



**Headquarters relocation of Chinese domestic
firms within China**

——case study of a fashion firm in Ningbo

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Tutor: Håkan Pihl

Annika Fjelkner

Authors: Yu Wang (William)

Gang Zhu (George)

Zhigang Hu (Gary)

Foreword

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With this dissertation, we are going to finish our studies here at Kristianstad University. During our education as public administration and international business students, we have experienced a lot, also learned a lot, which we were able to apply when writing this dissertation.

We would like to express our sincere gratitude to our tutor Håkan Pihl. His valuable comments made it possible to us to complete this dissertation. We would also like to give a special thanks to our English teacher, Annika Fjelkner, for all her help in guiding us through the English language.

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Yu Wang (William)

Gang Zhu (George)

Zhigang Hu (Gary)

Abstract

Headquarters relocation of Chinese domestic firms within China is a new economic phenomenon in recent years. Domestic firms' headquarters relocation has a tremendous influence on the economy of the cities and these firms. We believe this phenomenon can be explained by the classical economic rules. The purpose of this dissertation is to find the factors explaining headquarters relocation from the perspectives of internal and external areas of the Chinese firms. On the basis of relevant literature review and our case study of headquarters relocation, a model, which can be used to evaluate the situation of firms that plan to relocate their headquarters, is developed. Two types, seven internal factors and seven external ones, are integrated in our model. To test this model, we have developed two hypotheses, made a questionnaire within Zhejiang province of China and interviewed two managers. The result from the survey indicates that the thirteen factors listed in the questionnaire were considered important. Four factors are the core factors. Meanwhile, the result also shows that, "the different wishes of the most staff to the headquarters relocation"(the staff's opinions toward relocation differed), need not to be considered to most firms when they make a decision of headquarters relocation. This is a weak factor. Hence, we revise our model to remove this factor. On the other hand, we can see the general analysis of the four core factors in headquarters relocation available still in firms of different industries.

Key words: Headquarters relocation, Chinese domestic firms, Factors

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Chapter 1

Introduction

The first chapter introduces the background of the dissertation. The research problems and the purpose are discussed. Further, the limitations, definition and research questions are proposed. Finally, the outline is presented.

1.1 Background

More and more multinational firms have moved their headquarters from one country to another. Parallel to this, domestic firms' headquarters relocation between domestic cities is a new kind of economic phenomenon in the past couple of years in China. A number of firms' headquarters have relocated, from medium or small sized cities such as Ningbo or Wenzhou to metropolises such as Shanghai or Beijing, when they have reached a certain size.

Nowadays, there are also warm discussions on this issue in Ningbo where we are from. But most of these discussions are done from the view of governments. Therefore, this dissertation focuses on a fashion firm, Shanshan Group, which has relocated its headquarters from Ningbo to Shanghai in 1999. It is one of leaders in Chinese fashion industry and it is also the focus of economists' researches. We want to study this phenomenon from the view of firm. We will try our best to answer these questions. Why did headquarters relocation happen? What factors affect such decision? How can the factors be analyzed? We believe these domestic firms' headquarters relocation can be explained by the classical economic rules described by economists. Generally speaking, domestic firms' headquarters relocation has internal and external reasons.

Domestic firms' headquarters relocation has a very big influence on the economy of

the cities such as taxation, employment, development and so on. There is a great influence on these firms, on matters such as organization, management, finance and etc. At the same time, headquarters relocation will force the firms to face multitudinous uncertainty factors; the firm headquarters relocation is a behavior that contains a high risk. So, in our opinion, Chinese firms' headquarters relocation is an important economic phenomenon that should be paid much more attention to.

1.2 Problem

The problem is that there is a lack of academically reliable research on headquarters relocation from the perspective of Chinese firms. Most of the relevant literatures focus on those western multinational firms' headquarters relocation internationally. Few studies of headquarters relocation within large developing nations, for example, within China, can be found. In China, most studies of headquarters relocation are done from the view of governments. There are also no existing theories or models that can be used by the Chinese firms that want to evaluate whether and where they should relocate headquarters.

1.3 Purpose and research questions

The purpose of this dissertation is to find the factors that can explain headquarters relocation from the perspectives of internal and external areas of the Chinese firms. The first is to explain why Chinese firms relocate their headquarters. More specifically to map the factors that influence the decision that relocating headquarters within China. The second is to distinguish the importance of these factors.

The phenomena of domestic firms' headquarters relocation between different cities are increasing in the past few years, so we hope that the model, which is developed from relevant literature review and our case study, can be used to evaluate the situation of firms that have plans to relocate their headquarters. Hopefully the model will help them make a better decision.

The dissertation will be developed through answering the following questions. To large firms in a large developing country,

- 1, why do these firms relocate their headquarters?
- 2, which factors play the most important roles when firms decide whether to relocate headquarters or not?
- 3, are there different factors to influence firms to make decision to relocate headquarters in the different kinds of firms?

1.4 Definition of headquarters relocation

There are several different definitions of headquarters. One definition is that, “a company headquarters is composed of the top management team, the different headquarters staff functions, and the legal domicile of the headquarters” (Braunerhjelm, 2003). Considering headquarters’ multifunction, here we define headquarters the legal domicile of a firm with its core institution of decision-making in which there are its top management team, financial team, research and development team and marketing team. This definition is used in our research. That means the headquarters represents the core of the strategic and operating power of the firm. It consists of either heading different business areas or other critical functions of the company, such as the financial department, human resource department and research and development department. In this dissertation, headquarters relocation only means that Chinese domestic firms relocate their headquarters from medium or small sized cities to metropolises within China. The situation of whole firm’s relocation is excluded.

1.5 Limitations

We only use one fashion firm in Ningbo for our case study. This firm cannot represent other kinds of industries adequately as well as other Chinese cities’ firms. Another limitation is that, due to the time constraint, we have limited the distribution of the questionnaire to the Zhejiang province of China. So the distribution of the respondents is confined to a small area. Furthermore, we did not investigate firms

who have plans but not to relocate their headquarters now.

1.6 Outline

In chapter 2, the methodological strategy, used in our research, will be presented. The method of data collection data, the scientific approach and research philosophies will also be discussed.

In chapter 3, the theoretical framework will be presented. There are overview of the geographical economics, overview of the cluster (agglomeration) theory, firm's strategy and structure and firm's headquarters location, the evolution of firm's headquarters.

In chapter 4, we will select Shanshan Group for a case study to analyze and induce the factors that influence and prompt it to make the relocation decision.

In chapter 5, a model of domestic headquarters relocation for the application of Chinese companies will be created. There are two types of the factors, internal and external, contained in our model.

In chapter 6, the method of survey will be presented. The research strategy, the samples and limitations of the questionnaire will also be described. Finally, the validity, reliability, and generalization analysis will be discussed.

In chapter7, we will analyze the results of the survey and evaluate the hypothesis.

In chapter8, we will present the conclusion of our research. The dissertation will be summarized briefly. The suggestions for future research will also be presented.

Chapter 2

Methodology

In this chapter, the methodological strategy is used in our research is presented. We continue by presenting the collection of the secondary and primary data. At last, the scientific approach and research philosophies will be discussed.

2.1 Choice of methodology

Generally, a deductive or inductive approach will be used in a research. As Saunders, Lewis and Thornhill (2003, 85) say,

...your research should use the deductive approach, in which you develop a theory and hypothesis (or hypotheses) and design a research strategy to test the hypothesis, or the inductive approach, in which you would collect data and develop theory as a result of your data analysis.

That is to say, a deductive approach is a method where researchers develop hypotheses based on an existing theory and test them with quantitative data, aiming to verify causal relationships between variables and to generalize as well. On the contrary, an inductive approach is a way where researchers use to collect qualitative data to develop a new theory or develop existing theory when/where there is no established theory.

Which approach is selected depends on the existence of relevant theories, the time available for researchers and the extent of the risk that researchers can bear (Saunders et al, 2003).

The main purpose of our dissertation is to create a model that can be used as an evaluation tool for firms that want to relocate their headquarters. Firstly, the existing

literature is reviewed on headquarters relocation carefully and closely. Secondly, a model is created through the analysis of a case study and the theoretical review. Thirdly, a questionnaire is chosen as a fundamental method to collect information. Finally, the results of the questionnaire are evaluated to testify the model. According the research steps, the first step is deductive and the second step is inductive in our research.

2.2 Data collection

2.2.1 Secondary data

The purpose of the research is to find the factors that can explain headquarters relocation from the perspectives of internal and external areas. To fulfill the research, we have collected books and articles from the library of Kristianstad University and the Internet as secondary data. The books and articles include the classical economic geographical economics theories, overview of the cluster theory, firm's strategy and structure and firm's headquarters location, the evolution of firm's headquarters and so on. Furthermore, we collected data from the annual financial report of listed company. We also gathered relevant information from published magazines and newspapers.

Documentary secondary data contains written documents such as books, journal and magazine articles and newspapers (Saunders et al, 2003, 190). The information with same direction from different sources increases the reliability of our secondary data.

2.2.2 Primary data

We conducted a survey by using a questionnaire. We designed the questionnaire grounded on the review of theories and the case study. Then we sent the questionnaire by e-mail, written in Chinese, to Chinese firms that have relocated their headquarters. After that we collected data from their e-mail or letters in reply. As a result, 40 Chinese firms' respondents have taken part in the survey. Their answers can constitute the primary data for our dissertation.

2.3 Scientific approach

There are three kinds of research philosophies, positivism, interpretivism and realism. A positivistic research philosophy is when the researcher is an objective viewer who can draw general conclusions of the social reality. With an interpretivistic view, researchers believe that the social world is so complex that no general conclusions can be drawn. A researcher has a realistic philosophy when reality and the social forces affecting people are believed to be independent of human thoughts and their beliefs (Saunders et al, 2003, 83-85). This dissertation is based on the positivistic philosophy because we believe that we are able to draw general conclusions on the studied social reality, such as the case study, with an objective and neutral attitude.

A research can be either qualitative or quantitative. Qualitative studies are researches where data is collected, analyzed and interpreted but cannot in a meaningful way be quantified. Quantitative studies are researches where the collected material can be expressed in numbers and be analyzed quantitatively (Saunders et al, 2003). In this dissertation, a model is developed from the analysis of the case study and the review of the theories. This part of research is qualitative. Then, in order to test the model the data is collected by questionnaire and analyzed with statistics. This part of research is quantitative.

Chapter3

Theoretical framework

In this chapter the theoretical framework is presented. To start with, from firms' external perspective, we focus on geographical economics and Porter's cluster theory to find what general relationship there is between firms' headquarters location and geography. In the second part, from firms' internal perspective, we focus on the theories of Alfred Chandler and other researchers to explore what relationship between firm's headquarters location and their strategy and structure. Finally, we further explore the evolution of headquarters in several decades.

3.1 Overview of the geographical economics

3.1.1 Introduction

Geographical economics is a science that focuses on researching the relationship between economic activity and geography. Many economists also call it economic geography. Geography has traditionally been a very important factor in describing the configuration of global economic activities. It is necessary to be aware of the relationship between economic activity and geography before we start to study the relationship between firms' headquarters location and geography. Because firms usually locate headquarters together with their production departments when they was born and stay in a long initial stage of development.

In addition, although tax is the important factor that affects the decision of headquarters location or relocation of the multinational firms between different countries, it was not discussed in detail in our dissertation because we focused on headquarters relocation of Chinese domestic firms within China. Of course, considering that local government could support the special firms such as high-tech firms with risky investment through temporary financial subsidy, we would discuss

the factor of tax or subsidy as government support in our case study.

3.1.2 The central places system

The study of the distribution of economic activity across space started with Von Thunen, a German economist, who presented the classical *monocentric city model* in his *Der Isolierte Staat* published in 1826. Mulligan (1984, 4) thinks that Launhardt (1885), Weber (1909), Christaller (1933) and Losch (1940) contributed to the development of *geographical economics* after Von Thunen. Not only did they describe the distribution of economic activity across space, but they also introduced some important terms to explain these economic phenomena. Here it is worthwhile to mention two important economists, Krugman and Venables, who completed *geographical economics* and eventually formed so-called *new geographical economics* with other economists in the 1990s.

