Geographic Relocations of Headquarters to and from Austria

Study Report 2018

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“Austria ranks among the most innovative and successful countries in the European Union [...]. Multinational companies highly value Austria as a headquarters location.” (ABA, 2015, p. 3)

REINHOLD MITTERLEHNER
Former Vice Chancellor of the Republic of Austria

Introduction and Summary

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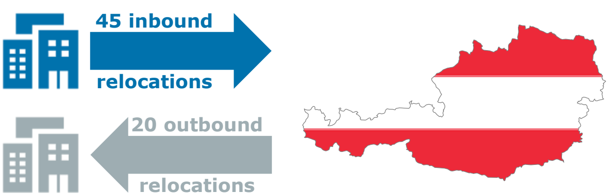
Summary

In this report, we describe the phenomenon of headquarters (HQ) relocations in Austria for the period 2000-2017. These are our main conclusions:

- **HQs have become more mobile over time.** The number of relocations increases from 22 in 2000-2008 to 43 in 2009-2017.
- **Austria is indeed an attractive HQ location.** In sum, Austria gained 25 HQs over the period of 2000-2017.



- **Corporate HQs are still sticky.** There are four times as many divisional HQ (DHQ) as corporate HQ (CHQ) relocations over the entire period. That is, HQs responsible for certain product divisions or regions seem more mobile than CHQs. Yet, the size of the underlying populations needs to be considered.
- **Germany matters most.** CEE is important, but Germany is the most popular 'exchange partner' for HQ relocations. 30% of all outbound relocations go to Germany, while 20% of all incoming HQs come from Germany.
- **Cost cutting is not the key focus.** Almost 75% of all relocations mention value creation as primary motive for relocation as opposed to cost cutting. This is particularly true for DHQs (79%).
- **Personal tax rates increase with relocations.** On average, HQs relocate to countries with higher personal tax rates (from 40.6% to 45.6%).
- **There is some evidence for corporate tax rate competition for Austria.** On average, HQs move to countries with slightly higher corporate tax rates (increase from 23.8% to 24.7%), but HQs leaving Austria relocate to countries with a corporate tax rate that is on average 4.1%-pts. lower than in Austria.
- **Employment rates and institutional quality do not differ much before and after relocation.** HQs relocate to countries with slightly lower employment rates (decrease by 1.4%-pts.) and with higher institutional quality (increase by 3.1%-pts.).

Example:
HQ relocating to Austria

easyJet

In 2017, the British low-cost carrier EasyJet decided to move its HQ to Austria's capital Vienna in order to retain permission to fly within the EU zone after Brexit. Austria was selected because of its strict implementation of European safety regulations and its experience with other major airlines resulting in the ability to handle a large number of airplanes (The Guardian, 2017).

Example:
HQ leaving Austria

VTB

In 2017, VTB Bank, one of the leading universal banks in Russia, moved its European headquarters from Vienna to Frankfurt, Germany. The company justified the move to the 'banking capital' of Europe with the restructuring of its European holding company and favorable synergies resulting from the merger of VTB's German, French and Austrian units (Die Presse, 2017).

Study Motivation

HQs are important for the Austrian economy and allow firms to create value for the overall organization

Orchestrators of the firm

HQs are the orchestrators of the firm – they are responsible for the development and orchestration of corporate strategy thereby impacting most of the other parts of the entire organization (Valentino et al., 2014). Along with other developed nations, Austria has identified the need to create high value employment for its population (ABA, 2015). The conclusion is often based on the evidence of decreasing employment for workers that are unskilled or lowly qualified, an increasing trend towards offshoring of low-value activities such as manufacturing of standard components, and the fact that the location of the HQ influences in which country taxes are paid. HQ staff are relatively well-educated and well-paid. Thus, they often meet the requirement for high value employment.

Location as a main factor

In addition, there is scientific evidence suggesting that the location of the HQ influences the HQ's investment decisions; for example, very distant manufacturing plants are by tendency considered less favorable by HQs than the ones in proximate locations (Giroud, 2013; Henderson & Ono, 2008). Lastly, the existence of HQs creates demand for related business services and thus for employment in sectors such as legal and financial services as well as housing and other real estate (Lunnan et al., 2011).

