



# Building a “Headquarters Economy”: The geography of headquarters within Beijing and its implications for urban restructuring



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## ABSTRACT

As command centers, headquarters (HQ) of large firms are crucial to the economy of cities where they are located. Since HQ of large firms play a key role in shaping the urban structure, it is important to investigate the locational patterns of HQ within a city for both academic and policy considerations. Based on a data set of publicly listed firms with HQ located in Beijing, we found that the spatial distribution of HQ is characterized by both agglomeration and dispersion. On the one hand, HQ are significantly agglomerated at different geographical scales. Several clusters of HQ have been identified in our study. Moreover, a suburbanization of HQ trend has also emerged. The regression analysis shows that firm attributes, including sector, scale, ownership and year of going public, may explain the location pattern of HQ. We conclude by providing a detailed analysis of HQ distributions within Beijing that is being shaped by both market and state forces; it also highlights the role of HQ location in urban restructuring. The agglomeration of HQ is persistent and could be the results of the interplay between market and state forces, among which the agglomeration economy as well as the urban planning are most important. The results could also shed some light on the development of a “HQ economy” and urban planning for other cities.

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## Introduction

Headquarters (HQ) are in charge of some, if not all, of the strategic functions of firms (Godfrey & Zhou, 1999; Rice & Lyons, 2010; Taylor & Csomós, 2012; Taylor et al., 2009; Tonts & Taylor, 2010). As command centers of firms, the HQ of large firms are crucial to the economy of cities where they are located in many ways (Csomós, 2013; Godfrey & Zhou, 1999; Taylor & Csomós, 2012; Taylor et al., 2009; Testa, 2006). Firms tend to relocate their HQ or regional HQ to other cities when they need to adapt to constantly changing economic situations (Holloway & Wheeler, 1991; Klier, 2006). It has become a feasible strategy for cities to attract the HQ of large firms in order to advance their urban and regional economies (Klier & Testa, 2001; Testa, 2006).

The overall economic influence of HQ on the urban and regional economy is often termed as “HQ economy”,<sup>1</sup> which has been widely used and adopted by Chinese local governments in developing urban economies (Chan & Poon, 2011). The entrepreneurial endeavour of

China’s governments (Wu, 2002) can also be observed in their efforts to build a “HQ economy” at the local level. Given the significant benefits that could be generated by the so-called “HQ economy”, local governments tend to adopt preferential policies to attract HQ (Chan & Poon, 2011). Many cities such as Beijing, Shanghai and Shenzhen have advanced their “HQ economy” strategy by attracting the HQ of large firms or the regional HQ of foreign firms (G. Zhang, 2013; Zhao, 2013). In addition, building a “HQ economy” is considered as “a path towards industrial upgrading”<sup>2</sup> in China. This phenomenon could also be observed in developed countries. For example, Tokyo launched a special zone for Asian HQ in 2013.<sup>3</sup> Moreover, HQ are sometimes seen as playing an important role not only in shaping the overall spatial pattern of office buildings within a city but also in influencing the employment opportunities and resulting traffic flows. Attracting HQ could also be a key concern of urban planning and urban development strategies.

Existing studies on the geography of HQ of large firms have paid little attention to their locations and agglomerations within a city.

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<sup>1</sup> <http://english.sohu.com/20051229/n227704100.shtml>.

<sup>2</sup> <http://www.china-briefing.com/news/2012/03/15/chinas-headquarters-economy-a-new-path-to-industrial-upgradation.html>.

<sup>3</sup> [http://www.chijihon.metro.tokyo.jp/ahq\\_project/english/news-events/press/20130726.html](http://www.chijihon.metro.tokyo.jp/ahq_project/english/news-events/press/20130726.html).

Most of them have focused on the distribution of HQ among different cities (Bel & Fageda, 2008; Klier, 2006; Meyer & Green, 2003; Pan & Xia, 2014; Rice, 2010; Rice & Lyons, 2010; Tonts & Taylor, 2011, 2010). Theoretical and empirical research suggests that HQ are highly agglomerated in metropolitan areas in western countries (Davis & Henderson, 2008; Henderson & Ono, 2008; Lovely, Rosenthal, & Sharma, 2005; Strauss-Kahn & Vives, 2009). Recent studies on the geography of HQ of large firms among Chinese cities found that HQ are mostly concentrated in large cities such as Beijing, Shanghai and Shenzhen (Pan & Xia, 2014; Wu & Ning, 2010). It is pointed out that HQ are highly agglomerated within metropolitan areas as well (Meyer & Green, 2003). However, the spatial patterns and underlying mechanisms of the HQ distributions within a city have been underexplored. So is their interaction within a city's evolving urban structure.

The rapid rise of both large firms and world cities in China has impacts both within and beyond the urban territory. Studying the development of the "HQ economy" is of central importance as the relocation of HQ often results in restructuring of metropolitan areas.