Regional economics analyzes the spatial organization of economic systems and must somehow also account for the uneven distribution across space. It has its roots in a research tradition going back to Von Thunen et al. The central places system looks like a hexagon completely because a region consists of several cities and villages. This approach is known as *central place theory* proposed by Christaller (1933) and Losch (1940) and shows “that different points or locations on the economic landscape have different levels of centrality and that goods and services are efficiently provided on a hierarchical basis” (Mulligan, 1984, 4).

Given an even distribution of consumers across a homogeneous plane, the *central place theory* argues that locations differ in centrality and that this centrality determines the type of goods the location provides. The provision of products is determined by internal increasing return to scale, while locations relevant because consumers incur transport costs. For instance, people can buy bread in villages or cities because the bakers think it profitable if doing so. At the same time, television sets can only be bought in cities because people buy them less frequently. So, there is

a hierarchy of location in which the cities perform all functions (sell both bread and television sets), whereas the villages perform only some functions (sell bread only). “Economic activities are not evenly distributed across space. On the contrary, clustering of economic activities can be found at various levels of aggregation: the considerable variation in economic size of cities or regions at the national level, or the uneven distribution of wealth and production at the global level” (Brakman, Garretsen & Marrewijk, 2001, 22).

Although the theory does not explicitly explain the economic rationale behind consumers’ or firms’ decisions, it still shows that firms’ locations are possibly moved according to changes of firms’ situations. In the strategy of globalization, firms have to learn how to take advantage of global resources to form their core competition, which means central places with full functions are much more attractive for certain-scale firms to locate to.

3.1.3 The core-periphery model

The geographical economics was developed further after 1970s. Dixit and Stiglitz proposed the love-of-variety approach in researching international trade in 1977, which made Krugman and Lancaster take the first steps to formalize the idea that other factors than comparative advantage promote trade. According to the theory of factor endowment proposed by Heckscher and Ohlin, trade does not occur between countries in which there are same or similar factor endowments. However, there actually exists trade not only inter-industry but intra-industry in these countries. “Enlargement of markets through trade is provided as a solution to conflicts resulting from consumers’ taste for variety on one hand and scale economics on behalf of firms on the other” (Gallo, 2003, 6).

To explain the emergence of regional agglomerations or divergence of economic activity, Krugman further proposed the *core-periphery model* in 1991. In the model, there are two departments of production, agriculture and manufacturing, in two

regions. Farmers work in agriculture and disperse in different places. Workers are employed in manufacturing and have outstanding characteristics of mobility where they have tendency to go to the places with relatively high real wages. Transport cost is positive. The geographical distribution of farmers is exogenous; one half of the farmers are located in each region. As a consequence, some of the demand for an individual firm located at a potential industrial centre. This is, if manufacturing producers get too geographically concentrated, each firm might find it profitable to relocate to a region with few (if any) competitors, thus taking advantage of being the sole supplier of industrial products in that region. The increasing of firms causes rise of workers' wages in this region, which makes workers in the other region migrate into this region to get relatively higher real wages. The core-periphery eventually forms between two regions through the flow mechanism of productive factors.

In the long run, the *core-periphery model* is a dynamic model. It is clear that firms are willing to produce in a single site because of the increasing return of economies. If the transport cost becomes declined, firms choose the location with larger market, which means the positive interaction between inflow of firm and immigration of workers. So, a future centre of industry will form. As Gallo (2003, 9) says in his explorations in *the new economic geography*:

“...This backward (or demand) linkage is accompanied by a forward (or cost) linkage. The outcome (regional divergence or regional convergence) depends on the numerical values assigned to three key parameters and is intuitively straightforward. ...If scale economies are weak, trade costs high and the share of income spent on differentiated products small, then regional convergence is the most likely outcome. On the other hand, a core-periphery pattern emerges if scale economies are strong, the costs of trading low and the demand for manufactured products high.”

Here the three key parameters Gallo mentioned actually refer to market size, transaction cost and wages of workers correspondingly.

The headquarters location research results of the U.S. top 500 are consistent with these theories. According to the database of Dun and Bradstreet, in the U.S.A, 64.1% headquarters locate in top 20 metropolises in 2001, in which 49.4% in top 10 metropolises and 14.7% in New York (here headquarters are defined as a management center of a firm and the average number of number of headquarters per firm is 15). Thomas and William (2002) think that one of the persistent characteristics of the U.S. economy has been the concentrated location of large company headquarters in a relatively small number of large metropolitan areas.

3.1.4 Summary

Transport situation and market size are the two pivotal jumping-off points in *geographical economics*. Based on these factors, economic activities have different distribution and formalization across space. This is the reason why these metropolises attract firms much more than these medium or small sized cities. These cities with more and more firms gradually become the cores of the economic activities, which forms metropolises eventually. In fact, there is interaction between formation of metropolises and inflow of firms.

Furthermore, with the fall of transport cost (and decrease of barriers if in international trade), the tangible departments such as production would locate or relocate to the periphery with cheaper land and wages, which causes these departments be possibly separated from intangible departments such as finance, research and development and marketing. The situation is vice versa. This is also the reason why these metropolises attract not the whole firm but its headquarters. Nowadays it is not enough for a metropolis to have some advantages in transport. As an attractive metropolis, it at least should have one international airport, one international port and the convenient expressway framework. Although the communication is becoming more and more modernized, actually the different level managers, between the headquarters and other departments or subsidiaries in different places, were coming and going much more

frequently in past decades.

Of course, there are different advantages between these metropolises because of their different cultural and economic background, which means headquarters relocation may happen even in these metropolises. So, the infrastructures of these metropolises are also very important. Generally, the firms prefer to relocate their headquarters in these metropolises with excellent infrastructure. The headquarters could operate more efficiently and conveniently on one hand, the management staying in these metropolises could have comfortable living environment on the other hand. Moreover, the comfortable living environment has been becoming a very important factor in attracting top managerial or other specialized personnel that headquarters need.

3.2 Overview of the cluster (agglomeration) theory

3.2.1 Introduction

In the chapter 1, we define headquarters as a management center of a firm with its research and development department and financial department. When it comes to firms' locations, cluster of industry or similar firm is a good explanation to distinct concentrated activities or dispersed activities. It is obvious that different economic activities cause different levels of development in different geographical positions. Economic activities have many faces. David Ricardo argued that the comparative advantage determinates economic activities. At the beginning of the last century Swedish economists Eli Heckscher and Bertil Ohlin put forward a different explanation of comparative advantage. They argued that comparative advantage arises from differences in national factor endowment. With the diminishment of transportation cost and trade barriers economic activities have become more complex, and therefore, a new theory is needed explaining why the flow of production factors such as capital, personnel and even firm headquarters becomes frequently between different places. In addition, here we assumed that "agglomeration" is same meaning as "cluster".

3.2.2 Porter's presentation of location

Both the *central places system* and the *core-periphery model* illustrate the relationship between different cities in a certain area, which can meet the common demand that we analyze the flow of different economic behaviors in general. However, the theoretical approaches, like new geographical economics, do not explicitly explain the reasons why some firms choose the strategy of concentrated activity and some do not. "Such a microeconomic foundation of geography does not exist in regional economics" (Fujita & Thisse, 1996, 2000). However, being based on the agglomeration presented in the *geographical economics*, Porter (1990) talks about the reasons of relocation of whole firm or its part when he presents the firms' competitive strategy in *the competitive advantage of nations*.

Location undoubtedly, is one of the most important things that firms have to consider. Firms are usually located in the home region initially because they do not have any choice to determine where they should be. However, long-run firms have much better choices to decide where they want to be located when they reach a certain scale in their industry. "In a global strategy a firm can choose any nation in which to assemble products, fabricate components, or even conduct research, where advantage lies" (Porter, 1990, 57).

According to Porter's research, the choice of concentrated or dispersing activities depends ultimately on the particular activity. In some industries, concentrated activity occurs where are significant economies of scale in performing an activity, a steep learning curve that creates advantages from having only one location, or advantages in locating linked activities in the same place to allow better coordination. In other industries, the results of dispersed activities need to tailor products extensively to national markets reduces the scale or learning advantages of operating a single large plant or research laboratory. Another important motivation for dispersing activities is to enhance local marketing in a foreign nation, by signaling commitment to local buyers and/or providing great local responsiveness.

As Porter (1990, 49-50) tells us, in globalization, lower-order advantages, such as low labor costs or cheap raw materials, are relatively easy to imitate. Competitors can often readily duplicate such advantages by finding another low-cost location or source of supply, or nullify them by producing or sourcing in the same price. On the other hand, firms will keep and further improve differentiation to control the whole value network, which means the research and development departments are relatively stable and get more and more powerful.

Porter (1990, 57) thinks that today more firms have become more prone to locate activities in other nations (regions) not only to tap local factor cost but to perform research and development, gain access to specialized local skilled, or develop relationship with pivotal customers. With the development of science and technology, the demand in a market is becoming sophisticated and diverse, which always forces the producers the embarrassing position of “no process means withdraw”. To firms, “with external economies, an increase in industry-wide output alters the technological relationship between inputs and outputs for each individual firm” (Scitovsky, 1954). An increase in industry output increases the stock of knowledge through positive information spillovers for each firm, leading to an increase in output at firm level. Moreover, a large industry can support a market for specialized intermediate inputs and a pool of industry-specific skilled workers, which benefits the individual firm.

So, it is obvious that firms have to accept the fact of specialization in most industries whatever to first movers or new comers. As a first mover, the business will focus on its comparable advantage to keep its core competitive ability, at the same time it is looking for relevant forward or backward industries. New comers, of course, will find the easier access or new technology to stand on ground. That is why that industry chain can be expanded longer and longer. As Porter (1990, 58) tells us cluster is becoming a famous phenomenon in many industries. SKF (Sweden), a world leader in ball bearings, has a major production and research and development based in

Germany, in close proximity to the many world-leading German machinery industries and the German automotive department.

External cost pressure usually makes the firm, which has grown to a certain scale, develop the model of dumbbell, namely separating production department from research and development and marketing departments. The business usually adopts the forms of outsourcing, joint-venture or new firm in lower-labor-cost countries to continue the production process, whereas it concentrates its financial and personal resources on research and development and marketing.

As to the role of government in the diamond model, Porter (1990) argues that the role of government is to act as a catalyst and challenger. They should encourage, or even push, firms to raise their aspirations and move to higher levels of competitive performance. They must encourage firms to raise their performance, to stimulate early demand for advanced products, to focus on specialized factor creation and to stimulate local rivalry by limiting direct cooperation and enforcing anti-trust regulation. Of course, these specialized factors involve heavy and sustained investment. Financial service, a part of business service, is the important factor in attracting headquarters relocation. After all, finance is one of the pivots in modern economy.

3.2.3 Summary

According to Porter's research, the agglomeration in the same department of activity is necessary and important in attracting firms' location, which is especially obvious in headquarters locations. As a consequence, the higher this agglomeration of headquarters is in the same department of activity, the better the level of business services is, and the thicker the basis is in relevant human resource and research and development. In globalization, specialized personnel and business information are the very important factors in attracting headquarters relocation because headquarters focus on decision-making and allocating resources in the whole firm's framework.

This is why the agglomeration of headquarters, like the cluster of industries, happened. When we look at the situation in the USA, a country with the majority of the multinational enterprises around the world, we will find that the headquarters locations became surprising concentrated in the past decades. Furthermore, headquarters locations also have the trend of core-periphery.

As Porter (1990) argues that the key factors of production (or specialized factors) are created, not inherited, which means it is significant to agglomeration of headquarters that government supply necessary support and good service. It is much more obvious in the developing countries such as in China, in which the change has been taking place from the planned economy to the market economy.