Attracting HQs to Austria

Maintaining HQs within and attracting HQs to Austria is considered to have important positive effects on the quality of the workforce as well as on employment and tax income in general (Bloom & Grant, 2011).

The existence of HQs is justified if the HQ enables a net value gain for the whole organization, for example by:

- designing and implementing an efficient monitoring and control system,
- gathering and processing valuable information to enable improved decision-making,
- identifying and implementing synergies between subunits.

However, HQs also generate costs, for example additional personnel costs and costs of implementing strategic initiatives which tie up managerial resources at many levels of the firm. Therefore, a net value gain by HQs occurs when the value created exceeds the costs incurred (Goold et al., 1994).

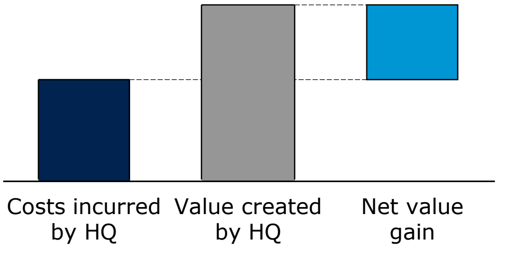


***Figure 1:** Parenting value (acc. to: Goold et al., 1994)*

Consistent with recent research (e.g. Valentino et al., 2018; Laamanen et al., 2012), the purpose of this study is to descriptively investigate which factors make multinational corporations (MNCs) relocate their HQs to Austria or from Austria to another country.

Example: HQ relocating to Austria

In 2009, the German chocolate producer Alfred Ritter GmbH & Co KG relocated its CEE headquarters from Germany to Austria in order to take advantage of the growing potential of the CEE region. To support this expansion, Armin Feuerstein, a sales manager with extensive experience in consumer goods, was poached from the Schlumberger/Underberg Group (CASH, 2009).

Example: HQ leaving Austria

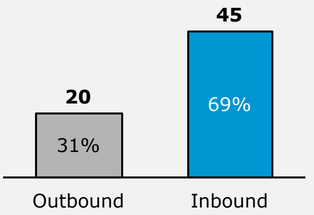
The Finnish consumer electronics company Nokia moved its CEE headquarters from Vienna to Budapest, Hungary in 2012. Austria became part of Nokia's northwest region and was not considered anymore as the gate to Eastern Europe. Nokia left a sales unit in Austria to continue sales efforts with a strong local team, but all headquarters functions moved to Hungary (Financial Times, 2012).

Detailed Descriptive Results

Descriptive Analysis of Relocations (I)

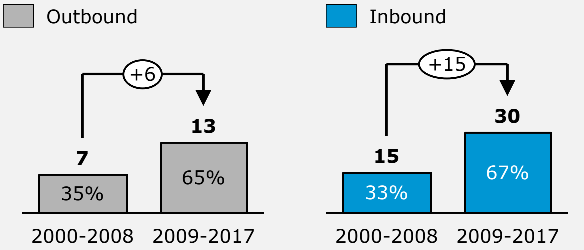
The number of relocations to Austria increases over time with value creation motives being more important than cost reduction motives

Direction



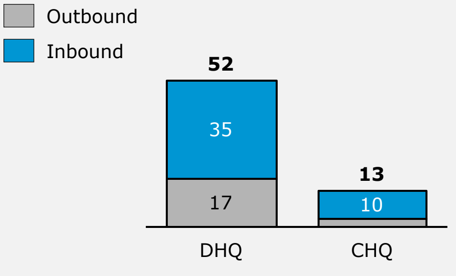
There are more inbound relocations to than outbound relocations from Austria from 2000-2017. This results in a net gain of 25 HQs over the entire period.

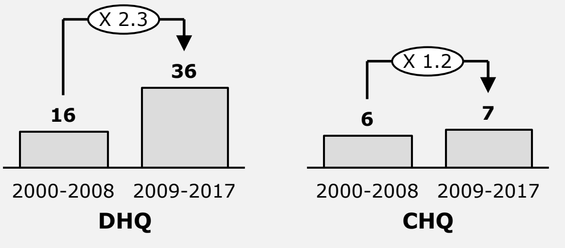
Time



Both outbound and inbound relocations increase considerably by approximately the same factor from the first to the second period. Outbound: x1.86; Inbound: x2.00.