Of all the cities involved in building a "HQ economy" in China, Beijing has been the most successful. It has made great strides in presenting itself as a world city (Wei & Yu, 2006). Among all the means applied by the local government, attracting HQ of domestic large firms and regional HQ of multinational corporations (MNCs) turns out to be the most effective, because Beijing has an "information advantage" due to its administrative role (Wang, Zhao, Gu, & Chen, 2011; Zhao, 2003; Zhao, Cai, & Zhang, 2005; Zhao, Zhang, & Wang, 2004). Beijing, as the capital of China, has become the leading city and home of the HQ of large firms in China. In 2013, Beijing surpassed Tokyo to become the No. 1 city housing the most HQ of Global Fortune 500 companies.<sup>4</sup> The most centrally directed firms by SASAC (State-owned Assets Supervision and Administration Commission) and the Minister of Finance are located in Beijing. Moreover, Beijing is also home to the largest number of HQ of publicly listed firms (Pan & Xia, 2014). Beijing has also attracted the most HQ of domestically publicly listed firms relocating from other cities in China (Pan, Xia, & Liu, 2013). The latest case is SANY Group, a publicly listed firm that moved its HQ from Changsha to Beijing. More recently, many multinational corporations have setup new regional HQ in Beijing or relocated their regional HQ to Beijing. For instance, the regional HQ of Benz in Great China relocated from Hong Kong to Beijing in 2012.<sup>5</sup> Promoting the "HQ economy" has proved to be an important way for Beijing to improve its competitiveness and to build on its reputation as a world city in the global era. However, after firms decide to locate their HQ in certain cities (e.g., Beijing) over others, where to locate their HQ within the city is the question that needs to be addressed.

Given the leading position of HQ in shaping the urban structure, it is particularly necessary to analyze the geographical distribution of HQ from the urban planning perspective. As an emerging "global capital city" (Chubarov & Brooker, 2013), the urban structure of Beijing has evolved from a monocentric model to polycentric one (Feng, Wang, & Zhou, 2009; Qin & Han, 2013). At the same time, Beijing is suffering from problems like the expansion of the central built-up area, traffic congestion, air pollution and other urban issues. It is also struggling to achieve a compact development plan (Yang, Shen, Shen, & He, 2012). Since the local government has been so eager to build a "HQ economy" zone, this will definitely influence the city's urban structure in the near future. In this paper, we will discuss how the geography of HQ within Beijing and the resulting urban structure have been interacting with each other.

Based on a data set of publicly listing firms that have their HQ located in Beijing, we found that the spatial distribution is both agglomerated and dispersed. On the one hand, HQ are significantly agglomerated at different geographical scales. There also emerged a polycentric form as several distinct clusters could be identified. The regression analysis discussed below reveals that specific firm attributes, including sector, scale, ownership and year of going public, are crucial to explaining the location pattern of HQ.

The remainder of this paper is organized as follows. The next section proposes a conceptual framework for analyzing the HQ location within a city in a transitional economy, followed by a discussion of the data and the methodology. Section 'The Geography of HQ within Beijing: an example' maps the HQ distribution within Beijing, which is then followed by a regression analysis on factors that may influence HQ location. Section 'Discussion' discusses the factors that have impacts over the spatial distribution of HQ centers as well as the interaction of the HQ distribution and urban structure. The final section concludes the study.

### HQ location within a city of a transitional economy

Most empirical and theoretical studies on location of HQ in developed economies have paid much attention on the role of market forces such as benefits and costs of a specific locational choice of HQ (Bel & Fageda, 2008; Davis & Henderson, 2008; Henderson & Ono, 2008; Lovely et al., 2005), while the importance of the state factors in determining HQ location have been largely overlooked. Institutional contexts have been considered critical in the distribution of HQ of large firms within China's urban system (Pan & Xia, 2014). Specifically, the location of HQ of large firms within a city in China could also be influenced by policy interventions and the unique institutional background.

Urban transformation in China has been shaped by the interplay between the state and market (Han, 2000; Zhang, 2003). In other words, the HQ locations of large firms within a city can be seen as the result of the coexistence of the state bureaucracy and market forces in a transitional economy.

As economic liberalization deepened in China, the market became increasingly important in China's economic development (Naughton, 2011). One of the critical characteristics of China's urban transformation has been the land-centered urban development (Lin, 2007). With land use reform, one significant change in Beijing from late 1980s onwards was the emergence of the Central Business District (Gaubatz, 1995), as well as the rapid increase in land prices in Chinese cities. Firms need to take into account land price when choosing a HQ location, even state-owned firms. Land price is particularly crucial in small and new firms' decision-making process.

Agglomeration economies take place in the CBDs of the larger metropolitan areas (Drennan & Kelly, 2011), and are critical in explaining HQ location and overall agglomeration within a city. On the one hand HQ may locate in the specific area to enjoy specific regional advantages such as the high quality of infrastructure, diversified community, convenient living environment, presence of high-end producer service, excellent university and research institutes. On the other hand HQ tend to locate close to each other. Firms can obtain agglomeration economies not only by sharing common inputs and the same labor market but also by enjoying information spillover (Duranton & Puga, 2004; Rosenthal & Strange, 2004; Davis & Henderson, 2008; Lovely et al., 2005). Admittedly, due to the growing cost of being in the CBDs and development of information and communication technology (ICT) some firms may move their HQ out of urban centers (Boiteux-Orain & Guillaing, 2004).

<sup>4</sup> [http://news.xinhuanet.com/2012-07/18/c\\_112471530.htm](http://news.xinhuanet.com/2012-07/18/c_112471530.htm).

<sup>5</sup> <http://auto.jrj.com.cn/2012/10/31/120014599862.shtml>.

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