

Choosing the Perfect Spot

An exploratory study of the underlying factors behind companies' location decisions

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“Why is that company located there?” is a question that the reader probably is not unfamiliar with. Neither academically is the subject of companies' location decisions something new. For almost 200 years, scientists have explored the factors that impact these decisions and given numerous suggestions as to why certain locations are picked above others. But does theory really match practice? And what is considered important in the companies' own eyes? These were questions that laid the foundation for this master's thesis, where eight location decisions were investigated and explored in detail, later to be compared with a substantial collection of theory.

Different trends have been spotted over the years in how companies decide to locate their businesses. At times, more focus has been towards exploring possibilities abroad, while on other occasions, operations have more so transferred back domestically again. Consequently, there was a need to hear what the companies themselves emphasised as important, with respect to placement of their own facilities. Considering that the subject was heavily embedded within the company strategy of the study participants, it was necessary to find channels that held sufficient information in the matter. Therefore, company executives were approached with the location decision question and were given the opportunity to express what parameters that had been influential in their location decision context.

As for the academic literature in the subject, it was divided into four major contributing parts of factors that would

potentially hold meaning for a location decision:

1. Resource-based factors
2. Macro-environmental factors
3. Agglomeration and Competition factors
4. Stakeholder factors

Resource-based factors describe the resources and competences of a company (or, in this case, a geographical location). Macro-environmental factors, as the name suggests, include different influences in the company's macro-environment that would affect the business notably. Agglomeration and competition factors stem from theories addressing how locational competitive advantages arise from industry collocation and intense local rivalry. Lastly, stakeholder factors are connected to the impactful forces found both internally and externally for a company. Here, stakeholders were regarded as “parties who, in some way, had influence on the location decision”.

When interviewing the company executives, it quickly became apparent that the theory also held strong relevance in a real-world setting. Apart from this realisation, other significant factors surfaced that often were equally important as the four areas of theory. At the same time, all companies seemed to evaluate different factors as crucial for their individual location decision context. This finding made it difficult to rule out and disregard certain factors as irrelevant. Simultaneously, pinpointing factors, identifying them as universally important for a location decision, was also not possible. Thus, the conclusion is that a combination of the four areas of theory, together with the additional factors, delivers a good understanding of why a location was chosen by a company. Many of these factors were also observed to be linked with one another, and the connections led to a context that the company often valued above other alternatives when comparing locations.

Another conclusion was how company specific attributes affected the evaluation

of what factors that were deemed important. Characteristics such as size, age, industry, geographical location, what company function the decision was for, and company governance structure, all played a part in what underlying reasons the location decision had. However, despite these differences in characteristics among the participants, they all matched some areas of theory with the choices that impacted their specific business placement. It can therefore be assumed that it is highly likely that the background reasons for a location decision can be found within this theoretical framework.

The final words to conclude this article are that the subject needs further investigation with diverse lists of participating companies. Furthermore, expanding the study to contain geographical locations across the world would also be beneficial. Potentially, the subject could transcend from being explored to explained with such efforts.