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Why are so many Dutch companies relocating abroad?

By ***Marc G. Baaij***

For much of the 20th century, most western multinationals had two somewhat separate identities: a vast multicultural, multi-country enterprise that stretched around the world, and a home office that tended to be very homogenous and even somewhat cosy, like the capital city of a sprawling empire.

There were often good economic reasons for this cultural division: the eastern and southern parts of the world tended to be an important source of raw materials, while the west and north were the home of capital, skilled labour, and customers. But now that more and more companies find that their most promising markets are in the east, along with some of their most promising talent and the fastest-growing pool of investors, the reasons for keeping corporate headquarters (CHQ) in the west are suddenly much less clear.

In a recent study I conducted with my RSM colleagues Tom J.M. Mom, Frans A.J. Van den Bosch, and Henk W. Volberda, we found that many of the 100 largest Dutch companies are moving or are planning to move some of their core head office functions abroad.

Stay or go?

I first became aware of this trend several years ago, in a previous position at a strategy consultancy firm. The CEO of a Dutch company asked the consultancy to advise him on whether the company headquarters should relocate to the US. They had recently made a major acquisition in the US, and the new company's centre of gravity had shifted there.

It was a bold move, and it interested me for a number of reasons. One was that unlike most corporate decisions, such as relocating a factory or changing a vendor, a headquarters move affects the executive team directly. Often, it represents a major personal commitment: it's one thing, for instance, to take an expat post in China for a year or two, and quite another to decide to spend the rest of your career in another country, far from home. For another, it seemed like a new stage in the internationalisation of companies – the advent of a world of truly global companies.

When I returned to university to teach, I looked into this issue more and found that although many scholars have investigated multinational management practices in some detail, they know surprisingly little about how companies make this kind of relocation decision.

To find out more, my colleagues and I invited the top executives of each of the top 100 Dutch multi-national corporations (MNCs) to fill out a survey. In all, 58 CEOs and their chief officers in four functional areas (finance, technology, procurement and human resource management) filled out surveys, and many of them also made themselves available for interviews.

Initially, we expected to find relatively few companies ready to leave the Netherlands. Except in certain extreme situations, such as a major merger, who would want to go to the trouble of moving their headquarters to a new country?

At first, this did seem to be the case. However, as we began to learn more, we realised that if you looked at the

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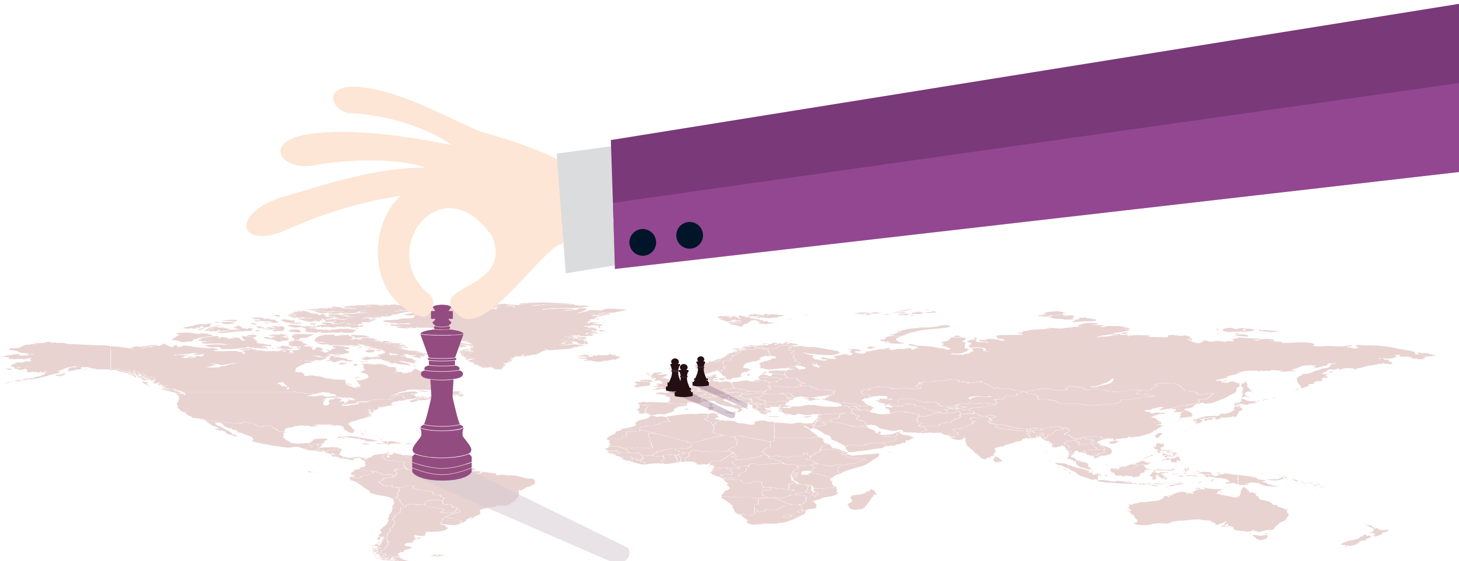

head office as a conglomeration of three distinct groups – the executive team, core staff functions, and the company's legal home – the picture looked very different: 57 per cent of the corporations in our study have relocated one or more parts of their CHQ abroad, and within five years, 71 per cent of executives polled say, they will have sent at least one of their functions out of the Netherlands.

