Where The Executives Roam

Extended Stay Hotel's headquarters in Spartanburg, S.C.

Corporations have more options for locating their headquarters than ever before, benefiting smaller metropolitan areas

BY CHARLES GERENA

Spartanburg, S.C., has a downtown in transition. Some blocks resemble an old-fashioned Main Street, with two-story, brick buildings renovated for use by restaurateurs, retailers, and small business owners. Other blocks were cleared of their historic occupants years ago to make room for office buildings like the headquarters of Extended Stay Hotels.

Sculptures and manicured public spaces adorn the stately granite and brick exterior, making Extended Stay's four-story headquarters building look like it was plucked from a college campus. Inside, about 200 workers occupy two floors, while a law firm and an insurance underwriter occupy space on the other two floors.

For years the Extended Stay headquarters site was undeveloped. A 1970s-era plan to construct an office complex and shopping plaza was abandoned after the original developers couldn't secure financing. A 55,000-square-foot building was completed in the mid-1980s and now houses a bank branch and a few other tenants. But nothing else happened on the rest of the site, later given the hopeful moniker "Opportunity Block," until George Dean Johnson Jr. made a major commitment to his hometown.

Johnson, co-founder and then-CEO of Extended Stay, announced in May 2001 that his company would relocate from Fort Lauderdale, Fla., to Spartanburg and build a $13 million headquarters on Opportunity Block. The 117,000-square-foot building opened its doors two years later.

Spartanburg has been transitioning from being the "Hub City" for textiles and other industry since the 1950s. After several fits and starts, the city is finally beginning to turn the corner. It has what corporate executives want, from a low cost of living for employees to transportation links to bigger cities like Charlotte. In turn, office development like Extended Stay's headquarters has given Spartanburg another path to economic growth.

"Part of what we're doing now is overcoming the pessimism that was there," says Ed Memmott, Spartanburg's assistant city manager for the last nine years. "The pessimism was real. You could feel it."

Spartanburg is not the only city experiencing this sort of rebound. Small and midsized metropolitan areas throughout the Fifth District are reaching a point in their development where they can compete with the largest metros in the Northeast and Midwest for a headquarters. At the same time, the needs of corporations have changed to favor locations beyond their traditional big-city environs. That means the benefits of a headquarters are available to more communities than ever before — corporate offices have strengthened the services sector of cities like Richmond and Charlotte, as well as diversified the economies of former manufacturing towns like Greensboro and Spartanburg.

The fiercer competition for corporate headquarters has prompted local and state governments to open up their goody bags of tax breaks, real estate subsidies, and other incentives that used to be reserved for recruiting and retaining manufacturers. For example, Boeing will get more than $60 million in income and property tax credits over the next 20 years for relocating its headquarters from Seattle to Chicago in 2001.

But many observers question whether it was worth paying more than $100,000 in incentives for each of the 400 employees Boeing has in Chicago. In fact, a corporate headquarters brings relatively well-paid jobs to a local economy, although not as many as it used to, as well as tangible and intangible economic benefits. But incentives aren't as important in reaping these benefits as supplying an educated labor force, transportation infrastructure, and other essential ingredients to support

PHOTOGRAPHY: COURTESY OF SPARTANBURG CONVENTION & VISITORS BUREAU any type of economic activity, including a corporate headquarters.

How Boardrooms Benefit Main Street

Spartanburg leaders did a number of things to jumpstart development downtown. There were regulatory changes that enabled firms to get projects built quicker. A new city manager was hired who cultivated a stronger relationship with the local business community.

While these were certainly important factors, along with a renewed interest in downtowns nationwide, many credit George Johnson's investments in Spartanburg as being the most important catalyst. Besides Extended Stay's relocation, Johnson supported the construction of a four-story headquarters in 2001 for the 300 corporate workers at Advance America, a payday lender he co-founded. His development firm also demolished two vacant structures to make room for a three-story office building right on Main Street.

These projects have encouraged others to invest more than $170 million in the city's downtown and create about 1,200 new jobs within the last three years. A 250-room Marriott hotel and a conference center were built in 2003, while a six-story headquarters was completed a year later for QS/I Data Systems and its 200-plus workers. White Oak Manor, a regional operator of retirement communities, moved its corporate offices into Johnson's building in 2003 and has about 50 employees there.

