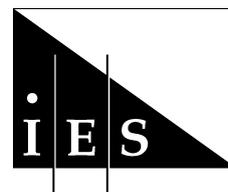


**PEOPLE, POSITIONS
AND PLACES:**
**Using labour market information to
improve locational decision-making**

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1. Introduction and Summary

This project was funded by the Research Club to take forward work in a much under-researched area: the role of labour market information in company relocation decisions. This report presents our main findings. Our view, based on work to date, is that while we have uncovered some interesting and hopefully valuable information, it would be helpful to take the work forward in more depth in the future.

1.1 Aims of the research

The main aim of the project was to investigate the use of labour market information (LMI) in decisions about where to locate business premises and jobs in the UK. Anecdotal information had suggested that expensive mistakes can occur where LMI is either not used, is misunderstood, or is marginalised in relation to other factors. The project has looked for evidence to back up such anecdotal information, and as will be seen, we have found some limited evidence of this.

1.2 Research issues

Companies who use labour market information to inform locational decisions typically ask a range of questions of labour market researchers, including:

- should we expand where we are or go somewhere else?
- which locations offer the best pools of suitable labour?
- are there traditions of related types of employment in these areas?
- what are the comparative wage labour costs of potential locations?
- will there be local competitors for the same pool of labour?
- what happens in different areas when labour markets tighten?
- will skills shortages result from too big an investment?
- what are the local cultures as regards labour relations, trades unionism *etc.*?
- how good is the local training and education system?

Development agencies and others produce much LMI in order to sell the benefits of their area, but companies ask researchers how useful such material is as a predictor of future labour market conditions? Relocating companies also sometimes ask researchers how they can best weigh the competing claims of different local areas concerning the skills and flexibility of their labour force? The project will investigate how LMI is perceived and used within companies, to help answer these questions.

1.3 Research methods

We applied two research techniques to this project. First we reviewed a wide range of literature to find out what is already known about the role of labour market information in locational decision-making. A problem with such reviews is that they can tend to over-state the evidence: we can only review what literature exists, and studies of role of labour market information in locational decision making will obviously focus on those companies that actually do use labour market information. One striking finding was the paucity of robust research and information in this area, and, among the literature we did review, the extent to which labour market information is peripheral in many such decisions (to relocate).

This literature is summarised in Chapter Two.

We also adopted a case study method for primary research, interviewing senior decision makers in a range of companies and organisations who either had, or were considering, major relocation decisions. These were spread across a range of sectors, including media, financial services and distribution. Our purpose here was to explore the extent to which labour market information had been influential, but also where it fitted into the wider decision-making process.

The findings of the case studies are summarised in Chapter Three.

1.4 Summary Conclusions

Why do companies relocate?

The literature we reviewed suggests that in the main labour market factors are relatively unimportant as a cause of relocation. However, satisfaction with local labour market conditions can and does contribute to many decisions not to relocate to another area. In other words, labour market factors are important retention factors (rather than push factors) for many businesses.

What factors are relevant in choosing a new area?

Availability of labour is one of the key criteria for choosing a new location – along with property/site availability and other issues for some companies such as grants.

All the companies we interviewed had used some labour market information. The literature suggests that labour market factors are more important for larger companies than for smaller ones.

Where does labour market evidence fit into decision making processes?

The process for finding new locations is highly variable between companies. In the case studies some placed considerable emphasis on property factors – indeed one found, to its cost, that the benefits a good property deal were off-set by subsequent problems with wage labour costs in an over-heated local economy. However, other case study companies used rigorous labour market research to identify short-lists of potential locations across a range of factors – pay, skills levels, size of labour pool etc. Only then were property and other issues brought into the equation.

Overall conclusion

We have found evidence that companies that do not use, or under-value, the findings of labour market research are more likely to experience subsequent difficulties recruiting and retaining relevant staff at competitive pay levels.

We would stress that this finding is based upon a review of a fairly small literature and small piece of primary research. Given its implications, however, we believe this work should be taken forward and expanded to provide a clear view of the actual costs of not using LMI.

2. Locational Decision Making a Review of the Literature

The review of the literature around the issue of locational decision making uncovered two separate but related issues that companies face in a locational decision making situation, namely:

- why do companies choose to relocate, and what influence are labour market factors in this decision?
- why do relocators choose that particular location, and what influence are labour market factors in this decision?

2.1 Why do companies choose to relocate?

Black Horse Relocation Services undertake an annual survey of the best cities for business in Britain. Their 1997 survey (Black Horse Relocation Services, 1997) asked respondents whether their company would be likely to relocate in the next five years. Overall, just under a quarter of respondents (23 per cent) said that their company would be likely to relocate in the medium term.