In addition, from the perspective of economics, both suppliers and buyers benefit from agglomeration of economic activity, which means decline of transaction cost and spillover of information and productive factors. The metropolises with agglomeration of headquarters in the same sector of activity have the excellent information basis, in which the acquiring and communicating mechanism can work smoothly. The spillover of information usually makes firms avoid the unnecessary decision-making.

3.3 Firm's strategy and structure and firm's headquarters location

3.3.1 Introduction

Both the *geographical economics* and Porter's cluster theory explain the external reasons why metropolises are always popular in the process of headquarters relocation. However, to an individual firm, there are much more internal reasons that decide whether the headquarters relocate or not. Generally, the decision of headquarters relocation usually depends on the internal reasons. Among these internal reasons, firms' strategy and structure are mostly the pivotal internal factors that influencing the decision of headquarters relocation.

As Williamson and Winter (1993, 25-29) argues that Coase' presentation in his *the*

nature of the firms still right now, namely, the reason why firms are born continually, and why they do not produce in the whole great firm is because of marketing costs. That is to say, the size of the firm is decided by the cost of using the price mechanism and the cost of organizing the different entrepreneurs. To allocate the resources as optimal as possible in globalization, there would cause separation of different departments across space. The principal of “the survival of the fittest” becomes the best option whatever the firms change their strategies or restructure their frameworks. So, it is necessary for firms to separate headquarters, research and development, purchasing, production and marketing from the whole procedure because some departments represent the high terminal of the whole value chain in globalization.

3.3.2 Changing strategies in globalization

Now we focused on the strategy and structure evolution of these great firms since the USA has the majority of the multinational enterprises around the world. Through researching the great industrial enterprises such as General Motors, DuPont, Standard Oil of New Jersey and Sears, Roebuck, Chandler (1962, 25) says,

“In manufacturing, the large multifunction firms had two quite different strategies of growth. By one strategy, a single company began to expand and integrate through creating its own marketing organization. By the other, a number of manufacturing companies which had joined together in a horizontal combination---a trade association, pool, trust, or holding company---consolidated their manufacturing activities and then quickly moved forward into marketing or backward into purchasing”.

Generally speaking, each firm will choose a single strategy to strengthen its capability of competence and increase its market share. The former is a traditional and efficient approach, which makes firm grow easily especially in booming economy. Its main goal is to get larger sales. However, the latter is a complicated and advanced approach, which is often adopted by multinational firms. Its main goal is to take over the high-terminal of value chain in order to maximize profit per unit of product. Because

firms need much more technological support or inter-communication with their alliances, their headquarters is usually located or relocated in metropolises.

On the other hand, diversified business is another important strategic option. When firms become larger, they always hold numerous resources such as finance, technology and personnel. These firms can get great marginal income through diversified investment. Of course, the diversified business made firms' structure more complex, which means their headquarters overloaded in decision-making. Initially functional units directly report to the general management, with the more complex structure, these functional units report to the division head who, in turn, reports to the general management. Firms have tendency to become larger and larger because their subsidies or departments gradually form some interest groups, which makes it difficult for headquarters to make good decision.

Similarly, a diversified business requires headquarters located or relocated in metropolises in order to get high-level business services and decrease the risk in new fields. Economic activities obviously have the trend of globalization and areal integration. Headquarters benefit from diversified business services in metropolises so that firms can compete as a whole with their rivals based on different resources from different fields.

3.3.3 Restructuring in globalization

In the strategy of growth, firms usually have two choices: one is the economic of scale with expanding existing markets; the other is a quest for new markets and sources of supplies in distant places. The latter is more and more important in the strategy of globalization. Firms usually adopt a series of expanding approaches such as increasing subsidiaries or marketing channels to get local responsiveness.

Although our research focused on the headquarters relocation of domestic firms between domestic cities, considering the great territory and population of China and

numerous multinationals in Chinese metropolises, Chinese firms have to have the insight of globalization to restructure their frameworks.

However, top managers often have little specific knowledge of, or experience with, the technological processes and markets of many of the businesses they had acquired. So, these firms' structure become the multidivisional M-form (hierarchical management) from the initial unitary U-form, which means that these top managers in the headquarters no longer have time to make and maintain personal contracts with the heads of the operating divisions.

According to the research of Johnson and Kaplan (1987), the overload in headquarters did not result from any lack of information but from its quality and from the inability of senior managers to evaluate it. Top managers began to lose the competence essential to maintaining a unified firm whose whole is more than the sum of its parts. As a consequence, as Alfred Chandler (1989) tells us, restructuring has been a major activity in American industry.

“So, it is obvious that headquarters employ highly skilled professionals and they demand ready access to high-level business services such as legal, financial, and advertising---all of which tend to be found in large metropolitan areas” (Klier & Testa, 2002).

3.3.4 Summary

Firms have been usually undergoing the challenges of changing strategies and restructuring in the process of their growth. Both diversified business and multifunctional framework make firms get much more space of growth, which causes the birth of multinational firms. Generally, among the all factors, business strategy prevails in influencing every decision-making of firms, including the decision of headquarters. Business strategy decides firm's structure. If a firm implements the strategy of expanding horizontally or vertically through the merger and acquisition

activity, usually it would consider restructuring to its framework, even whether to relocate its headquarters to make the new bigger firm run efficiently and smoothly. Of course, with the frequency of merger and acquisition in modern economy, there is always interaction between business strategy and restructuring.

In addition, since the commercial industry separated from the second industry, the manufacturing industry has experienced a great change that mainly focuses on the value chain of products. Many firms no longer accept the whole production process of a certain kind product, but through outsourcing or foreign direct investment they get a higher portion of the value chain. This exactly accords with Chinese tradition and the history of firms' development. When a firm carries out its headquarters relocation, which is usually the consequence of decision-making by the management, however, the majority of local staff is unwilling to relocate the headquarters. At the same time, the local government of the place that the headquarters leaves would try their best to persuade the firm not to go away. Considering both local employment and persuading from the local government, many firms would rather separate the headquarters from the production plants.

Actually, structure of ownership is also very important factor in influencing the decision of headquarters relocation. The more private the firm is, the more independently the firm makes a decision of headquarters relocation. Those firms in which the local government has more or less shares are always detained in the boards of director. We would discuss the situation in our case study.

3.4 The evolution of firm's headquarters

3.4.1 Introduction

In past several decades, the position of headquarters had undergone great changes. Initially headquarters always stays together with production department, and then it gradually separates from production department. The situation of headquarters had also undergone great changes. Primarily headquarters is located in small or medium

sized cities, with the passage of time headquarters has a trend of relocating in metropolises. All that reflects the function of headquarters in globalization is becoming complicated.

3.4.2 The function of firm's headquarters

According to the research of Herbert Wanner (2003), the headquarters' role has been changing in the past century. Headquarters philosophy shifts from command and control to value creation. Nowadays, the headquarters is prior to financial performance management, which is different from priority to strategic and financial control in the past. In the future, headquarters is prior to business coordination and cross-business collaboration. Furthermore, headquarters are getting smaller and are increasingly focusing on creating value for business units.

The functions corporate management, financial management, marketing and sales and human resource are always represented at headquarters. So, headquarters have a broad scope and can either be a center of scale or a center of expertise, which means decreasing cost and increasing add value become their double mission in globalization. From a long-run perspective, headquarters correspondingly become relative mobile whatever in location or in form, which is different from the nature of relatively immobility in the initial stage.

3.4.3 Summary

Although the research of Herbert Wanner focuses on the headquarters of multinational firms, there is great significance to study headquarters relocation of domestic firms between domestic cities in globalization. Headquarters are getting smaller and becoming value creation centers for business units, at the same time, decreasing cost based on simplification and standardization of tasks as well as competitive shared services framework, both of which make headquarters location or relocation balanced even point. This is why we have an ambition to build a model to evaluate the possibility and feasibility of headquarters relocation.

3.5 General summary

So far we can find out many important factors that influence the decision of headquarters relocation. We can categorize them into external factors and internal factors according to their natures. Let us summarize them as follows.

Among these external factors, as the *geographical economics* argues, transport situation should be the first yardstick to judge whether the city is suitable for headquarter relocation. To a headquarters, it relates to not only transport cost but also operating efficiency. In practice, among this, “to be closer to the most important customer markets” is a very important reason that caused headquarters relocation. So does city infrastructure. It matters very much to the cost and efficiency in the internal operation of headquarters. Furthermore, with the quick rhythm of work, specialized personnel are easier to be recruited in a city with comfortable living environment. As the theory of *the competitive advantage of nations* says, business information and financial service are the yardsticks to judge whether a city is suitable for headquarters agglomeration and industry cluster. Moreover, the spillover of business information is exactly the reason that causes the *internal economies*. Of course, specialized personnel can not be irrespective in modern economy. The rather that, headquarters is the part in the whole firm that needs top personnel very much. Government support is an important reason in fostering agglomeration of economic activity, which eventually causes agglomeration of headquarters.

Among these internal factors, business strategy undoubtedly prevails in influencing the decision of headquarters. As Chandler argues, business strategy decides firm’s structure and overall resources allocation across space. Actually, there is always interaction between business strategy and restructuring. With the frequency of merger and acquisition in modern economy, firms have to consider whether to relocate its headquarters to make the new bigger firm run efficiently and smoothly. What Structure of ownership influences the decision of headquarters relocation mainly

focus on the interest distribution. Almost all firms that had relocated their headquarters are private because all local governments destined to oppose any headquarters relocation. Social obligation, such as local employment of the primary location, is an important reason why headquarters are separated from the production plants, which also accords to the evolution principles of modern and future headquarters.

Actually, as we proposed above, the real situation becomes complicated because of revolution of headquarters function in past decades. These internal factors are always mixed with the external factors in determining whether and where the headquarters relocate. The purpose of the dissertation is to find out which factors had influenced the decision of headquarters relocation and among these which factors are the most important. We would complete our assumptions through the following case study in chapter 4.

Chapter 4

A case study of Shanshan Group

In this chapter we analyze headquarters relocation of Shanshan Group—a typical case in China, and try to find the factors influencing and prompting Shanshan group to relocate its headquarters, so as to set a path for the creation of the model in the following chapter.

4.1. Research strategy

Headquarters relocation is a new phenomenon in Chinese business. As we have shown, many international researches focus on firm relocation. There are few researches related to headquarters relocation, but they interpret the phenomenon on an international scale, not a domestic scale. According to these theories, obviously, we cannot give an overall interpretation of the domestic headquarters relocation. With the objective of the creation of our model, at first, we should understand in detail why Chinese companies conduct domestic headquarters relocation. As many academic papers, we attempt to realize the research objective through an empirical approach. A case study is a reasonable option. A case study is appropriate to use if the purpose is to try to understand why and how something has happened, and not only focus on what has happened. The strategy is the best to use if a rich understanding of the context of the research is needed (Saunders et al, 2003, 93). Therefore, we select Shanshan Group for a case study, to analyze and induce the factors that influence and prompt it to make the relocation decision, since the company has been discussed as a typical case by lots of Chinese articles when it comes to domestic headquarters relocation. That can be trusted on account of the same directions discussed by these articles, notwithstanding collected from the internet. Moreover, we think that is better than direct investigation, because of the avoidance our subjective judgment.

4.2. Case Introduction

Shanshan Group is now among the 500 largest Chinese enterprises and also a forerunner of domestic headquarters relocation in Chinese fashion industry. At the beginning of case study, we firstly introduce the background of Shanshan Group.