The influx of corporations has increased the city's revenue base — the headquarters for Extended Stay and Advance America boosted annual revenue in one property tax district from $600,000 to more than $1 million, according to Memmott. This is important because Spartanburg relies on property tax revenue, and many tax-exempt organizations own land downtown. Also, restrictive annexation laws make it difficult for the city to expand its boundaries into areas of Spartanburg County where it provides municipal services.

Corporate offices have also introduced more white-collar jobs into Spartanburg's traditionally blue-collar economy. Ralph Hilsman has witnessed this change since he moved there from Washington, D.C., in 1986 and started a marketing agency. "Either you owned the mill or worked in the mill," he recalls. Now, there are middle-class professionals in the employment mix.

A corporate headquarters employs executives and senior-level managers in addition to administrative and clerical staff. These workers earn more than most service and production laborers, bringing additional dollars into the local economy and fueling demand for products and services. Restaurants have opened around Morgan Square at the center of downtown Spartanburg, each hoping to snag some of the corporate workers who eat out for lunch.

A headquarters operation also spends money on legal, accounting, finance, and other high-level business services. While these dollars often go to national firms, some of them flow into local businesses, notes John Lombard, director of Old Dominion University's Williams Center for Real Estate and Economic Development. But Lombard and others say it is difficult to quantify this spending. "I'm not optimistic that headquarters have as dramatic an impact on the fiscal side as we'd like," he adds.

Spartanburg's growing corporate presence has created new business opportunities for Hilsman. Denny's and QS/I have hired his agency, The Creative Edge, for small projects. Still, Spartanburg's corporations see the need to go outside of the region for some business services, Hilsman says. Indeed, Extended Stay uses an advertising agency in New York and a public relations company in California, although it does hire local firms for printing and procurement services.

Giving Back

Another way corporations can impact a community is through their philanthropic and civic activities. In a survey of senior managers in charge of corporate community relations and investment, the Social Science Research Council found that 80 percent of corporations direct their single largest contribution to a nonprofit in their hometown. Furthermore, 77 percent of a company's charitable giving stays within the community.

Many of the survey respondents "spoke of the norms of 'giving back' to the communities in which they are embedded," commented the 2004 study's authors. "Another reason behind this would be the possibility of tax cuts and financial benefits tied to their respective metropolitan areas. Finally, corporations benefit from publicity and goodwill with the local community through donations or supporting nonprofits and schools in the area."

Examples of this community involvement abound in the Fifth District. Corporate leaders at Bank of America and Wachovia have poured millions of dollars into transforming their hometown of Charlotte, with contributions going to building mixed-income housing in First Ward — a formerly blighted neighborhood — as well as new office and retail space in the center of the city.

Local textile executives used to be the primary benefactors in Spartanburg, says Chris Steed, vice president of community impact at the United Way of the Piedmont. "When the bottom fell out of the textile industry, the entire community hurt. We had the need [for our services] increasing and less funding to support those services."

Steed says the corporations that have moved into Spartanburg over the last decade or so have had "an enormous impact." Advance America, Extended Stay, and Denny's hold United Way campaigns yearly, as well as contribute money to local charities and encourage employee volunteerism.

The nonmonetary contributions that corporations make are just as important. Mark Sweeney, a site selection consultant based in Greenville, S.C., says a headquarters brings proven leaders who want to get involved in the community. "Such leadership greatly influences the life of a community, as well as its future."

Of course, not all executives put a high priority on philanthropy and volunteerism. Or, they may decide to focus their efforts on communities where a majority of employees are located, and that may not necessarily be their base of operations.

A corporate headquarters can be relatively small compared to the company's overall work force. Operators of supermarkets, banks, restaurants, and hotels have most of their employees in the field, not at their headquarters. For example, only 2 percent of Extended Stay's 10,000 employees work at its corporate offices in Spartanburg.

In general, head offices have a smaller headcount than they used to. "Companies have gotten flatter and the headquarters operation has become leaner," notes Thomas Klier, a senior economist at the Federal Reserve Bank of Chicago. Instead of employing their own staff for legal, forecasting, and other administrative work, many corporations procure these services from outside firms.

Also, companies have become more global in scope, making it necessary for key decisionmakers to be dispersed in some cases. ODU's John Lombard gives the example of a holding company with strategic business units operating in different regions. Human resources and other corporate functions are divided among these business units, while only a small group of executives at the head office provides centralized management.