The survey then followed this up by asking respondents to clarify why they felt their company would, or would not, be likely to relocate in the next five years.

The most common reason given for being likely to relocate by those companies who said they were likely to relocate was a need to expand the company. This was given by 30 per cent of companies who were likely to relocate, down slightly from 34 per cent in the previous year's survey (Table 2.1). The next most common reason was that there was no space left at the current site, mentioned by 18 per cent of respondents who were likely to relocate (14 per cent in 1996 survey). Other reasons given for why the company was likely to relocate were: that they were currently looking for a new site (eight per cent); to reduce costs/overheads (seven per cent); that their present site was unsatisfactory (seven per cent); and that their lease was due to expire (six per cent). This analysis shows that labour market factors are rarely an important reason for a company being likely to relocate.

Table 2.1 Main reasons why company likely to relocate

	1997	1996
	%	%
Need to expand company	30	34
No space left at current site	18	14
Currently looking for new site	8	7
To reduce costs/overheads	7	8
Present site unsatisfactory	7	7
Lease runs out	6	—

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

Turning now to the main reasons why companies may be unlikely to relocate, the most common reason was that they were happy with their current location and that there was no need to move, cited by one third of companies who were unlikely to relocate in the next five years (Table 2.2). This is an increase on the 26 per cent of companies citing this reason in the 1996 survey. The next most common reasons were that the company was established at their current site for a long time and had strong business roots (12 per cent) and that they had access to sufficient experienced and skilled staff at their current location (11 per cent). Other reasons given for why the company was unlikely to relocate in the next five years were: that they had only recently moved to their current site (10 per cent); that they did not wish to lose an established customer base (nine per cent); that there was room for expansion at their current location (eight per cent); that a move would be too costly, or the benefits would not outweigh the costs (seven per cent); that the company was part of a centrally-based organisation (six per cent); and that there had been a recent development of the company's current site (four per cent). Thus labour market factors were more commonly cited as a reason for being unlikely to relocate, than they were as a reason for being likely to relocate.

A study for the Department of the Environment looked in more detail at issues around relocation, in a survey of firms based in London and the South East and who had moved in the second half of the 1980s (Department of the Environment, 1993). The most common source of stress generating a relocation given by firms in the survey was a need for a more suitable site or premises, quoted by 79 per cent of firms (Table 2.3). The next most common reasons were also related to site and premises, with the accommodation of expansion cited by 36 per cent of respondents, and congestion and access issues that the old site reported by 28 per cent of respondents. Better access to labour came seventh in terms of most common sources of stress, cited by 23 per cent of respondents, and came behind the need for a better company image, relocation being a key stage in the company's development, and lower cost of site or premises.

Table 2.2 Main reasons why company unlikely to relocate (per cent)

	1997	1996
Happy with current location/no need to move	33	26
Established a long time/strong business roots	12	9
Experienced/skilled staff at current location	11	11
Only recently moved to current location	10	4
Don't wish to lose established customer base	9	6
Room for expansion at current location	8	6
Too costly to move/benefit wouldn't cover cost	7	11
Centrally based	6	—
Recent development of current site	4	6

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

The analysis also broke down the responses by those firms who moved within the South East, and those firms who moved out of the South East. Among movers within the South East, labour market issues did not feature among the eight most significant factors promoting moves; the top three for movers within the South East were the same as for all respondents (Table 2.4). However, when looking at firms who moved outside the South East, better access to labour came third in the ranking of significant factors, behind more suitable premises and lower cost of premises, and lower labour costs came equal fourth, alongside business expansion.

Thus labour market factors are not considered important in deciding to relocate, compared with property factors, and this is the case particularly for short-distance moves.

Table 2.3 Sources of stress generating relocation: percentages reported by managers of 234 firms which moved in the second half of the 1980s

	% frequency of positive responses
More suitable site/premises	79
Accommodation of expansion	36
Congestion/access at old site	28
Better company image	25
Key stage in development	25
Lower site/premises costs	24
Better access to labour	23
Better location for product distribution	22
Better surroundings (environment)	22

Source: Migration and Business Relocation: The case of London and the South East Region, DoE, 1993

Table 2.4 Significant factors promoting moves: rank order of frequency with which managers of firms moving within and out of the South East identified the factor as significant

Within the South-East		Out of the South-East	
1	More suitable premises	1	More suitable premises
2	Business expansion	2	Lower cost of premises
3	Congestion at old site	3	Better access to labour
4	Stage of development	4=	Lower labour costs
5=	Better company image	4=	Business expansion
5=	Better distribution options	6=	Better quality labour
7	Better surroundings	6=	Better company image
8	Restructuring company	6=	Congestion at old site