Shanshan Group with the product brand name— “Firs”, is well-known in China. It started operations in 1989 when Mr. Zhen Yonggang, president, took over a small making-up factory on the edge of bankruptcy (Wu Alun, 2003). Since then Shanshan was recorded a rapid growth and developed itself as a leading Group in Chinese fashion industry. It had kept the largest market share of the Chinese fashion industry for seven years and took the first place in China as the earliest enterprise proposing the conception of intangible property management, introduced CIS, accomplished the reform of the share holding system in a standard manner and etc. In 1996, Shanshan Group’s shares have been listed on the Stock Exchange of Shanghai. At the beginning of 1999, Shanshan Group moved its headquarters from Ningbo to Pudong, Shanghai, and carried out its strategy of “brand and capital operation” and the reform of its garment business in a market oriented way (Yan Tao and Huang Jiangwei, 2005). With seven years operation, under the umbrella of Shanshan Group, there are 2 domestic public listing companies, 7 domestic and overseas company and institutions, 12 products development companies, 12 industrial companies, 16 brand companies, 300 franchises, and nearly 3000 retail shops scattered in the major cities in China as well as in some European and U.S. main stream market. The Group’s main industries include fashion, capital operation and high-tech projects. The profit of Group was over 27 million Euros in 2005, of which about 70% came from the fashion industry. Now, Shanshan Group is one of the largest companies in Chinese fashion industry. In the future, it targets to be listed among the Top Worldwide Companies with international fame.

4.3. Case Analysis

All the materials used in the analysis, come from Chinese articles, entrepreneur

interviews, news reports and etc., which can be easily collected from the internet. Here, we analyze these materials to find the factors, which influence or prompt headquarters relocation of Shanshan Group. The factors of Shanshan Group's headquarters relocation are summarized and interpreted as below:

One important factor is the structure reform of Group ownership. Shanshan Group was not the only one company in China which wanted to relocate its headquarters when it grown up. Shanshan Group was a state-owned company in 1989, and had to fully consider the opinions of the local government with regard to headquarters relocation due to the capital relationship. So when the business situation of Shanshan Group got better in 1990, Mr. Zhen Yonggang carried a reform of company ownership structure, establishing a shareholder meeting of the staffs' risk fund, and state-owned capital was then purchased by the staff. As a result, the state-owned shares was reduced from 50 percent to only 8.2 percent of the total amount by the year 1990(Yi Ming, 2006). Subsequently, the Shanshan Group realized the diversification of stock ownership by listing shares and so on, which meant the relationship, between company and government, was released to a great extent, and the company had the right to make decisions on its own. So when Mr. Zhen Yonggang spoke of the successful realization of headquarter relocation, he firstly attributed it to the structure reform of Group ownership and the smoothing of the relationship between the company and the local government (Bai Tianliang and Zhu Jianhong, 2000).

Another factor is to realize the business strategy of the Group's growth. After nearly ten years rapid growth and successful development, Shanshan Group established a new long-term vision, which described Shanshan Group's target to develop into an international industry group with the scale of 2 billion Euros' total-assets in 2010(Wu Alun). Simultaneously, Shanshan Group began to carry out brand strategy through brand sale, products outsourcing, and reform of sales channels. The transformation of its business strategy decreased the requirement degree of productivity and increased the requirement degree of position of marketplace, and prompted the emergence of

shortcomings of Ningbo in respect of marketplace as well (Yi Ming). In order to create a better environment and position to perform a higher vision and brand strategy, Shanshan Group decided to relocate its headquarters in 1997. It is undoubted so that, when comparing Ningbo with Shanghai, the location of Shanshan Group's headquarters is an optimal place coinciding with the requirement of its development and business strategy. Just like Mr. Zhen Yonggang said, headquarters relocation was "a strategic upgrade of Group business" (Wu Alun). "It was necessary for seeking the outbreak when the company grew up, undoubtedly logical for relocating headquarters when current location did not have certain conditions and advantages which could get from headquarters relocation" (Bai Tianliang, et al).

The third factor is to regard for social obligation. Because there was not the capital relationship between Shanshan Group and the local government, Shanshan Group had the opportunity to relocate itself from Ningbo to Shanghai. However, the board did not want to relocate the company, because Ningbo is the cradle of the company, and the company relocation will lead to a mass of unemployment in Ningbo (Wu Alun). Moreover, they thought headquarters relocation could meet the requirement of the company development in the future, although there would be some other losses in comparison with firm relocation (Bai Tianliang, et al). Therefore, Shanshan Group made the decision of headquarters relocation.

The forth factor is to improve Group's business and social image. It is obvious that Shanghai has a lot of advantages which other Chinese cities do not have especially in the economic field, because Shanghai is not only the most developed city in China but also a global city. So Shanshan Group wanted to improve company image and achieved this transformation changing from a local company to a national company because of headquarters relocation (Yi Ming). Just like Mr. Zhen Yonggang had said, "if one Chinese entrepreneur tells foreign friends his company is located in Shanghai, everyone knows your company's location, but if he says his company is located in some city which is far from Shanghai hundreds kilometers, most foreign friends may

not know the place and will not have the wish to cooperate with you” (Hu Jiakai, 2003).

The fifth factor is to cater for entrepreneur's preference. Mr. Zhen Yonggang is an ambitious manager with favorite of challenge (Yan Tao, et al), and recognized as a forerunner of Chinese fashion industry on account of fulfilling a brand strategy in the late 1980s, when most Chinese fashion companies operated in an extensive way(Wu Alun). He is also a self-sufficient man, seldom concealing his ambition and favor especially in Shanshan Group. So his opinions were an important factor influencing headquarters relocation, he had said that “Shanghai is an ‘ocean’, in which we must learn to pursue the pot of gold” (Yi Ming). He also compared large companies in Shanghai as sharks and explained the purpose behind headquarters relocation from Ningbo to Shanghai in a figurative expression as follows: “If we relocate headquarters to Shanghai and swim with sharks in the ‘ocean’, Shanshan group will develop more rapidly than ever” (Wu Alun).

The sixth factor is to fall in with the wishes of company's personnel. Personnel is an important factor which should be considered in making decision of headquarters relocation, because a company will take a risk of labor recruitment and business development in the future for the personnel problems. Fortunately, the board of Shanshan Group got the support from the staff. It was astonishing that the headquarters of Shanshan Group, which has 260 million Euros of total assets and 240 million Euros of current year's sales revenue, only spent one night after receiving board notice on completing the relocation process without any disagreement and conflict(Bai Tianliang, et al).

The seventh factor is to seek for the larger market and snatch integration effect of fashion industry cluster. As far as the fashion industry is concerned, Shanghai is the most important city in China, the central city of Chinese fashion industry in history, and now still acts a pivotal role. Most international fashion company took Shanghai as

the first step of entering Chinese market. So many Chinese fashion companies, including Shanshan Group, want to relocate its headquarters to Shanghai since the largest market in China, the positive opportunity to cooperate with foreign company, the integration effect of fashion industry cluster, and the accessibility to international market. As Shanshan Group self-introduction has shown, just after headquarters relocation, Shanshan Group adopted a multinational brand strategy and tailored the tastes of its customers by various styles through the cooperation with first-class international partners and organization, such as Itochu Group in Japan, Gruppo Forall in Italy, French top fashion company Christian Lacroix, American Dupon Callaway etc. Before the relocation Shanshan Group only had one brand, Firs, but now it owns more than 20 brands such as Shanshan menswear, Marco Azzali Mushingwear, Le Coq, Sasch, Genosse, Firs & Designer, Firs Ladies' wear, Le Tutu, Cosdear, Ferri, Finsun, Ilteno, Bellson, Firs kids, M.G.B, Maskile & Firs, Wrose and etc., and part of its products are established in the global order system.

The eighth factor is to recruit strategic talented personnel easily. When it comes to human resource, Shanghai as well as Peking has more competitive advantages than other cities of China. It is because of many universities and research institutions that Shanghai has one of the two concentrations of strategic talented personnel in China. For example, Xuhui, only one district of Shanghai, has more than 80 academicians of the Chinese Academy of Sciences and Chinese Academy of Engineering, but many provinces of China do not have that many(Hu Jiakai). Companies locating in Shanghai do not have difficulties in finding and recruiting strategic talented personnel as companies in other Chinese cities have. As far as Shanshan Group was concerned, it only took one year for Shanshan Group to recruit a large number of professors and senior engineers, and more than sixty doctor and master students from abroad. It adjusted 40 percent of its headquarters staffs, and optimized the staff structure of the headquarters (Chen Si, 2006). At present Shanshan Group not only employs eight academicians, but has also established a business consultant team which consists of famous Chinese and foreign experts, scientists and stylists, such as BenVanDyt, the

founder of IBM(Lu Yan,2005). When it comes to the achievement of the headquarters relocation, Mr. Zhen Yonggang has often said with a strong sense of pride that it was not the increase of capital but the achievement of recruiting a large number of competitive personnel that changed the original image of fashion processing company drastically. (Hu Jiakai) So it is not difficult to draw the conclusion that the recruitment of personnel is the major factor of headquarters relocation of Shanshan Group.

The ninth factor is to get more financial support. According to the vision established in 1997, Shanshan targets to be a large-scaled international industry group whose businesses mainly focus on the fashion industry, hi-tech industry, and capital operation (Wu Alun). Besides capital operation, both the fashion business and hi-tech business that are in the process of development need financial support. As to this requirement, Shanghai is superior to Ningbo when it comes to financial support. For example, in light of the authorization of the Head Office of the Bank of China, the amount of credit discretion of the Ningbo branch is no more than two million dollars, but the Shanghai branch has thirty million dollars (Tang zhenyu, 2001). Moreover, with China's upcoming accession to the WTO, more and more foreign-capital financial institutions set up branches in Shanghai. Now Shanghai has gathered more than 80 foreign-capital financial institutions, which is large than in any city of China (Chen Chunyan, 2006). So it is obvious that relocating to Shanghai is an effective approach to get financial support. It was just after headquarters relocation that Shanshan Group began to establish the capital operation commonwealth of strategic partnership through the cooperation of international and domestic banks, non-bank financial institutions, and intermediaries (Chen Si).

The tenth factor is to look after the optimal government service. In general sense, once the company grown up, local government of China would give them lots of supportive policies such as tax relief, land concessions and so on. As to this aspect, certainly, Shanshan Group got more such supportive policies from Ningbo local government than Shanghai, because Shanshan Group is the largest company in Ningbo, not in

Shanghai. But even so, Shanshan Group relocated its headquarters from Ningbo to Shanghai, because the board of Shanshan Group thought government service was more important than supportive policies for the future (Hu Jiakai). The reason was that government service based on an excellent system and regular procedure would prompt the forming of an environment of fair competition which would benefit to company's long-term profits, and supportive policies also good to increase short-term profits but not for the long-term's. So in the year of the relocation, considering the development situation of Shanshan Group, the board thought it was time to give more attention to long-term development (Hu Jiakai). Therefore, this was also a factor that prompted Shanshan Group's headquarters relocation from Ningbo to Shanghai, because Shanghai has the most optimal government service in China thanks to the earlier Reform and Opening.

4.4. Summary

In the previous sector we get ten factors from the analysis of the case study. All these factors are concluded from the common directions discussed by the Chinese articles etc. that we can find in the internet. All these factors give the basis of inducing the factors of our model, which will be interpreted in the following chapter.

Chapter 5

The model of domestic headquarters relocation

In this chapter we will induce the possible factors based on the analysis of the previous chapter, and complement relevant factors deducted from literature review. Subsequently, we will create the model of domestic headquarters relocation.

5.1 Introduction

Although there are few researches related to headquarters relocation, but they interpret the phenomenon on an international scale, not a domestic scale. Furthermore, we have not found any attempt to summarize the information and create an integrated model, which can be used by companies at the time of deciding headquarters relocation. Although a new research field, named “Headquarters Economy” has developed recently in China, it only speaks of how to develop “Headquarters Economy” from the perspective of local governments, and not for what companies should consider in a relocation process. Therefore, we attempt to create a model of domestic headquarters relocation for the application of Chinese companies. There are two types of the factors contained in our model. One part is the internal factors. It can be defined that the factors derive from company itself and influence the decision of headquarters relocation. The others are the external factors that come from the outside of the company and influence the choice of the relocation site. Here we take two steps to find the factors. First, we induce the possible factors based on the previous analysis of the case study. Second, we deduct the complementary factors based on the literature review in chapter 3 to make the maximum avoidance of the neglect of the factors in our model. Subsequently, we create our model.