Types of HQs



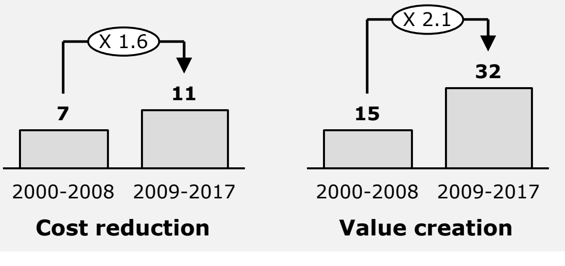


80% of the relocations in the data set concern DHQs, 20% concern CHQs. This does not necessarily imply that DHQs are more mobile than CHQs. The total population of DHQs is presumably larger than the one of CHQs. Hence, the difference could reflect the difference in the size of the two underlying populations. Both DHQ and CHQ relocations are predominantly inbound moving from another country to Austria.

There are considerably more DHQ and CHQ relocations from 2009-2017 than from 2000-2008. The number of relocations increased by factor 2.3 for DHQs and by factor 1.2 for CHQs from the first to the second period.

Primary motivation (I)

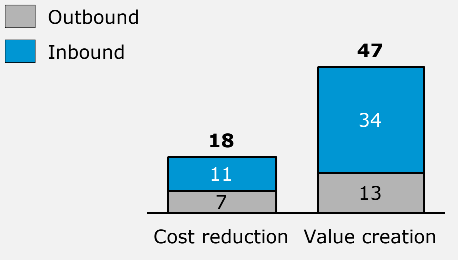
For both cost reduction and value creation motives, the number of HQ relocations per year increases from the first to the second period. However, relocations motivated by value creation increased more sharply in the second period than relocations motivated by cost reduction.



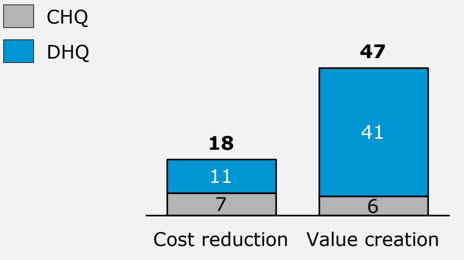
Descriptive Analysis of Relocations (II)

Germany is the most popular exchange partner for both inbound and outbound relocations

Primary motivation (II)

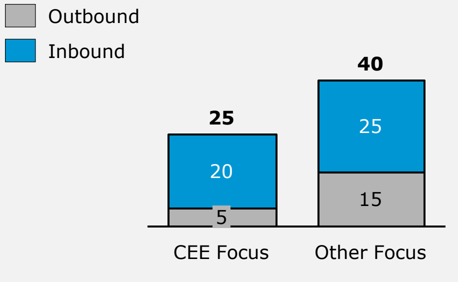


Approximately 3/4 of all relocations are motivated by value creation reasons and 1/4 by cost reduction reasons. There is a tendency towards more inbound relocations for the purpose of value creation.



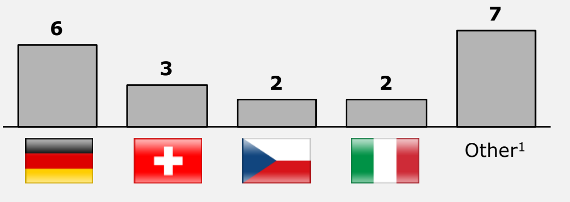
Almost 80% of all HQs that have value creation as main motive are DHQs and only slightly more than 10% of all DHQs communicated cost reduction as the main relocation purpose.

Regional focus



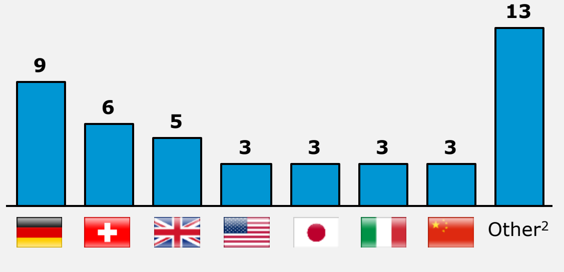
Almost 40% of all HQ relocations mention an increased importance of the CEE region and/or the relocation of their CEE HQ in the press coverage. There is a net gain of 15 CEE-focused HQs over the entire period, as 20 inbound relocations outweigh five outbound relocations.

