable personnel. For developing the organisation it is important with stability.”* A represent for a company that is located both in Bergen and the capital region compares the stability of the two locations: *“The turnover is considerably higher in the capital. The work force in Bergen is more stable and this reduces production cost. We have even moved some of our activities from the capital because of high turnover there. With high turnover you have to train new recruits more or less constantly.”* Other studies also indicate a more stable work force outside the capital region (Stambøl 2003)

To sum up, it seems that our findings from the case studies support the findings from the survey; advantages related to “milieu effects” (knowledge spillovers etc) are especially important for head offices in the regional specialised centres, while advantages related to urbanisational effects (proximity of national political authority, density of light institutions, an advanced infrastructure) are especially important for head offices in the capital region. In addition, the positive effects of patriotism and stable personnel, seems more important in regional centres then in the capital region. The urbanisation effects of the capital region also seem to be of greatest importance for the largest and most diversified companies. This is illustrated by the fact that the degree of concentration of head office to the capital region increase with company size. Nine of the ten largest firms in Norway in 2000 had their head office in the capital region.

#### 4.4.2. Relocation of head offices

An analyses of the possibilities of relocation will both include the historical situation and the potential for future changes. The historical approach involves a description of number of head offices that have actually relocated their head office, and the reasons for their relocation. The potential for future change includes a discussion of how satisfied companies are with their present head office location, disadvantages related to existing location, what the respondents consider as optimal location, and to which extent they wish to relocate their head office.

About one fifth of the companies in our survey (22 of 123) report that over time the firm have relocated their head office. Not surprisingly, a historical relocation is most common for head offices that are now situated in the capital region. 15 of 67 firms in the capital region have relocated their head office, compared to 3 of 17 firms in specialised regional centres and 4 of 38 firms in non-metropolitan areas.

We can differ between two main types of relocations: i) Short distance relocation (relocations within the same region), and ii) National relocation (relocations involving the crossing of regions or boundaries, such as moving from a non-metropolitan area to the capital). A third

option is international relocation (moving the head-office out of the country). The historical relocation of firms now situated in the capital region includes both the classical relocation from a non-metropolitan area to the capital, and short distance relocations within this region.

Among our case studies 7 of 21 companies have relocated their head office. We have already outlined four of these cases, all illustrating a national relocation (see chapter 4.3). An additional case illustrates short-distance relocation.

This company (C6) relocated in 2001 its head office from the capital city of Oslo to one of its suburbs, but still within the business region of Oslo. The total number of man-years within the company is 20 000. The company has a large number of units in Norway and abroad. There were two main reasons for the relocation of the head office. The first was related to the organisation of the company. The company consists of four different divisions. In the new head office, the management and support functions and the research and development activities within the company were co-located, facilitating the exploitation of synergies between different divisions and units within the organisations. The second reason was related to locational advantageous. By setting up the head office in this new suburban business centre, the company wanted to be part of, and indeed a generator, for the emerging ICT cluster in this area. A location in a local ICT-cluster facilitates processes of knowledge spillover, strengthening the position of the participating firms. In total, the company anticipated that the relocation of the head office and the reorganisation of the company would increase its innovation capacity and strengthen its position in national and international markets.

In sum, our cases have illustrated that especially changes in the ownership structure (purchases, mergers), but also a desire to exploit locational advantageous of a new location, and internal changes within the organisation, for instance the introduction of a new strategy, are main factors behind processes of relocation.

The next issue for our discussion is the possibilities for relocations in the future. First, this can be elaborated by analysing satisfaction with existing location. In our survey nearly 90% of the firms reported that they were very satisfied or fairly satisfied with the existing head office location (tab.6). Only 11% reported an average satisfaction or dissatisfaction.

There is only a minor difference between head offices in different regions. However, the share of companies that are “very satisfied” with their head office location is slightly lower in the non-metropolitans areas than in other regions.

Table 6. How satisfied is the company with the existing head office location?

	<b>All companies</b>	Head offices in capital region	Head offices in specialised regional centres	Head offices in non-metropolitan areas
Very satisfied	<b>44%</b>	46%	47%	38%
Fairly satisfied	<b>45%</b>	43%	47%	49%
Average or dissatisfied	<b>11%</b>	11%	6%	13%
<b>In total</b>	<b>100%</b>	100%	100%	100%
N	123	67	17	39

Source: Survey

This issue of locational satisfaction can be elaborated by analysing specific disadvantages of existing locations. Through our case studies we have discussed this issue with respondents from head offices in the capital region and in the specialised regional centres. We start with examples from the capital region.