5.2 Possible factors in our model

Based on the analysis of the case study, we have categorized the factors behind

Shanshan headquarters relocation into two groups, and take all of them as the possible factors of our model. Here, we interpret how the possible factors influence Chinese companies deciding domestic headquarters relocation.

5.2.1 Possible internal factors

The factors listed below are corresponding with the factors of 1-6 analyzed in the case study.

● *Structure of ownership.* As to the Chinese company, the structure of ownership is a very important factor of the domestic relocation. The reason is as follows. If the local government has the shares of the company, the government representative will enter the board of the company. When the company decides relocating its headquarters, the representative will vote against the decision to detain the relocation to protect the local interests (Zhen Jinyue, 2004, 38). Moreover, the local government can also take back the supportive policies given previously, which always results a big loss of the company. Today's economy situation in China is derived from Planned Economy. A large number of companies have the mixed ownership of state and private. Before making the decision, the board of these companies should seriously consider the structure of ownership and evaluate the hindrance from local government. If the hindrance is big enough to detain the relocation, the board should take measures to smooth it previously like Shanshan Group. Otherwise, the companies will take a big risk.

● *Business strategy of growth.* The companies in different period of growth will adopt different strategy (Chandler), which may involve the factor influencing headquarters relocation. For example, if company's development is limited by market position or hindered by its low-level R&D, the company will fulfill market strategy or R&D strategy. But if current location can not supply relative resources and there are optimal location alternative can be choose, and do not want give up some advantages of current location, then headquarters relocation will be an available measure to deal with it. Certainly, there still have lots of situations behind business strategy adopted in

the different period of company growth, and fortunately most of these situations are included in other factors explained in the latter.

●*Social obligation.* As we mentioned in sec. 3.3.4., the majority of the staff dislike the relocation, largely because of the increasing of the living costs. Therefore, the relocation will probably lead to the unemployment issue. If the company disregards the social obligation and produces a mass of unemployment in relocation process, the company will face not only a large number of costs, but also a big interference from the authority. Furthermore, the bigger unemployment issue the company has, the more costs the company will take, and especially in China the bigger interference from the authority the company will face. In general sense, the firm relocation more easily leads to a big unemployment issue concerning the staff amount. That is one important reason why the Chinese company is more prone to the headquarters relocation. So we take the social obligation as a factor of our model.

●*Image.* Image is closely connected with the company's location in China. The product made in big cities is more easily accepted by the consumer than the other from small cities. For example, "made in Shanghai" is a symbol of the good brand and quality in China. Now many Chinese companies as well as its products are not recognized by the public, especially by the international, largely on account of the image related to its location. If they relocate its headquarters to more optimal location than the current, the new location will improve the company's image as well as the products' position in the marketplace. Subsequently, the new image will help the company get more proximity to customers, more opportunity to the cooperation with other companies in particular with foreign companies, and the accessibility of internationalization. Therefore, we take image as an important factor in our model.

●*Entrepreneur's preference.* Now many companies in China are owned by individuals. The Entrepreneur is the most powerful man in these companies. Even in joint-stock companies, the entrepreneur also acts a critical role in business operation due to

taking quite amounts of stocks. If the entrepreneur just like Mr. Zhen Yonggang, president of Shanshan Group, has the character of challenge, such entrepreneur rather than the conservative is more prone to make the relocation decision in the establishment process of business strategy of growth. When it comes to the relocation decision, if other managers of the company know the entrepreneur's preference, with which they will show respect to the suggestion combined. So there is positive relationship between entrepreneur's preference and headquarters relocation. Thus, we take entrepreneur's preference as a factor of headquarters relocation.

●*Personnel*. The company should consider the personnel wishes in the headquarters relocating process. If personnel are unwilling to change workplace, it will take a risk of retaining employees. Although the staffs of Shanshan Group agree with the relocation decision, we are not sure that there is no rejection of personnel occurring in other cases of the domestic headquarters relocation. Furthermore, the personnel rejection is regarded as one of the most hazard indexes influencing the headquarters relocation by many Chinese companies (Zhen Jinyue, 38). So we take personnel as a factor in our model.

5.2.2 Possible external factors

The factors listed below are corresponding with the factors of 7-10 analyzed in the case study.

●*Market size*. The geographical economics argued that the company is always apt to choose the location for the accessibility to the market, because mostly the more close to the market the company is, the more profits and competitive advantages the company will have. Therefore, if the market size is limited by its market position related to current location, the company will take measures to deal with it. Then headquarters relocation maybe is an effective way, especially in the fact that current location is optimal place suitable for productivity. Simultaneously, we would like to say that market size is commonly connected with integration of industry cluster in

China. So we simplify the words used in the corresponding point of case study, and take market size as an important external factor in our model.

●*Specific labor availability.* According to Porter argument the specified local skilled is one objective of the relocating activity, expressed in sec. 3.2.2., the specific labor will be more needed by the Chinese company, because the company like Shanshan Group is not lack of ordinary staffs but the specific labor. Furthermore, concerning the organization structure of the headquarters interpreted in Chapter 1, if it is time to decide relocating the headquarters, the Chinese company should take the specific labor availability as a yardstick to evaluate the new location. Otherwise, the company probably losses the accessibility to a qualified labor pool for filling up the current and future specific labor vacancies. Therefore, we use the specific labor availability as a factor in our model.

●*Financial service.* According to Porter's diamond model, the financial service is one specific factor for the company's development. The theory of the competitive advantage of nations also points out that the financial service is one yardstick to judge whether a city is suitable for headquarters agglomeration and industry cluster. As to the current Chinese economy, the rapid increasing of the financial requirement is an emergent problem (Wang Zhaoxing, 2006). Therefore, if it is time to the headquarters relocation activity, the financial service of the new relocation is more necessary to be considered for the Chinese company. Otherwise, the company development will be probably influenced by the financial problem. So we take the financial service as a factor of our model.

●*Government service.* The government according to Porter's argument acts as a catalyst role in the diamond model. Concerning our experience, with the rapid development of the legal and economic systems of China, there is seldom different between the local economic policies. Furthermore, the company will get more supportive policies in the small city than in the large city, because the small city is

generally more eager to develop the local economy than large. There may be some difference in the government service due to the different administrative discretion and procedure, although most Chinese local governments exert themselves to diminish such difference. Therefore, when it comes to the relocation, the Chinese company always examines the government service of the new location for the accessibility to the optimal environment. So we take the government service as a factor of our model.

5.3 Complementary factors of our model

Obviously, the possible factors showed before are limited by the specific and empirical case. In order to perfect our model, we want to find out the complementary factors, which cannot be neglected in our model. Based on the Chapter 3, we deduct and interpret the complementary factors as follows:

5.3.1 Complementary internal factors

●*Merger and acquisition activity.* The merger and acquisition is a common phenomenon in the modern economy (Chandler, 1962). Once the merger and acquisition activity happens, the company will probably restructure its organization for the marketing costs as we expressed in sec.3.3. Then, the headquarters relocation will happen for allocating the resources as optimal as possible. On the other hand, whether the company restructures its organization or not, the merger and acquisition activity will lead to the merger of two headquarters eventually. Consequently, the company has to consider the headquarters relocation. Therefore, we use the merger and acquisition activity as a factor in our model.

5.3.2 Complementary external factors

●*Transport situation.* The transport situation is one pivotal jumping-off points in geographical economics. Furthermore, as we expressed in sec.3.1, because of the more expensive rents and wages, the metropolis attracts not the whole firm but its headquarters. Certainly, there is the different transport situation between cities. When it comes to headquarters relocation, the company should evaluate the transportation

situation of the location including the rents and wages. If the location is in access to the quality transportation, in particular the air transportation, easy to get to its most frequently visited cities, and the most major cities, including the international access, that will give the proximity to the customer and strategic business resource. Therefore, we use the transportation situation as a factor in our model.

●*Infrastructure.* From geographical economics and Porter's presentation of location reviewed in chapter 3, it is obvious that there is the close relationship between the local infrastructure and the headquarters relocation. A good infrastructure environment is not only great benefit to the headquarters operation, but also to improve company's image, attracting investment, recruiting the advanced managerial or the R&D personnel and etc. Therefore, the company always takes the infrastructure as an evaluation criterion for the headquarters location. So we use the infrastructure as a factor in our model.

●*Information.* The communication infrastructure is one advanced factor of Porter's diamond model. The theory of the competitive advantage of nations says, the business information is one yardstick to judge whether a city is suitable for headquarters agglomeration and industry cluster. The spillover of the business information is usually available to avoid the unnecessary decision-making of the headquarters. Therefore, when it comes to headquarters relocation, nowadays, the information, including the communication infrastructure and the business information, is took by an increasing number of the companies as an evaluation criterion to examine the alternative relocations. Although it is seldom mentioned by Chinese companies, we still use it as a factor of our model.

5.4 Summary

In the previous sectors, we have induced ten possible factors and deducted four complementary factors. All of these are the factors of our model. The factor like "years on age" is not put into our model, because we find that is seldom discussed by

the articles, concerning domestic headquarters relocation in China. The factor like “profitability” is not put into our model, because we find that is closely connected with the factors of our model. Furthermore, that can be examined through the overall evaluation of the factors of our model. Therefore, we think that need not be separately set in our model. Certainly, we cannot sure there is no other important factor neglected in our model. So we will try to make up the limitation through questionnaire and perfect the model to a maximum in the latter chapter.

5.5 The model of domestic headquarters relocation

On account of the different characters, the internal factors and the external factors act different function in the process of headquarters relocation. Therefore, we create the model of domestic headquarters relocation showed as figure 5.1. Because we try to simplify the model, the factors are contained in the each evaluation. The mechanism of the model is that before the domestic headquarters relocation is going to fulfill, the company will take steps to complete it. Firstly, the company should make an overall evaluation of the internal factors to examine the possibility of headquarters relocation. If there is the possibility of the headquarters relocation, the company should look for the alternative locations; if not, the process of the headquarters relocation will be ended at this step. Secondly, the company should make an overall evaluation of both the current location and the alternative locations with the factors in our model. Finally, the company should make a comparison with the result of the current location and the alternative locations to examine the possibility of the headquarters relocation. If there has the alternative location better than the current location, then the headquarters relocation can be fulfilled, and if not, the company should cancelled it or change the alternatives and repeat the process; if there are more than one alternative locations, the company should choose the more optimal alternative according to the evaluation.

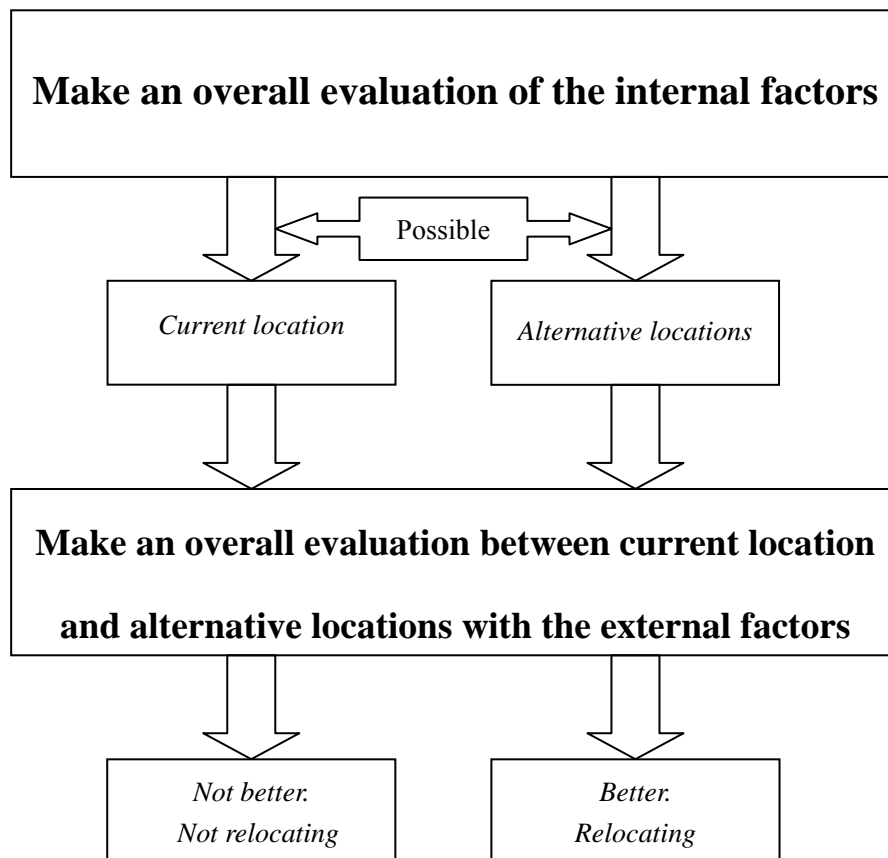


Figure 5.1: The model of domestic headquarters relocation

5.6 Hypotheses

Out of the model of headquarters relocation, we set up two hypotheses, which are tested in the latter empirical study.