Top Countries Austria loses HQs to



Over the entire time period, Austria loses 20 HQs which mostly relocate to countries that are close to Austria. 30% of all HQs that leave Austria relocate to Germany and another 15% move to Switzerland.

Top Countries Austria attracts HQs from



Austria attracts 45 HQs over the entire time period. The majority of those HQs comes from countries that are close to Austria, such as Germany (20%) and Switzerland (13%). However, slightly more than 1/4 of all HQs that move to Austria come from non-European countries, primarily from the US, Japan and China.

Overall, Germany is the most popular exchange partner for both inbound and outbound relocations with almost 25% (15) of the relocations coming from or moving to Germany.

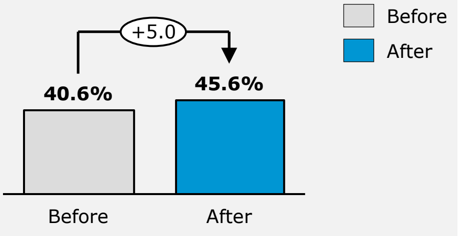
[1] Other includes: Hungary, Netherlands, Poland, Slovakia, Spain, United Arab Emirates, United Kingdom
[2] Other includes: Canada, Cyprus, Czech Republic, Denmark, Finland, France, Hong Kong, Malaysia, Netherlands, Romania

Personal Tax Rate

On average, HQs relocate to countries with higher personal tax rates

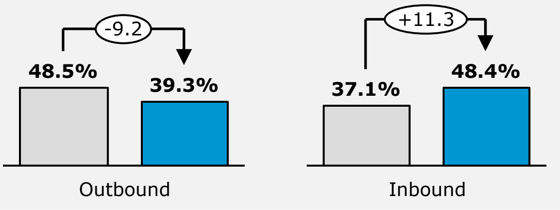
Overall

On average, HQs relocate to countries with higher personal tax rates. Whereas the average personal tax rate before relocation is 40.6%, the average personal tax rate after relocation is 45.6%, which represents an increase by 12%.



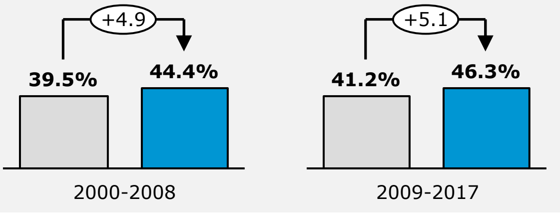
Direction

Companies leaving Austria move their HQs to countries with an on average 9.2%-pts. lower personal tax rate, while companies relocating to Austria have a 11.3%-pts. higher personal tax rate after relocation.



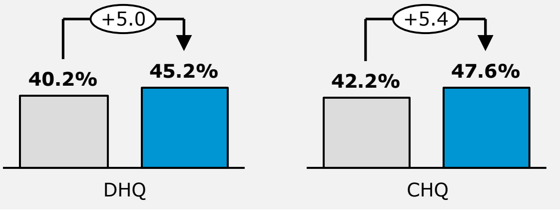
Time

Regardless of the time period in which the company relocates the HQ, firms move to countries with approximately 5%-pts. higher personal tax rates.



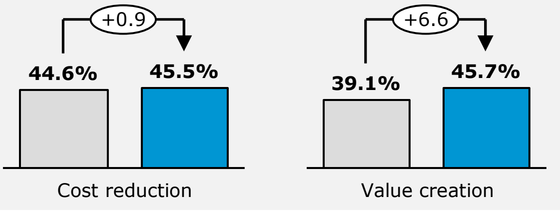
Type of HQ

In general, CHQs are located in countries with higher personal tax rates than those countries where DHQs are located. However, both DHQs and CHQs move to countries which have approximately 5%-pts. higher personal tax rates than their home countries.