Globalization has not only resulted in a dispersal of corporate control. It has also created a more competitive business environment, fueling waves of mergers and acquisitions that have resulted in the consolidation of redundant headquarters operations. For example, the merger of First Union and Wachovia in 2001 resulted in Wachovia moving its corporate operations from Winston-Salem to Charlotte, First Union's hometown. Three years later, Wachovia's Charlotte headquarters absorbed workers from Birmingham, Ala., after the bank purchased SouthTrust.

In some cases, mergers and acquisitions have led to companies departing the largest metropolitan areas, the nation's traditional centers of business and industry. When CP&L Energy merged with Florida Progress in 2000, the latter power company relocated its corporate workers from the Tampa-St. Petersburg-Clearwater MSA, ranked 20th in population, to the Raleigh-Cary MSA, ranked 51st. Changes in what corporations need and what communities can provide have also contributed to this migration.

What a Chairman Wants

As America's industrialization accelerated during the latter half of the 19th century, a headquarters would be located where the company produced its widgets, which was typically where natural resources were abundant and water, rail, and/or road transportation were available. Thus, corporate America tended to congregate in major metropolitan areas in the Northeast and Midwest with a strong industrial base at their core.

Throughout the 20th century, the nation's economy diversified, new centers of economic activity developed, and populations migrated. Companies also grew in size and their operations became more widely scattered. Yet the top 50 metropolitan statistical areas (MSAs) by population continue to command the lion's share of large corporate headquarters.

For one thing, the largest metro areas offer the cache of being in the "big city." A prestigious address on Park Avenue can make a statement about a business' standing in the corporate world. It also raises its visibility in the marketplace.

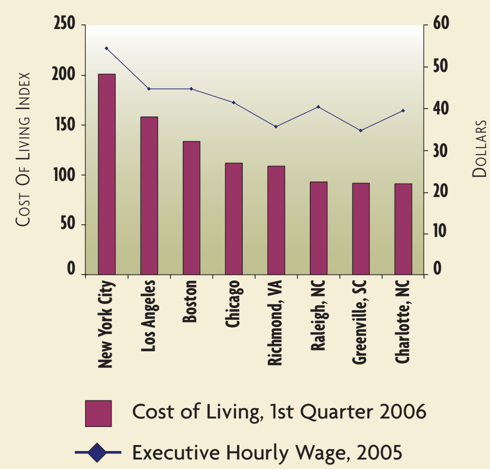
Large metropolitan areas offer another advantage: economies of agglomeration. Related firms benefit from locating near each other because they can attract more suppliers to a market, share infrastructure, and exchange information more readily, among other things.

When corporations cluster in large metros, they gain access to multiple communication suppliers, a well-developed transportation system, and a broad network of business contacts. This is important for executives who depend on intelligence from employees in the field, customers, colleagues, and outside experts to effectively manage their organization. Also, corporations have easy access to lawyers, accountants, and other professionals who have congregated in large metros to be near their biggest clients and each other.

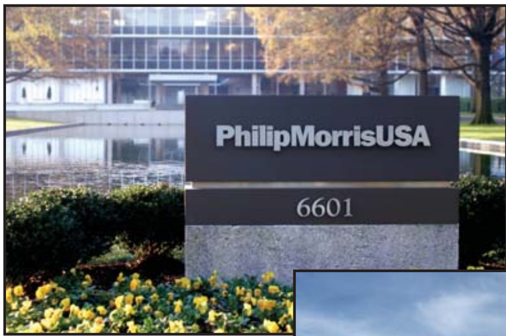
Having too many people living and working in one place has negative spillover effects, however, while smaller metropolitan areas have gained ground in creating a big-city backdrop for business. Lower communication and transportation costs have enabled a company to manage its operations from a broader array of locations. As a result, there has been a gradual diffusion of corporate headquarters from the largest metropolitan areas into growing midsized metros.

The Cost Advantage

A lower cost of living in smaller metropolitan areas enables corporate headquarters to lower their payroll expenses.



NOTES: Cost of Living is a composite index that reflects cost differentials for a professional or manager's standard of living. Taxes are excluded. Data for Raleigh and Greenville are for 2004.
SOURCES: ACCRA; National Compensation Survey, Bureau of Labor Statistics



Philip Morris USA and R.H. Donnelley are recent examples of companies that have relocated their corporate headquarters to the Fifth District. Philip Morris moved from New York City to suburban Richmond, while R.H. Donnelley moved from Purchase, N.Y., to Raleigh, N.C.