H1. Those fourteen factors, contained in the model, play the important roles when firms decide whether to relocate headquarters or not. The fourteen factors contain seven internal factors, such as Structure of ownership, Business strategy of growth, Social obligation, Image, Entrepreneur's preference, Personnel, Merger and acquisition activity, and seven external factors, such as Market size, Specific labor availability, Financial service, Government service, Transport situation, Infrastructure and Information.

H2. There are no different facts to influence firms to make decision to relocate headquarters in the different kinds of industries.

Chapter 6

Empirical Method

In this chapter, the empirical method is presented. The research strategy, focusing on the way we implement the research, is described. The sample selection, the limitations of the survey and the questionnaire are also described. Finally, the validity, reliability, and generalization analysis is discussed.

6.1 Research strategy

There are different research strategies: experiment, survey, case study, grounded theory, geography and action research (Saunders et al, 2003, 91). Which strategy to be used in the research will depend on the different conditions? In chapter 4 of this dissertation case study is used. Then we also need a large amount of data to test our model. There are some advantages of survey strategy.

They allow the collection of a large amount of data from a sizeable population in a highly economical way. Often obtained by using a questionnaire, these data are standardized, allowing easy comparison (Saunders et al, 2003, 92).

So the survey is one of favorable choices in our research strategy.

6.2 Sample

We assumed that Chinese firms in different industries, in a certain size may have the different opinion about the facts which play the most important roles when they decider whether to relocate headquarters or not. So it is better to use a non-probability sampling method. A non-probability sampling method refers to the probability of each case selected from the total population is not known and it is impossible to answer research questions or to address objectives that needs to make statistical inferences

about the characteristics of the population (Saunders et al, 2003,152). We chose different Chinese firms that have relocated their headquarters in the Zhejiang province in China as the objects of the questionnaire. In addition, since this dissertation focuses on the certain size firms, we only chose the firms with annual sales more than RMB 100 million (1 RMB about equal 0.92 SEK) as respondents.

In total, 50 firms in the Zhejiang province of China matched and were included in our sample.

6.3 Limitation

There are some limitations in the way of the implementation of the survey. These limitations should be taken into account while analyzing and generalizing the validity of the results.

Due to the time limitation, firstly, we only chose the firms in the Zhejiang province. Secondly, we only collected data from 40 firms who have relocated their headquarters. These firms cannot represent all Chinese firms. Thirdly, we did not investigate firms who have plans to relocate their headquarters but not do now.

6.4 The questionnaire

There are two parts in our questionnaire (Appendix 1). The first part is general information of firm including 5 questions. The second part is evaluation of different factors including 14 items. This part is designed according to 7-point scale, ranging from 1 of “not agree at all” to 7 of “absolutely agree”. To avoid the imprecise logic and orientation, we deliberately disrupted the order of internal facts and external facts. That is to say in the second part, the question 1, 3, 5, 6, 7, 10, 13 are belonged to external facts and the question 2, 4, 8, 9, 11, 12, 14 are belonged to internal facts. We also developed one open question for the participant to answer freely which factors are important.

There are several lines of instruction on the purpose of the survey and how to answer the question in the every part of the questionnaire. It is a good way to make the participant understand the survey better and answer the questions more easily. Furthermore, it is crucial whether the responses are the proper people. So our survey focused on high-level managers such as owner, general manager, assistant of general manager and so on. The questionnaire was sent to them because they really know the vital factors of relocation headquarters decision-making.

6.5 Response rate

It is necessary to obtain as a high response rate as possible to ensure the sample is representative (Saunders et al, 2003, 156). In order to achieve high response rate, the questionnaire was designed with limited questions. Moreover we ask our Chinese friends to motivate the managers of relevant firms to join in the survey. From the beginning the sample consisted of 50 firms. Ten of the firms we contacted could not participate in the research because of some reasons. So in our research the response rate was 80% (40/50) .

6.6 Validity

Validity is concerned with whether the findings are really about what they appear to be about. (Saunders et al, 2003, 101). According to Robson (2002) there exist some threats to validity, namely history, testing, instrumentation, mortality, maturation and ambiguity about causal direction (quoted by Saunders et al, 2003, 102).

We tried our best to formulate the questions in a clear way to ensure that every respondent is explicit about what they are required to answer. We also sent the questionnaire in Chinese version to some managers of suitable firms. Because we wanted to make sure that the exact person who knows the decision-making process of relocation headquarters will answer the questionnaire. That is to say we tried our best to ensure the validity as high as possible in our research. Since high validity is necessary for a scientific research.

However, there are still some problems that may influence the validity. The first is that it is difficult for us to ensure the respondents answer truthfully. Another problem related to validity is the selection of samples. We only chose 50 firms in the Zhejiang province. Though it can illustrate some kind of firms, it can hardly represent the entire firms of China.

6.7 Reliability

Reliability refers to how well the research method leads to the same results on other occasions and if other researchers could reach similar results (Saunders et al, 2003). According to Robsson (2002) there may exist four different threats to reliability: subject or participant error, subject or participant bias, observer error and observer bias (quoted by Saunders et al, 2003).

In our research, to avoid the participant error, we sent the questionnaire in a “neutral” time and allowed the respondents to have enough time to fill out it. Hence, they could carefully think of the really important factors influencing the relocation decision-making. As to observer error and bias, we can avoid it because we only use a standardized questionnaire in a clear description. So every respondent can only interpret it in one way.

6.8 Generalisability

Generalisability is sometimes referred to as external validity and means whether the research results may be equally applicable to other research settings. (Saunders et al, 2003, 102). However, to be able to generalize about regularities in human social behavior it is necessary to select samples sufficient numerical size (Saunders et al, 2003, 87).

This dissertation only focused on one fashion firm and the survey was also conducted in the Zhejiang province. If we can enlarge the scale of survey in China, such as

including firms those have plans to relocate their headquarters but not do now, then we can generalize the result better. Because of the limited time, we did not do that. But we have tried our best to expand scale of investigation by increasing the number of sample firms in China. It was helpful to improve the possibility of generalizing the research result.

6.9 Summary

Both the case study and survey are used in our research strategy. The sample was selected with purpose. We sent the questionnaire to 50 firms in the Zhejiang province in China and the response rate was 80%. The questionnaire is made up two parts including 19 questions. The limitation of the survey also is presented. Several measures were adopted to achieve high validity and reliability. We also took some measures to improve the generalisability.

Chapter 7

Analysis of the survey

In the chapter, we would answer the research question by analyzing the data from the questionnaire. The survey conclusion is presented.

7.1 Introduction

In the survey, the respondents were asked to answer in how much degree they agree to each of fourteen factors in affecting the decision of headquarters relocation by assigning them from 1 (not agree at all) to 7 (absolutely agree), at the same time they were also asked to answer four questions in the general information. The result of the survey shows there are some differences between these factors influencing the decision of headquarters relocation. To analyze the survey we adopted the method of SPSS, which was completed with the help of computer. We established the means and the standard deviations for the questions. The standard deviation is measured in the same units as the values of the population, which is the most common measure of statistical dispersion, measuring how spreads out the values in a data set are.

An analysis will be made in the following way. Firstly, we want to identify if the fourteen factors have influenced the decision of headquarters relocation. Secondly, we try to find out which factor is the most important in influencing the decision of headquarters relocation. Thirdly, we will interview two of the respondents to prove if they agree to the results of the survey through the video telephone on the internet.

To simplify the description of these factors, we used the symbols to substitute all these factors as follows.

Factor 1: To be closer to the most important customer markets

Factor 2: To be more suitable for the strategy of expansion in domestic cities

- Factor 3: To get more business information conveniently and efficiently
- Factor 4: The managers' characteristics of favorite of continuing challenges and being together with industrial elites
- Factor 5: To get much more local government support
- Factor 6: To get more specialized personnel
- Factor 7: To get better financial services
- Factor 8: To become famous and have a good reputation in public
- Factor 9: To make relevant merges and acquisitions convenient and be easy to manage them
- Factor 10: To get better municipal infrastructure and living environment
- Factor 11: To balance firm's development and social obligation, which causes headquarters be separated from production plants
- Factor 12: The firm has the transparent and open structure of property (e.g. the important management, technicians or marketing personnel can hold the firm's shares)
- Factor 13: To get better transport situation, such as an international airport, an international port and a convenient expressway framework
- Factor 14: The different wishes of the most staff to the headquarters relocation

7.2 General analysis of the importance of the fourteen factors

Generally, the fourteen factors listed in the questionnaire were regarded important because the statistics show that all fourteen factors get the mean value higher than 4. In other words, the owners, the general managers and the assistants of general manager involved in the survey all agreed that these factors are important when they were determined to relocate the firms' headquarters from Zhejiang province to Shanghai. Of course, under the importance of all factors, different factor had different importance in detailed situations

From the table 7.1, we can draw some conclusions as follows. The factor of "to be more suitable for the strategy of expansion in domestic cities", gets the highest mean

value of 6.275 in all factors, was regarded as the most important when the firms had made a decision of headquarters relocation. Its standard deviation reaches 0.847, which means the importance of the factor is popular in these 40 firms participated in the survey. According to the respondents, the factor of “to get more specialized personnel” has the mean value of 6.075 and the standard deviation of 0.888; the factor of “to get better transport situation, such as an international airport, an international port and a convenient expressway framework” gets the mean value of 6.000 and the standard deviation of 0.961; the factor of “to become famous and have a good reputation in public” gains the mean value of 5.925 and the standard deviation of 0.859. It is interesting to find these three factors, together with factor 2, are also the four with the lowest standard deviation. That is to say, the top four factors are not only the four most important but also mostly in accord in making a decision of headquarters relocation of these respondent firms.

It is also worth mentioning that the factor of “the different wishes of the most staff to the headquarters relocation” has the minimal mean value that less than 4, which, in certain degree, illustrates that headquarters relocation is only decided by the management. We think the factor need not to be considered to most firms when they make a decision of headquarters relocation.

Table 7.1: the mean value and standard deviation of the 14 factors from the questionnaire

Factor	Minimum	Maximum	Mean Value	Std. Deviation
Factor2 (strategy of growth)	4	7	6.275	.847
Factor6 (specialized personnel)	4	7	6.075	.888
Factor13 (better transport situation)	4	7	6.000	.961
Factor8 (firm image)	4	7	5.925	.859
Factor4 (entrepreneur's preference)	3	7	5.675	1.118
Factor3 (more business information)	3	7	5.625	1.125
Factor7 (better financial service)	2	7	5.450	1.260
Factor9 (merge & acquisition)	3	7	5.375	1.148
Factor1 (closer to customer market)	2	7	5.350	1.252
Factor10 (better infrastructure)	2	7	5.225	1.271
Factor12 (structure of ownership)	2	7	4.700	1.324
Factor5 (government support)	2	7	4.575	1.259
Factor11 (social obligation)	2	7	4.425	1.083
Factor14 (common staff's wish)	2	6	3.875	1.114

Number of participants=40

7.3 The analysis of data from firms in different industries

In this survey, we collected the relevant data of forty firms. Among them, 13 firms were engaged in diversified investment when their headquarters relocation happened, and 11 firms in electronic appliance and 9 firms in hardware, the rest of them in other industries such as fashion and building. Considering the validity of the analysis, we use the SPSS to analyze the data.