Motive

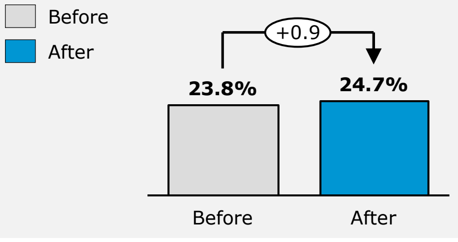
Firms mentioning value creation as their primary motive for relocation move their HQs to countries with personal tax rates being on average 6.6%-pts. higher. In contrast, HQs relocating primarily due to cost reduction motives move to countries that have only slightly higher personal tax rates than their home country.



Corporate Tax Rate

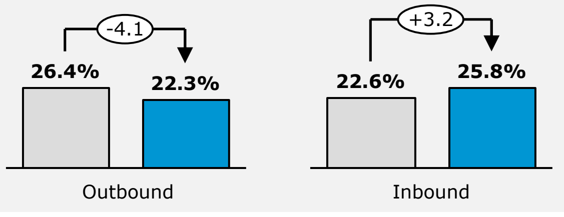
On average, HQs relocate to countries with a slightly higher corporate tax rate

Overall



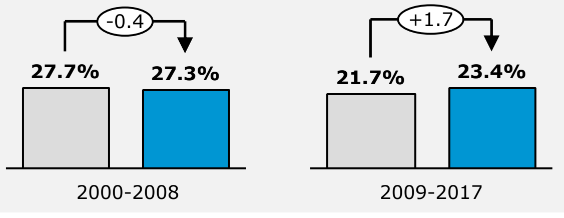
On average, HQs relocate to countries with slightly higher corporate tax rates. Whereas the average corporate tax rate before relocation is 23.8%, the average corporate tax rate after relocation is 24.7%, which represents an increase by 4%.

Direction



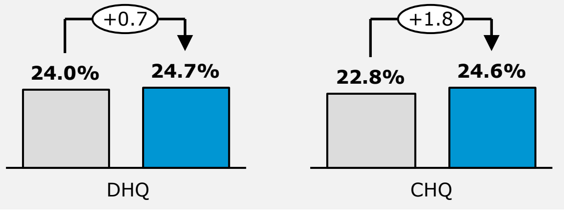
Companies leaving Austria move their HQs to countries with an on average 4.1%-pts. lower corporate tax rate, whereas companies relocating to Austria have a 3.2%-pts. higher corporate tax rate after relocation.

Time



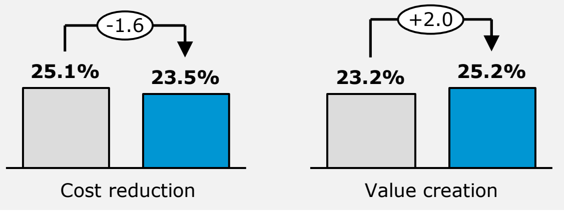
During the first period, firms relocated to countries with slightly lower corporate tax rates, whereas firms in the second period relocated to countries with an on average 1.7%-pts. higher corporate tax rate.

Type of HQ



Both DHQs and CHQs relocate to countries with slightly higher corporate tax rates than their home countries.

Motive



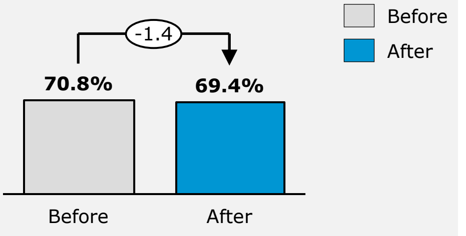
Firms mentioning value creation as their primary motive for relocation move their HQs to countries with corporate tax rates being on average 2.0%-pts. higher. In contrast, HQs relocating primarily due to cost reduction motives move to countries with corporate tax rates being on average 1.6%-pts. lower.

Employment Rate

On average, HQs relocate to countries with slightly lower employment rates

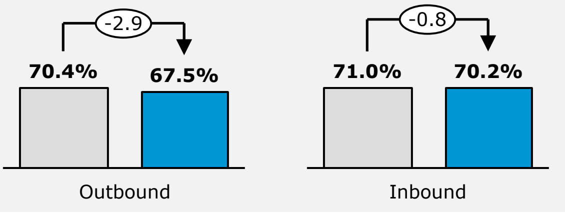
Overall

On average, HQs relocate to countries with slightly lower employment rates. Whereas the average employment rate before relocation is 70.8%, the average employment rate after relocation is 69.4%, which represents a decrease by 2%.