We also found that a few more core staffers have been relocated than executive managers – 43 per cent to 41 per cent. This balance may shift, however, over the next five years. Sixty per cent of executives surveyed say they expect their executive teams to be relocated, while 48 per cent expect more core staff to be sent abroad.

Rather than making a shift abroad in one giant step, companies are moving incrementally. The changes seem to be more like something I've seen at a major Dutch company that still keeps its big office headquarters here: although the façade is the same and the company's logo is still on the building, the offices keep getting emptier – that is, those that have not been leased out to other tenants – as more of its key executive operational functions are being sent elsewhere.

So far, none of the corporations within our sample have relocated their entire headquarters. However, the number of companies that have moved one or two of the three functions abroad has grown, and 5 per cent of respondents intend to move all three functions over the next five years, at which point they will effectively become non-Dutch companies.

Why relocate?

A number of factors encourage executives to send particular functions away: either to get closer to strategic stakeholders, to gain better access to key resources (including capital, talent, and industry-specific services), or for tax or regulatory advantages.

Often, such moves are made in order to keep up with a major change in the market. For example, one executive told us, 'Our top-line growth has to come almost exclusively from emerging markets. In five years' time the majority of our sales will be from non-western markets. How are we going to realise that ambition with a CHQ that is almost completely staffed with home country natives who operate from an office in the home country?'

Few managers now assume that they need to keep all the core functions of their executive leadership in the MNC's home country; after all, geographical colocation is not a law of nature, particularly in this era of free and instantaneous global communication. Moving core aspects of the central office overseas may bring strategic benefits to the MNCs.

But even if a move makes sense on paper, sending functions abroad is a big decision. 'You cannot just pick up your headquarters and expect all of your talents to go with you,' one executive said. Many key staff members won't necessarily follow. Legal barriers and domestic political considerations may also make relocation more costly than it might appear.

Despite these challenges, we expect to see the lights continue to go out one by one in corporate headquarters all over the Netherlands. The cost and efficiency advantages to being a fully global enterprise are too great. This does not necessarily mean that every Dutch C-suite will be on the next nonstop from Schiphol to Shanghai, nor that those functions will find a new permanent home. Instead, over time, our research suggests that boards will treat the location of MNC executive functions like any other corporate asset, and subject it to a continuous, dispassionate review.

These relocations also raise some important questions for managers and management scholars. What will happen to corporate cultures if executive functions are no longer geographically centralised? How much more difficult will it be to create a strong culture when so many employees no longer spend their entire working life with one company or even in one building? Will employees feel as loyal when they log on to a company website as when they walk in through the front door of a headquarters building? Will staff be able to feel close to a company that is more or less in constant motion? ■

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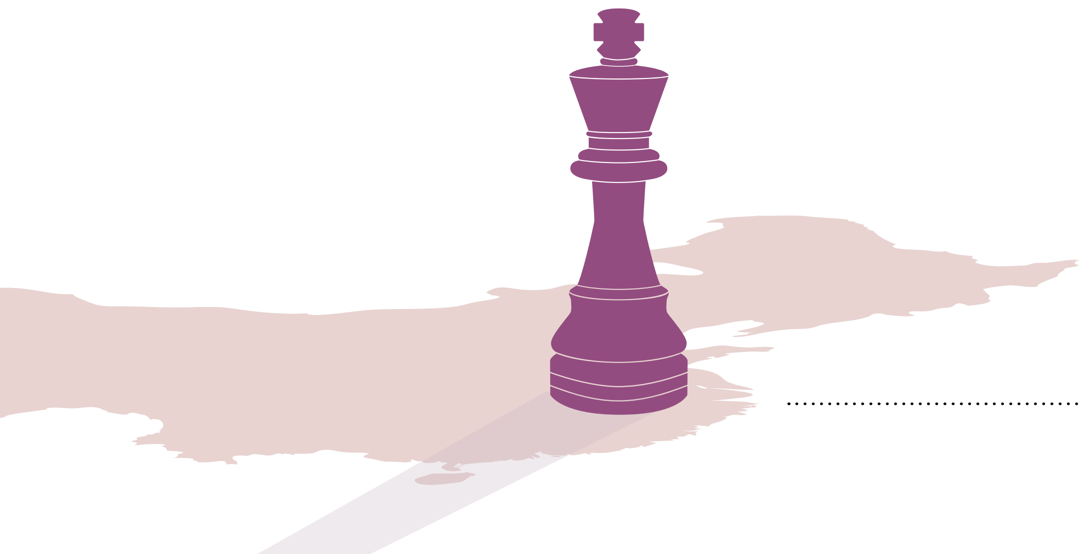

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