A classical disadvantages in large metropolitan areas, or the capital region, compared to alternative sites are high cost of location (land, buildings) and high cost of labour. This is also reported in some of the cases in our study. One respondent indicates that the company must be more cynical in exploiting regional variation in location costs, and especially labour costs: *“We have to exploit the locational advantages of different regions. The labour cost and the turnover costs are highest in the capital. This is also the area with the most intense competition for highly qualified labour. We have to find out if it is more economic to locate some of the support or service functions in other regions.”* A trend within the western economy has been the relocation of production activity from the capital or metropolitan areas to sites with lower production cost (Knox and Agnew 1994). This spatial division of functions can be further developed by the relocation of service and support functions to lower cost regions. There are already some examples, especially from major international business centres, where multinational firms have divided their head office into “a front office”, located in the city, and “a back office”, located outside the central business district.

Oslo’s position as a peripheral region within the urban hierarchy of Western Europe can be a potential disadvantages for large firms. A respondent stated: *“Of course we could have located our head office in Stockholm. Then we would have been closer to the European market.”* When compared to large international metropolitan areas, there is also a lack of financial institutions and investors in Oslo. A respondent from the head office of a large international company claims: *“We don’t have a sufficient numbers of private investors and large financial institutions in Norway that can support our investment projects.”* However, this is not only a consequence of Oslo’s position within the urban hierarchy of Western Europe, but also related to the fact that the state is a dominant owner within the national economy of Norway.

One disadvantage of locating in specialised regional centres is the distance to the national political authorities. A respondent for a head office located in Bergen told us: *“When it comes to influencing political resolutions and decisions, there are some drawbacks related to a location in Bergen.”* This is supported by a Stavanger company, that originally had their head office in the capital: *“It was easier to establish contact with the national authority when we were located in Oslo.”* However, several of the large companies, especially within the petroleum sector, have units or divisions in the capital, and selected persons or teams in these units are responsible for the contact with national political authorities.

Also firms outside the capital points to a certain shortage of “light institutions”: *“In the capital region there is a larger numbers of social events, and I feel that business people are frequently mixing more informally in the capital.”* These kinds of light institutions can be of importance for the development of business networks and building up of trust between potential business partners.

A respondent for a leading company in the shipping cluster of Bergen reports that personnel can be tapped by local rivals: *“Since we are a large leading firm, our competent and personnel is attractive, especially for new firms. They can also tempt with high wages and lucrative terms.”* However, we suppose that the competition for personnel is even stronger in the capital region.

Finally, some firms have difficulties in recruiting key personnel with managerial experience from outside the region. A respondent for a head office in Bergen stated: *“If we want to recruit a “senior” with extensive international experience, our possibilities for appointing a certain person is considerable higher if this person have some kind of established or historical relations to Bergen.”*

Even if there are some disadvantages related to a location, this does not necessarily mean that the company begins to evaluate the possibilities of relocation. Only 9% of the head offices in our survey reported that they frequently had assessed a relocation of the head office during the last five years, while nearly 70% had not discussed this issue at all (tab.7). Firms with head offices in the capital region seem to assess a relocation more frequently than firms with head office in other regions. But in fact they are primarily assessing short distance relocation within the larger Oslo region.

Table 7. Has the company during the last five years assessed relocation of the head office?

	<b>All companies</b>	Head offices in capital region	Head offices in specialised regional centres	Head offices in non-metropolitan areas
Frequently	<b>9%</b>	14%	0	5%
Occasionally	<b>22%</b>	21%	18%	24%
Not at all	<b>69%</b>	65%	82%	66%
In total	<b>100%</b>	100%	100%	100%
N	116	63	17	38

Source: Survey

What seems to be a certain degree of “stability” in the locational pattern for head offices can be further elaborated by examining what companies evaluate as the “optimal” location for their head office. Nearly all firms located in the capital region or in the specialised regional centres look at their own region as optimal for their head office location (tab.8). But in the non-metropolitan areas some firms find other regions more attractive than their own region. It is also interesting to notice that only 5% of the firms in our survey evaluate a head office location abroad as “optimal” for their company. In Norway, only a restricted numbers of companies that have relocated their head office to a major international business centre as a consequence of internationalisation.

Table 8. What is the “optimal” location for your head office?

	<b>All companies</b>	Head offices in capital region	Head offices in specialised regional centres	Head offices in non-metropolitan areas
The capital region	<b>64%</b>	95%	0	33%
Regional specialised centres	<b>18%</b>	0	94%	18%
Non-metropolitan areas	<b>12%</b>	2%	0	40%
Abroad	<b>5%</b>	3%	6%	9%
<b>In total</b>	<b>100%</b>	100%	100%	100%
N	115	66	16	33

Source: Survey

Even if our survey indicates stability, we know from our case studies, that a change in ownership, for instance a merger between national firms or an external take over, will put pressure on the existing location pattern, eventually leading to a relocation or a converting of the existing head office location.