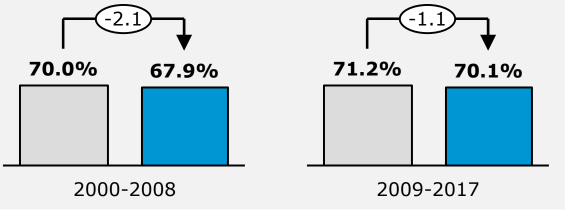
Direction

Companies leaving Austria move their HQs to countries with an on average 2.9%-pts. lower employment rate, while companies relocating to Austria have a 0.8%-pts. lower employment rate after relocation.



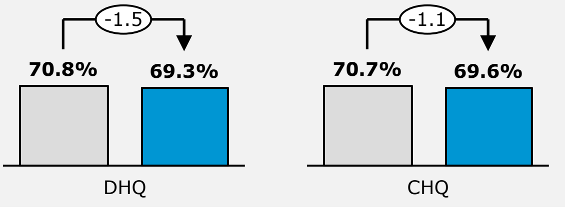
Time

Compared to the second period, firms in the first period relocated their HQs to countries with even lower employment rates.



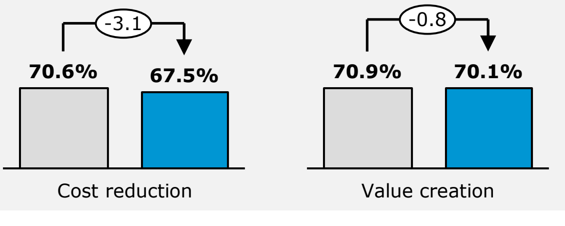
Type of HQ

Both DHQs and CHQs relocate to countries with slightly lower employment rates than their home countries.



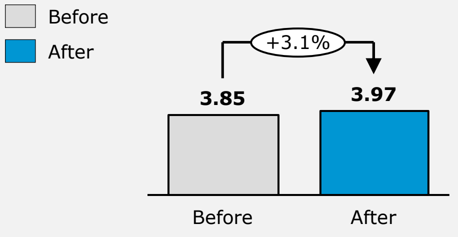
Motive

Firms mentioning value creation as their primary motive for relocation move their HQs to countries with only slightly lower employment rates. In contrast, HQs relocating primarily due to cost reduction motives move to countries that have significantly lower employment rates than their home country.



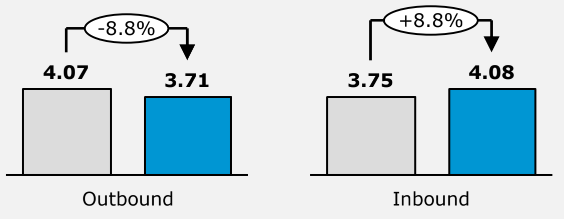
Institutional Quality

On average, HQs relocate to countries with slightly better institutional quality which is mainly driven by inbound relocations



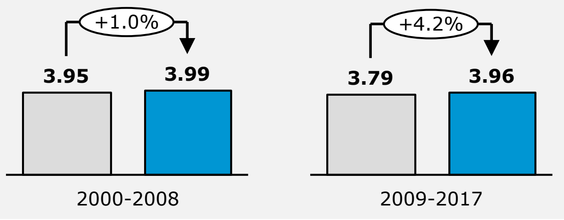
Overall

On average, HQs relocate to countries with higher institutional quality. Compared to their home country, HQs are located in countries with an institutional quality being 3.1%-pts. higher after the relocation.



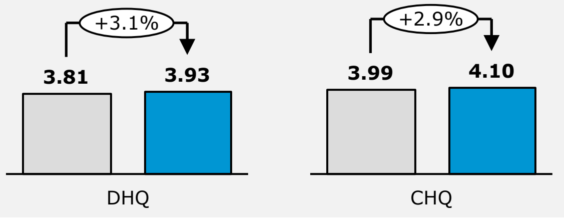
Direction

Companies leaving Austria move their HQs to countries with an on average 8.8%-pts. lower institutional quality, while companies relocating to Austria have a 8.8%-pts. higher institutional quality after relocation[1].