Form table 7.2, we can see the general analysis of the four most important factors in headquarters relocation available still in firms of different industries. Of course, sometimes these standard deviations become a little bit more than 1 because we collected data of 40 firms only. However, we think our model can be useful and helpful to these firms that have plans to relocate their headquarters. Let us take a look in detail.

As to diversified investment, the highest mean value of 6.308 is referred to “to be more suitable for the strategy of expansion in domestic cities” and the subsequently important factors are “to get better transport situation, such as an international airport, an international port and a convenient expressway framework” and “to become famous and have a good reputation in public” with the same mean value of 6.077, and then “to get more specialized personnel” with a mean value of 6.000. “The different wishes of the most staff to the headquarters relocation” has the lowest value of 3.923 with the standard of 1.256. It seems that diversified investment with the characteristic of continually expanding caused headquarters relocation. These firms’ headquarters with diversified investment should have powerful ability of integrating and controlling the whole firms, this is why they need convenient transport situation to come and go between different cities. At the same time, the firms need a good image in order to support its different kinds of products in different markets. Of course, “the different wishes of the most staff to the headquarters relocation” was not regarded as an important factor because they were impossible to consider the common staff in different cities.

When it comes to electronic appliance and hardware appliance, the general situation is similar with that of diversified investment. However, except headquarters relocation should accord to the whole strategy of growth, they considered “to get more specialized personnel” a very important factor because they were engaged in specialized industries. In addition, these two industries also think headquarters relocation should be decided by the management. It does not matter with these common staff.

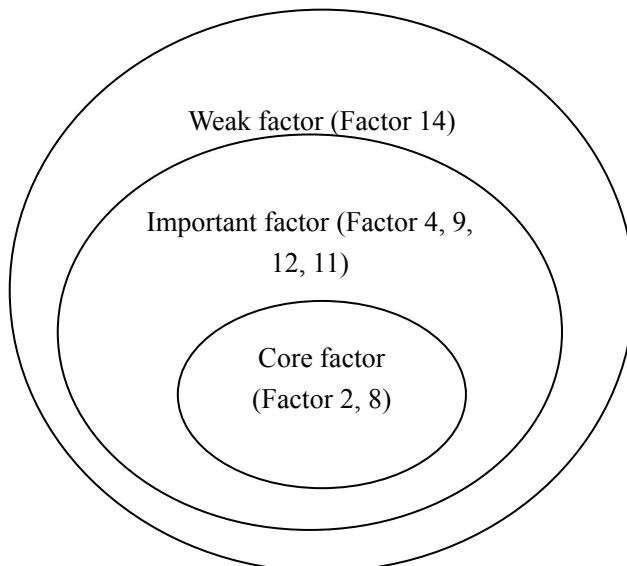
The samples in other industries is few and dispersive in industry, so we think the statistics just give us a reference, not discussed in detail.

Table 7.2: the mean value and standard deviation of the 14 factors in different industries from the questionnaire

	Diversified Investment		Electronic Appliance		Hardware Appliance		Other	
	Mean Value	Std. Deviation	Mean Value	Std. Deviation	Mean Value	Std. Deviation	Mean Value	Std. Deviation
Factor2 (strategy of growth)	6.308	.947	6.454	.687	6.222	.667	6.000	1.155
Factor6 (specialized personnel)	6.000	1.080	6.091	.944	6.000	.707	5.857	1.069
Factor13 (better transport situation)	6.077	.954	6.000	1.000	5.889	.928	5.714	1.380
Factor8 (firm image)	6.077	1.038	5.818	.874	5.778	.667	6.000	.816
Factor4 (entrepreneur's preference)	5.769	1.423	5.727	.786	5.667	.866	5.571	1.272
Factor3 (more business information)	5.615	1.325	5.727	1.191	5.667	.866	5.428	1.134
Factor7 (better financial service)	5.615	1.387	5.545	1.293	5.333	1.118	5.143	1.345
Factor9 (merge & acquisition)	5.154	1.214	5.454	1.213	5.555	1.333	5.428	.787
Factor1 (closer to customer market)	5.385	1.445	5.364	1.286	5.333	1.225	5.286	1.113
Factor10 (better infrastructure)	5.154	1.405	5.273	1.272	5.333	1.225	5.143	1.345
Factor12 (structure of ownership)	4.846	1.214	4.727	1.555	4.667	1.323	4.429	1.397
Factor5 (government support)	4.846	1.463	4.455	1.293	4.444	1.333	4.268	1.113
Factor11 (social obligation)	4.231	1.235	4.545	1.036	4.444	1.130	4.574	.976
Factor14 (common staff's wish)	3.923	1.256	3.909	1.300	3.778	.833	3.857	1.069
	N=13		N=11		N=9		N=7	

So, as graph 7.1 and graph 7.2 show, when a firm makes the decision of headquarters relocation, the strategy of expansion, more specialized personnel, better transport situation and better firm's image are the core factors, which should be considered. These factors, the managers' characteristics, more business information, better financial services, to make relevant merges and acquisitions convenient, to be closer to the most important customer markets, to get better municipal infrastructure and living environment, firm has the transparent and open structure of property, to get much more local government support, to balance firm's development and social obligation, are important factors. The factor of "the different wishes of the most staff to the headquarters relocation" is a weak factor.

Graph 7.1: the importance of internal factors



Graph 7.2: the importance of external factors



7.4 The information analysis of the interview with two general managers

Considering our case study is focusing on the fashion industry, we also contacted two general managers through the video telephone on the internet; one is engaged in the electric appliance industry and the other in the diversified investment. We believe that the interview have more advantages than the questionnaire if you want to know directly the importance of these factors in influencing the decision of headquarters relocation.

The result of the interview illustrates that all thirteen factors are important and affect the decision of headquarters relocation except for factor 14. They think sometimes managers' characteristics also have important roles in making a decision of headquarters relocation when there are dilemmas between advantages and disadvantages of it. This is why we need entrepreneurs in economic activities. Factor 14, however, is relatively unimportant, compared with the rest of these factors, because these headquarters mainly employ "white-collar" workers, not "blue-collar" workers.

Although the result of the survey illustrates that firms should consider the internal and external factors when they want to make a decision of headquarters relocation, the result also tells us that a firm needs to answer two questions when making the decision of headquarters relocation. One is whether the firms should relocate its headquarters at that time, and the other is where it should relocate to.

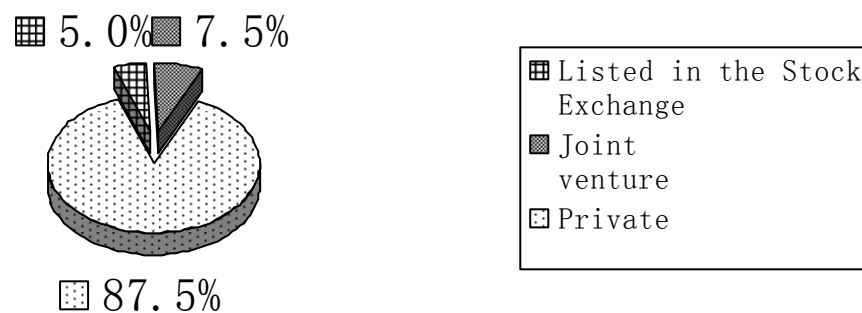
In the discussion between us and the two general managers mentioned above, they agreed that the strategy of expansion, more specialized personnel, better transport situation and better firm's image are the four most important reasons why they made a decision of headquarters relocation. The first general manager argued that the firm should have its own design patents and trademarks to sell the terminal products to consumers directly if it wants to achieve success continually in the market. This means that, the firm's headquarters should have the ability to integrate all kinds of resources, whatever the firm has or not, to be able to compete with national or international rivals. The second general manager said that the strategy of quick

expansion, the transport situation, as well as, the business information are three important factors influencing the decision of headquarters relocation, because his firm focuses on diversified investments of food, transportation and real estate. It is especially important that the city the headquarters relocated to has a convenient transport situation so that the managers of the headquarters and the managers of the different subsidiaries can come and go around the world and communicate or coordinating with each other early.

7.5 The analysis of the general information

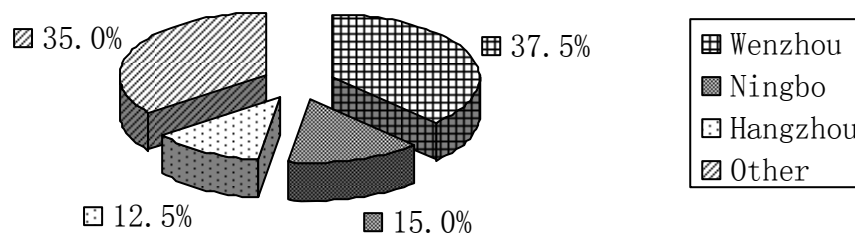
From the general information, we can see some interesting phenomena. The first is all respondents are private except five firms that are listed in the Stock Exchange or joint ventures according to graph 7.3, which means that the owners or the boards of director made a independent decision of headquarters relocation whatever local government agreed or not. These state-owned or municipality-owned firms, even these firms that local government have their shares, are totally not determined to relocate their headquarters.

Graph 7.3: the structure of property when the firms moved their headquarters



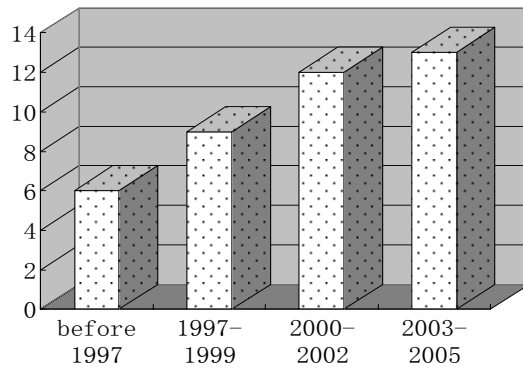
The second is, among all 40 firms, there are 37.5% firms were primarily located in Wenzhou. Wenzhou is famous for numerous private bosses in China, however, it lacks of nice transport situation and specialized personnel because of its hilly geography and poor high education. Graph 7.4 shows that there are less firms in Hangzhou and Ningbo that moved their headquarters compared with that of Wenzhou, which means both Hangzhou and Ningbo have better transport situation and more abundant human resource.

Graph 7.4: the structure of the primary locations



The third is the time that majority of headquarters relocation happened are later than 1997, which accords with the fact that Chinese economy was blooming in the latest decade. Furthermore, graph 7.5 tells us that these headquarters relocations are almost more and more increasing distribution across the latest decade, which means most firms with headquarters relocation, are generally rational according to their own strategies of growth and choose the better locations according to the principals described in our model.

Graph 7.5: the time of headquarters relocation



7.6 Summary

Generally, all 13 factors above mentioned are important except for “the different wishes of the most staff to the headquarters relocation” in the viewpoint of these respondents irrespective of industry. All firms think “to be more suitable for the strategy of expansion in domestic cities” is the most important factor. Of course, since we tried to find out the principles in headquarters relocation from the perspective of individual firms, both internal factors and external factors should be taken into account because of their different detailed situations.

Chapter 8

Conclusion

In this chapter, the summary of the dissertation is presented. At the same time, applicability of the model and the suggestions for further research are discussed.