#### 4.5. Clusters or flow nodes?

Our analysis has so far highlighted the importance of proximity. We have outlined the concentration of head offices to the metropolitan regions, we have discussed different factors explaining this concentration (locational conditions, historical conditions, political conditions, changes in ownership, processes of cumulative causation) and we have discussed locational

advantages. Regional supply of highly qualified labour and possibilities for establishing informal contacts through face to face contact with business partners are appraised as the most important locational advantages of the metropolitan areas. Advantages related to “milieu effects” (knowledge spillovers etc) are especially important for head offices in the regional specialised centres, while advantages related to urbanisational effects (for instance proximity of national political authority, density of light institutions, an advanced infrastructure) are especially important for head offices in the capital region.

However, head office locations must not be read as “bounded economic entities” (Amin and Thrift 2002). Economic activities rely on a multiplicity of institutions and connections, which stretch beyond these agglomerations or clusters. This is especially the case for head office of large companies operating in an international economy. The development within the western economy the last decades has increased the importance of relations and network that surpass cluster level (Lash and Urry 1994, Held et.al.1999). Production is globally organised, capital has become extraordinary mobile, knowledge is becoming globalised, economic regulations occur through rules set by international institutions, labour is becoming more mobile and of course, an increasing numbers of firms are operating on international and global markets.

Thus, it is important to employ a multi-level perspective when analysing head office locations. This can be illustrated by examining flows of information. As already mentioned head office are essentially engaged in information processing. They are collecting, interpreting and disseminating information. In our survey we asked the head office to assess different suppliers of information. In addition to other units within the company, both providers of information inside the region and providers of information outside the region are reported to be important (tab.9).

Essential providers of information are customers, business contacts and suppliers of specialised services. In general, providers of information outside the region where the head office is located seem in general to be slightly more important than providers inside the region. Still, the differences are only minor. There is also variation according to the location of head offices. Providers of information inside the region is the most important for head offices in the capital region, while providers of information outside their home region is most important for head offices in regional centres or in non-metropolitan areas. This of course, is related to the fact that the capital is an information rich environment (Pred 1977). Head offices outside the capital are more dependent on external linkages.

Table 9. Who are important suppliers of information for the head office?  
(firms have measured suppliers on a scale from 1 (no importance) to 6 (very important))

Providers of information	All companies	Head offices in capital region	Head offices in specialised regional centres	Head offices in non-metropolitan areas
<b>Internal</b>				
Other units within the company	4,47	4,49	4,44	4,46
<b>Within the region</b>				
Customers within the region	4,14	4,42	4,07	3,67
Other business contacts within the region	3,72	3,84	4,06	3,35
Suppliers of specialised services within the region	3,37	3,62	3,50	2,89
Univ. and research institutions within the region	2,91	2,72	2,88	3,24
<b>Outside the region</b>				
Customers outside the region	4,38	4,40	3,75	4,61
Other business contacts outside the region	3,85	3,71	3,88	4,08
Suppliers of specialised services outside the region	3,41	3,11	3,81	3,76
Univ. and research institutions outside the region	3,05	2,75	3,19	3,51
<b>Others</b>				
Periodicals	3,43	3,30	3,38	3,68
Trade associations	3,02	2,91	3,00	3,21
Conferences	3,15	2,92	3,31	3,46
N	114-118	62-65	14-16	36-37

Source: Survey

In sum table 9 shows how important it is to see head office as nodes in an internal (inside the region) and external (outside the region) flow of knowledge and information. A head office involves a multiplicity of connections, many which surpass the cluster or the city level. An analysis of head office location must not only include the proximity of the location but also firms and locations position within an external system of relation and linkages.

## 5. Concluding remarks

This paper has elaborated the issue of head office location in Norway. In 2000 the head office of 70 of the 100 top companies were located in the capital region, 15 where located in the specialised regional centres of Bergen and Stavanger, while the rest were located in non-metropolitan areas. Since 1970 there has only been a weak tendency towards increased concentration to the capital region of Oslo.

Through our empirical research we have identified a certain degree of heterogeneity in head office location. The following ideal-types have been identified: a) Historical location (the historical origin of the firm explains its head office location), b) Political location (the political authority has been instrumental in the head office location), c) Relocated head offices (head offices that have actually been relocated during their history) d) Hybrid head office (head office functions are divided between various locations), and e) Converted head offices (head offices of national enterprises, which have been incorporated in multinational firms).