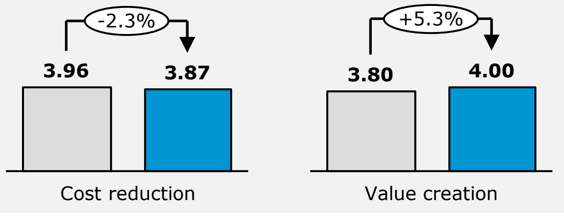
Time

Regardless of the time period in which the company relocates the HQ, firms move to countries with a slightly better institutional quality .



Type of HQ

In general, CHQs are located in countries with better institutional quality than those countries where DHQs are located. However, both DHQs and CHQs move to countries which have approximately 3%-pts. higher institutional quality than their home countries.



Motive

Firms mentioning value creation as their primary motive for relocation move their HQs to countries with institutional quality being on average 5.3%-pts. higher. In contrast, HQs relocating primarily due to cost reduction motives move to countries that have a lower institutional quality than their home country.

[1] With an average score of 4.1 out of 5, Austria has one of the highest institutional qualities over the entire time period in the dataset.

Appendix

Study Design and Limitations

This study describes the phenomenon of HQ relocations to and from Austria and considers various segmentation criteria

SEARCH PROCESS

Relocations were identified through search in databases, newspapers, business press, and company publications. The search process was centered around a number of keywords such as 'relocation', 'move', 'transfer', 'headquarters', and 'reorganization'. The search was conducted in German and English.

HQ DEFINITION

The sampling was conducted in a way such that only relocations of HQs were included, such as:

- corporate HQs (CHQs)
- divisional HQs (DHQs): in charge of a certain product or functional division
- regional HQs (RHQs): responsible for a specified region

Additionally, the foundation of new HQs which tasks were previously conducted in another unit of the firm were included in the sample. The relocations of other facilities, such as production or sales centers, were excluded from the sample as was the re-opening of HQs that had previously been closed in a different country.

For an HQ to be regarded as such it has to meet two criteria:

- there must be a management team located in a single physical location.
- the HQ must independently execute various centralized functions such as treasury, investor relations, or PR-communication.

The sampling period and geographic scope was limited to relocations from and to Austria from 2000 to 2017.

LIMITATIONS

The search process was designed to identify as many relocations as possible. However, the study is presumably unable to detect all relevant relocations, because:

- some HQ relocations are conducted by relatively small firms which do not receive public media attention making the results only applicable to relatively large firms.
- some of the firms are privately held leading to missing data (e.g. no annual reports).
- information on some relocations may only be available in languages not covered in the search.

KEY VARIABLES

For each observation, we collected various variables:

- **type of HQ relocated** (regional and divisional vs. corporate HQ)[1] :
- **direction of relocation:** whether a relocation was inbound (from another country to Austria) or outbound (from Austria to another country)
- **time of relocation:**
  - in order to identify possible trends, we split the time span into two periods covering 2000-2008 and 2009-2017 and compare the number of relocations per period to each other
- whether or not a firm mentioned a redefined **focus for the CEE region** as main motivation
- the **primary motivation** for relocation (cost reduction vs. value creation):
  - Companies which relocate for reasons of **cost reduction** are attempting to become leaner by, for example: reducing costs of resources (e.g. less expensive labor) and lowering tax expenses.
  - Firms relocating for reasons of **value creation** do so, for example, to be more proximate to important markets and/ or customers, achieve growth by entering new markets, and have better access to more qualified employees.
  - For simplicity reasons, every relocation was categorized as either primarily cost reducing or value creating. The categorization was based on the frequency of justifications as given by company representatives or indicated in official company documents.
- the corporate & personal **tax rates** before and after the relocation (OECD, 2018a)
- **employment rates** before and after the relocation (OECD, 2018b)
- the **institutional quality** before and after the relocation as measured by the Kaufmann index[2] comprising of six dimensions (Kaufmann et al., 2010):
  - political stability and absence of violence
  - voice and accountability
  - government effectiveness
  - regulatory quality
  - the rule of law
  - control of corruption

[1] We combined 46 area divisions (regional HQs) with six product/functional divisions (divisional HQs) to form divisional HQs (DHQs).
[2] We conducted a factor analysis of all six measures to obtain a composite measure for "institutional quality". The original measurement ranges from -2.5 to +2.5. For visualization reasons we added a constant of 2.5 to every score.