PHOTOGRAPHY: COURTESY OF PHILIP MORRIS AND CAPITAL ASSOCIATES OF CARY, N.C.

Having a more interconnected and global economy means that a company can move its headquarters "at the drop of a hat," Klier notes.

Research by Klier and William Testa, the Chicago Fed's director of regional programs, found gradual shifts in the geographic distribution of large companies during the 1990s. The share of headquarters located in the five biggest MSAs shrank from 36 percent in 1990 to 33 percent in 2000, while the share of headquarters in the rest of the top 50 MSAs expanded from 51 percent to 54 percent.

"Among the 50 largest metropolitan areas, those with population between 1 million and 2 million [ranked 23 to 50], experienced the largest growth in both population and large company headquarters during the last decade," noted Klier and Testa in a 2002 journal article. This group of midsized metros experienced 45 percent growth in the number of headquarters compared to only 19 percent growth among the top five MSAs.

Studies of previous decades found a similar pattern of migration. "New York City has been losing share [of corporate headquarters] to other metros for over 30 years," Klier adds.

Some executives have looked for a new corporate home to cut costs, the same impetus that has been behind the relocation and consolidation of manufacturing, sales, and distribution facilities. "Headquarters are the last frontier for great operational savings," consultant Mark Sweeney explains.

Executives have relocated to midsized metropolitan areas where land, office space, and other expenses can be lower. Corry Oakes, former president and chief operating officer of Extended Stay, says reducing the company's operating costs was one motivation behind its relocation to Spartanburg.

"Fort Lauderdale is a great city ... There was nothing wrong with our experience there," Oakes recalls. "It was just an expensive place to operate." In Spartanburg, Extended Stay was able to construct a new building to meet its purposes in the middle of a downtown for less than what it was paying in rent and other expenses.

Furthermore, midsized metros usually have a comparatively low cost of living. Not only is this a selling point for corporate recruiters, but it also means workers require less money to maintain the same living standards as in a bigger metro.

Of course, companies must pay a competitive salary to attract the best managerial talent no matter where they are located. On the other hand, "there is a lot less competition for a quality work force" in Spartanburg, Oakes notes. "Turnover in Fort Lauderdale was a challenge, and there is a tremendous cost for turnover."

While corporate relocations are happening in the name of saving money, an August 2005 study found that they may not yield the intended result. Researchers at the University of South Carolina Upstate and Old Dominion University looked at return on assets, return on equity, and other measures of operating performance for 167 corporations that moved their corporate headquarters during the 1990s. They found no overall difference in these measures before and after a relocation.

"All of the talk about cost savings by moving from Manhattan to Richmond, I don't buy it," says Lombard, one of the study's authors. Moving to a smaller metropolitan area can yield initial savings in operational expenses. However, there are other costs that aren't considered because they are harder to quantify. "The reality suggests that the disruption to operations and the loss of intellectual capital, due to key individuals deciding not to relocate, perhaps overwhelms any cost savings."

There are other motives driving corporate relocations from big cities. Smaller metros score better on some quality-of-life factors — they generally have shorter daily commutes, less crime, and better schools.

Smaller metros also offer some of the cultural and recreational amenities that executives are accustomed to. Spartanburg boasts the Twichell Auditorium, known for its superior acoustics, and Spartanburg Memorial Auditorium, the largest theater in South Carolina with 3,400 seats. In 2007, a $30 million cultural arts center is scheduled to open that will include museums and a 500-seat theater.

Finally, midsized metropolitan areas are maturing, reflecting the filling in of less dense areas in the United States. "The center of the population is shifting south and west, away from the Northeast," Chicago Fed economist Tom Klier describes. "At [some] point, you are large enough to be a player." Lombard agrees, noting that the talent required to fill executive positions is available in more metro regions than it was 10 or 20 years ago, thus reducing the cost of relocating a headquarters.

Service providers have been more likely to move their head office to follow the migrating population, Klier adds. "Where your customers are determines where you want the headquarters to be." Manufacturers have been slower to relocate their headquarters. They have spent years separating their management and production functions, the latter moving to places where labor and land are the most affordable.