Different factors influence the geographical distribution of head offices. First there are the historical conditions. Firms get embedded in a location, for instance by establishing local economical linkages and by the fact that the workers, and in some case, the main owner live in the area. The existence of sunk costs, related to the existing location, and the difficulty in moving the competence of firms, restrict the possibilities of a physical relocation of a head office, even if there are potential locational advantages at the new location. Secondly, there is political condition. National authorities can influence, and even determine the location of public owned firms. In addition, regional authorities can make a given location more attractive by using different incentives. The third factor is locational conditions. The locational advantages and disadvantages of a city or a region in attracting head offices will affect the geographical distributions of head offices. We can distinguish between urbanisational advantages, (different kinds of services, infrastructure, education and research institutions, a comprehensive labour pool, an information rich environment etc.) and milieu or cluster advantages (knowledge spillovers, specialised services, specialise labour pool).

Historical, political and locational conditions are not static. A discussion of head office location within an organisation will be triggered off by processes of change, such as endogenous growth within the company, changes in the attractiveness of a region or new political regulations. However, our study have illustrated that ownership change seem to be the driving force for an evaluation or a discussion of head office location within the company, leading to an eventual relocation of the head office or a change in its status. These processes of change can generate four different head office outcomes. The first outcome is “no change”, i.e. firms choose to maintain their initial location, the second is the relocation of head office,

thirdly, there is the change in head office status, for instance from corporate head office to a national or regional head office within a multinational firm, and finally there is the “death” or removal of a head office.

Processes of stability and change can be further elaborated by analyses the advantages of existing head office location and the possibilities of a relocation of the head office. Advantages related to “milieu effects” (knowledge spillovers etc) are especially important for head offices in the regional specialised centres, while advantages related to urbanisational effects (proximity of national political authority, density of light institutions, an advanced infrastructure) are especially important for head offices in the capital region. In addition, the positive effects of patriotism and stable personnel, seems more important in regional centres than in the capital region. The urbanisation effects of the capital region also seem to be of greatest importance for the largest and most diversified companies.

About one fifth of the companies in our survey report that over time the firm have relocated their head office. We can differ between two main types of relocations: i) Short distance relocation (relocations within the same region), and ii) National relocation (relocations involving the crossing of regions or boundaries, such as moving from a non-metropolitan area to the capital). A third option is international relocation (moving the head-office out of the country). Both short distance relocation and national relocation occurs among our firms. Especially changes in the ownership structure (purchases, mergers), but also a desire to exploit locational advantageous of a new location, and internal changes within the organisation, for instance the introduction of a new strategy, are main factors behind processes of relocation.

Possibilities for future changes can be elaborated by analysing disadvantages of existing locations. A disadvantages of large metropolitan areas or the capital region, compared to alternative sites, are high cost of location (land, building) and high cost of labour. Further Oslo’s, positions as a peripheral region within the urban hierarchy of Western Europe seem to be a potential disadvantages especially for large firms. One disadvantage of locating in specialised regional centres is the distance to the national political authorities, another is a certain shortage of ”light institutions” (i.e. meeting places with an economic touch, for instance conferences, sport events, cultural events)

Even if there are some disadvantages related to a location, this does not necessarily mean that the company begins to evaluate the possibilities of relocation. Nearly all firms with head office in the capital region or in the specialised regional centres look at their own region as “optimal” for their head office location. But even if these findings indicates some kind of stability, we know that for instance a merger between national firms or an external take over,

will immediately put pressure on the existing location, eventually leading to a relocation or a converting of the existing head office location.

Analysis of processes of head office location highlight the importance of proximity. However, as Amin and Thrift (2002) points out, head office location must not be read as “bounded economic entities”. Economic activity rely on a multiplicity of institutions and connections, which stretch beyond these agglomerations or clusters. Head offices are essentially engaged in information processing. Our study have illustrated that both providers of information inside the region and providers of information outside the region are essentially in these processes. Head offices are nodes in an internal (inside the region) and external (outside the region) flow of knowledge and information. Thus, an analysis of head office location must not only include the proximity of the location but also firms and locations position within an external system of relation and linkages.

To conclude, our study offers interesting insight into the theoretical understanding of head office location:

- 1) Its brings new insight into the categorisation of head office location. By emphasising the heterogeneity of head office we have identified five ideal-types.
- 2) By intensive study of selected cases we have identified ownership change as the driving force for an evaluation or discussion of head office location within companies, eventually leading to a relocation of the head office or a change in head office status.
- 3) A multi-level perspective is necessary when analysing head office location. Even if proximity is important in the understanding of location, a study must also emphasise the multiplicity of connections which surpass cluster or city level and which are critical for the operation of the head office.

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