8.1 Summary of the dissertation

Domestic firms' headquarters relocation between domestic cities is a new kind of economic phenomenon in the past few years in China. It has a very big influence both on the economy of the cities and these firms. But there is a lack of academically reliable research on headquarters relocation from the perspective of Chinese firms. The purpose of this dissertation is to find the factors that can explain headquarters relocation from the perspectives of internal and external areas of the Chinese firms. We also want to develop a model which can be used to evaluate the situation of firms those have plans to relocate their headquarters, on the basic of relevant literature review and our case study of headquarters relocation.

In the review of relevant theories, firstly, from firms' external perspective, we focus on geographical economics and Porter's cluster theory to find what general relationship there is between firms' headquarters location and geography. Secondly, from firms' internal perspective, we focus on the theories of Alfred Chandler and other researchers to explore what relationship between firm's headquarters location and their strategy and structure. Finally, we further explore the evolution of headquarters in several decades.

Based on the case study of a fashion firm in Ningbo, Shanshan Group, our model is developed. There are six internal factors and four external factors. In order to perfect our model, we check the possible factors with firm relocation theories and relevant

headquarters relocation papers to find out the complementary factors. As a result, one internal factor and three external factors are reinforced. That is to say, two types of the factors, seven internal factors and seven external factors, are contained in our model. We think these fourteen facts are important when Chinese firms make the decision to relocate headquarters. Out of the model, we set up two hypotheses.

To test the hypotheses we conducted a survey by using a questionnaire on the Internet. We also interviewed with two general managers. The purpose with the survey was to see in how much degree firms agree to each of fourteen factors in affecting the decision of headquarters relocation. The participants were contacted by E-mail and the video telephone on the Internet.

From the beginning the sample consisted of 50 firms. Ten of the firms we contacted could not participate in the research because of some reasons. The response rate of our research was 80%. To analyze the questionnaire we adopted the method of SPSS.

The result from the survey indicates that the thirteen factors listed in the questionnaire were regarded important because the statistics show that thirteen factors get the mean value higher than 4 (see table 7.1). And the strategy of expansion, more specialized personnel, better transport situation and better firm's image are the core factors in influencing the decision of headquarters relocation (see table 7.1). These factors, the managers' characteristics, more business information, better financial services, to make relevant merges and acquisitions convenient, to be closer to the most important customer markets, to get better municipal infrastructure and living environment, firm has the transparent and open structure of property, to get much more local government support, to balance firm's development and social obligation, are important factors in influencing the decision of headquarters relocation (see table 7.1). The factor of "the different wishes of the most staff to the headquarters relocation" has the minimal mean value that less than 4 (see table 7.1). It means that the factor needs not to be considered to most firms when they make a decision of headquarters relocation. It is a

weak factor.

Consequently, we revise our model to remove this factor. So, in our model, there are six internal factors, to be more suitable for the strategy of expansion in domestic cities, the managers' characteristics of favorite of continuing challenges and being together with industrial elites, to become famous and have a good reputation in public, to make relevant merges and acquisitions convenient and be easy to manage them, to balance firm's development and social obligation, the firm has the transparent and open structure of property. There are also seven external factors in our model, to be closer to the most important customer markets, to get more business information conveniently and efficiently, to get much more local government support, to get more specialized personnel, to get better financial services, to get better municipal infrastructure and living environment, to get better transport situation. At the same time, we can see the general analysis of the four most important factors in headquarters relocation available still in firms of different industries.

But we limited our research to a specific area that is a fashion firm and Zhejiang province of China. If we can research more different firms or different province, we can improve the result better.

8.2 Applicability of the model

Our model has two main areas, one is municipal government and the other is these firms that have plans to carry out headquarters relocation. When we come back China, we will present it to local government such as Hangzhou Ningbo and Wenzhou so that they can know much better the thoughts of these continually-growing firms and attract much better headquarters location. From the perspective of micro-economy, we will present it to local firms through the non-official institutions such as the association of entrepreneurs. Of course, the research is significant to growing firms with various ambitions to make right decisions at future moment.

Nowadays, with the rapid development of Chinese economy, there is a phenomenon of “headquarters economy” in metropolises such as Shanghai, Beijing and Guangzhou. Firms should be cautious throughout the whole changing situation. Firms should make decisions and do business according to the principles of market economy. After all, headquarters relocation has risks whatever in finance or long term operation. This is why we did the research and had ambition to give those firms a hand in making decision of headquarters relocation.

8.3 Suggestions for further research

Headquarters relocation of Chinese domestic firms within China is a new economic phenomenon in recent years. It has a very big influence on both cities and firms. We believe it is worthy of doing further research. With this dissertation as an experimental test, further research can be done in the following areas:

- 1, We limited the study in the Zhejiang province of China, which reduces the possibility of generalizing research results, it will be meaningful to do a larger survey or case study on other areas in China or other kind of industries to get more useful information. Such further research can improve the value of research.
- 2, The quantity of interview companies can be increased. The questionnaire cannot cover everything. If we interview more firms, we can get more useful information and generalize the result of research better.
- 3, Those domestic firms who have the plans to relocate their headquarters but not to do now can be investigated. Such further research can make the study of headquarters relocation become more perfectly.
- 4, This dissertation only focuses on the firms’ headquarters relocation from medium or small sized cities such as Ningbo or Wenzhou to metropolises such as Shanghai or Beijing within China. The research, focus on the domestic firms’ headquarters

relocation between metropolises, can be done. This kind of researches can improve the value of research.

5, Headquarters relocation will force the firms to face multitudinous uncertainty factors. So the firm headquarters relocation is a behavior that contains a high risk. Such researches, how to evaluate and control the risk, can also be worthy to do.

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Appendix 1

Questionnaire

Dear Sir or Madam:

First of all, we are glad to communicate with you. We are civil servants of China. We are dispatched by Ningbo municipal government to be studying in Kristianstad University in Sweden. Now we are writing a Master dissertation. Our dissertation is about the headquarters relocation of firms between domestic cities because this issue is so important that the relevant firms have to handle it carefully. In fact, we could find some firms succeeded after headquarters relocation but some failed. We hope that we can help those firms that have plans of headquarters relocation make right decision through our research.

Our dissertation not only is based on former theoretical researches but can be proved by empirical approach. So, your anticipation is also very important to us because the survey is right significance of our model of headquarters relocation. We appreciate your punctual responses to our questionnaire very much. Of course, all information collected for the survey will be kept confidential.

We will contact you by e-mail or post. If you have any question, please call the number 0574-73325678 or send e-mail to zjnbyygz@sina.com or hu_zhigang@hotmail.com. Please reply us no later than Nov. 20th, 2006.

Thanks for your help.

General information

Note: Please answer the following questions according to actual information of your firm. Please tick $\sqrt{\quad}$ in the \square based on the facts for questions.

1. Which industry was your firm engaged in when the headquarters relocation happened?

- Fashion Electric appliance Hardware appliance
 Diversified investment (more than 3 industries)
 Other (please describer it)

2. What type of property does your firm belong to?

- Listed in the Stock Exchange Private
 Joint venture Other (please describer it)

3. Which city did the firm locate to before headquarters relocation?

- Hangzhou Ningbo Wenzhou
 Other city (please describer it)

4. When did the headquarters relocation happen?

- Before 1997 1997-1999 2000-2002 2003-2005

5. What is your position in the firm?

- Owner General manager Assistant of G. manager
 Other (please describer it)

Evaluation of different factors

Note: The following questions are designed to find out whether or not the listed factors are important and the degree of importance for the firms to make a decision of headquarters relocation. Please tick $\sqrt{\quad}$ in the \square based on your point of view.

Factors: Why did we move headquarters to new location?		Not agree at all						Absolutely agree
		1						7
1	To be closer to the most important customer markets	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
2	To be more suitable for the strategy of expansion in domestic cities	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
3	To get more business information conveniently and efficiently	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
4	The managers' characteristics of favorite of continuing challenges and being together with industrial elites	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
5	To get much more local government support	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
6	To get more specialized personnel	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
7	To get better financial services	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
8	To become famous and have a good reputation in public	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
9	To make relevant merges and acquisitions convenient and be easy to manage them	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
10	To get better municipal infrastructure and living environment	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
11	To balance firm's development and social obligation, which causes headquarters was separated from production plants	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
12	The firm has the transparent and open structure of property (e.g. the important management, technicians or marketing personnel can hold the firm's shares)	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
13	To get better transport situation, such as an international airport, an international port and a convenient expressway framework	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>

14	The different wishes of the most staff to the headquarters relocation	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/>
	If you think there are other important factors, please write down here	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/>

Appendix 2

问卷调查

尊敬的女士/先生：

您好！

我们是宁波市政府公务员，今年公派留学在瑞典克里斯蒂安斯塔德大学攻读国际商务和公共管理专业硕士学位。现在我们正在写毕业论文，题目为《中国企业总部跨省市迁移---宁波杉杉集团总部迁移案例研究》。目前，企业总部搬迁成为国内所谓“总部经济”研究的热点，对有意实施总部迁移的企业来说，弄清楚要不要迁移和迁到哪个城市非常重要。在现实中，我们也可以找到有些企业成功了，而有些企业失败了，甚至迁回原地。

我们希望我们的研究可以帮助那些有意实施总部搬迁的企业做出正确的决定。我们的论文不仅是基于理论研究，而且同时采用实证方法。您的合作对我们非常重要。为了完成样本采集，我们真心希望能在贵公司的帮助下完成这次调查。我们将会对此次调查具体内容进行保密。填好问卷后，烦请发送电子邮件至：zjnbyyzg@sina.com 或者 hu_zhigang@hotmail.com。

如果您有任何问题，请电 0574-73325678。请在 2006 年 11 月 20 日之前答复我们。

对您的支持再次表示衷心感谢。

致，

礼！

一、基本信息

填表说明： 请把选项代码填入括号内

一、总部搬迁时，贵公司从事什么行业？（ ）

- 1, 服装 2, 家电 3, 五金制品 4, 已经多元化（从事三个行业以上）
5, 其他行业（请描述）-----

二、贵公司属于（ ）

- 1, 上市公司 2, 私营企业 3, 合资企业 4, 其他（请描述）-----

三、贵公司总部原来在哪个城市？（ ）

- 1, 杭州 2, 宁波 3, 温州 4, 其它城市(请描述) -----

四、贵公司总部搬迁发生在（ ）

- 1, 1997年以前 2, 1997-1999年 3, 2000-2002年 4, 2003-2005年

五、您在企业中的职位是（ ）

1. 董事长 2. 总经理 3. 副总经理 4. 总经理助理
5. 其他（请描述）-----

二、评估不同因素

填表说明：以下问题是贵企业在做出迁移总部决定时可能考虑的因素，请根据您的个人的理解，按照影响企业做决定的重要程度选择相应选项。请把选项代码填入括号内：**1=根本不赞同… 4=比较赞同… 7=十分赞同**

您同意是下列原因促使贵公司实施总部搬迁？		根本不赞同 1						十分赞同 7
1	企业总部将要迁入的城市有一个更大的客户市场	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
2	企业采取了快速扩张的发展战略	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
3	迁入的城市能提供更好的信息平台	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
4	决策者喜欢挑战和与行业精英打交道的个性	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
5	迁入的城市政府提供更多的政策支持	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
6	迁入的城市提供更多更好的人力资源	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
7	迁入的城市提供更好的金融服务	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
8	提升企业形象和在公众中的声誉	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
9	在迁入的城市中便于并购和产业布局	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
10	迁入新城市优良的基础设施和生活环境	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
11	处理好迁出地就业、地方政府税收和企业长远发展的关系	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
12	企业有明晰和开放的产权便于骨干人员持股	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
13	迁入的城市具有优良的地理位置和海陆空交通条件	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
14	普通员工与经营层对总部搬迁的不同意愿	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>
	您认为其他影响贵企业做出迁移总部决定的因素还有：（请描述）	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>	6 <input type="checkbox"/>	7 <input type="checkbox"/>