Eventually, though, manufacturing executives have decided they need to be closer to their factories to keep an eye on them. Since the Southeast has been the destination for many new or relocated facilities, several manufacturers have followed in their footsteps. In 1997, Lorillard Tobacco Co. moved its headquarters from Manhattan to Greensboro, N.C., where it produces its cigarettes. Seven years later, Philip Morris USA also left the Big Apple and settled in Henrico County, Va., to be near its three plants and other facilities in the Richmond metro area.

Luring Corporate America

With more locations fitting the bill for corporate headquarters, economic development officials are working hard to distinguish their locales. They typically lay out an attractive spread of tax credits, direct grants, and relocation assistance.

Are such incentives necessary? According to site selection consultants, incentives usually don't play a pivotal role in the early stages of a company's search process. Richard Beard, a Greensboro-based developer who used to manage the local chamber's economic development efforts, says he dealt with "bottom fishers" who choose the location with the most lucrative inducements and take off when they expire. But they were the exception, not the rule.

Other factors that benefit a company's bottom line over the long run are more significant than the short-term boost of incentives. Especially at public companies with shareholders' interests at stake, there have to be sound business reasons for moving their headquarters.

Incentives matter only when the search for a headquarters narrows to a few locations that meet its needs, Beard asserts. "They are deal closers." When all other things are equal, "that's when incentives come into play."

Extended Stay Hotels received $760,000 in cash incentives from the city of Spartanburg that helped offset $9 million in relocation costs. Also, the city fast-tracked the construction permits for the headquarters and spent about $6 million on a public garage that connects to the building via underground passageways, enabling workers to quickly escape South Carolina's hot and humid summers.

These incentives helped Extended Stay's executives decide on Spartanburg, says Corry Oakes, one of the company's top executives at the time of the relocation. But they were only one part of the equation.

Another factor was the close ties between the community and George Johnson, the company's chief executive at the time of the relocation. Johnson is a Spartanburg native, went to college in the city, got his start in real estate there, and opened his first Extended Stay location there. Even when he ran the company from Florida, he kept a home in Spartanburg and occasionally flew back for visits.

"It certainly didn't hurt that we knew something about the area and the quality of the work force," Oakes says. But Extended Stay didn't pick up and move solely based on that knowledge and Johnson's commitment to bettering Spartanburg. "There were economic reasons for the move."

How often does a chief executive have such a personal history with the community that a corporate headquarters is moving to? Mark Sweeney says it's hard to say. In any event, Sweeney and others believe that it is just one factor in the site selection process. "The chief executive of a firm has a lot to say about a new location, but it is hard to imagine many corporate headquarters going to a location primarily because the current CEO happens to like it or lived there before," he notes.

Indeed, personal connections and incentives aren't enough to counter the forces of economic change. Some turnover of corporate headquarters is inevitable in the years to come as markets evolve and the needs of corporations adjust accordingly.

Therefore, Klier believes, communities should foster the qualities that are attractive for corporations and nurture native startups that could become the corporate giants of the future. "There is no reason why a company has to stay in one location over its life cycle," he says. **RF**

READINGS

Boyle, M. Ross. "Corporate Headquarters as Economic Development Targets." *Economic Development Review*, Winter 1988, pp. 50-56.

Gregory, Richard, John R. Lombard, and Bruce Seifert. "Impact of Headquarters Relocation on the Operating Performance of the Firm." *Economic Development Quarterly*, August 2005, vol. 19, no. 3, pp. 260-270.

Holloway, Steven R., and James O. Wheeler. "Corporate Headquarters Relocation and Changes in Metropolitan Corporate Dominance, 1980-1987." *Economic Geography*, Jan. 1991, vol. 67, no. 1, pp. 54-74.

Katz, Jane. "Get Me Headquarters!" Federal Reserve Bank of Boston *Regional Review*, 4th Quarter 2002, pp. 9-19.

Klier, Thomas H., and William Testa. "Location Trends of Large Company Headquarters During the 1990s." Federal Reserve Bank of Chicago *Economic Perspectives*, 2nd Quarter 2002, vol. 26, no. 2, pp. 12-26.

Speizer, Irwin. "Home Office." *Business North Carolina*, May 2005, pp. 40-49.

Strauss-Kahn, Vanessa, and Xavier Vives. "Why and Where Do Headquarters Move?" INSEAD Working Paper 2005/32/EPS, April 2005.