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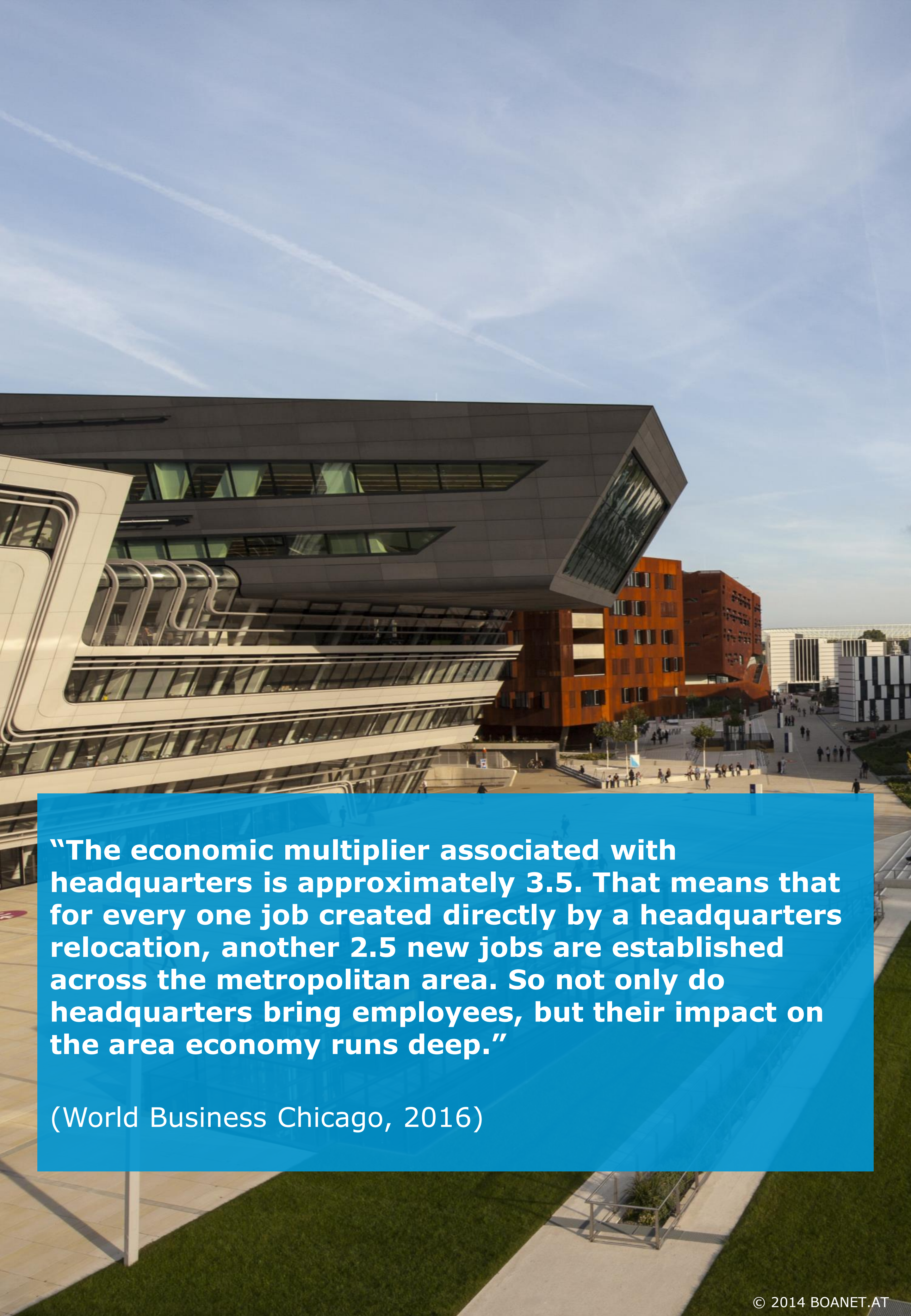

"The economic multiplier associated with headquarters is approximately 3.5. That means that for every one job created directly by a headquarters relocation, another 2.5 new jobs are established across the metropolitan area. So not only do headquarters bring employees, but their impact on the area economy runs deep."

(World Business Chicago, 2016)

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