Source: Migration and Business Relocation: The case of London and the South East Region, DoE, 1993

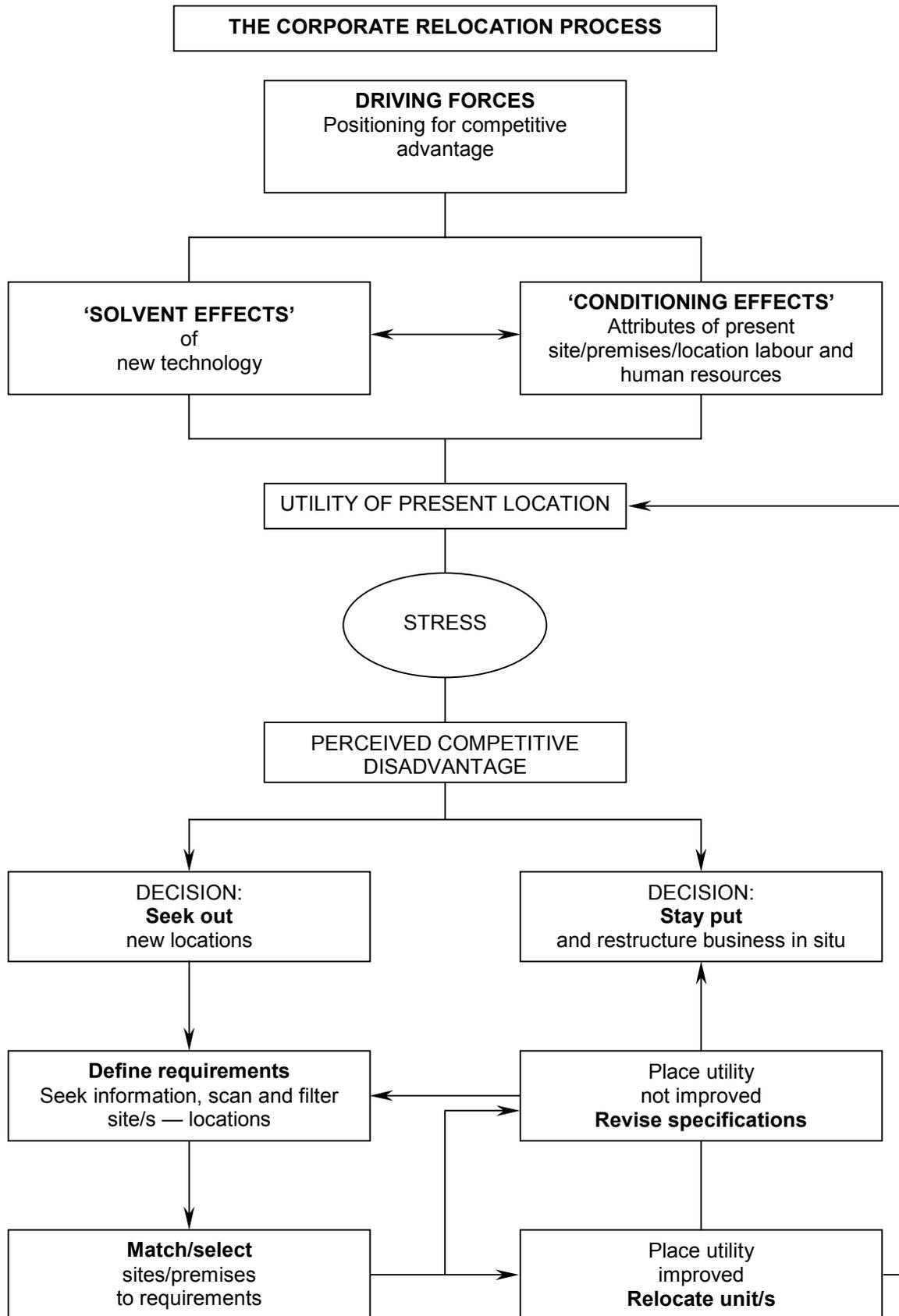
A model of the corporate relocation process is presented in Figure 2.1. The model shows that the cost and availability of labour may be one of the 'conditioning effects' that leads to location-related stress, albeit behind factors related to premises, and may cause the organisation to seek out new locations to improve its perceived competitive advantage. It is during the search for new sites and locations that labour market factors may again have an influence on the corporate relocation process, and it is to this that we now turn.

2.2 Why do relocators choose a particular location?

Having looked at what factors are an influence in a firm's decision to relocate, we now go on to look at what factors they consider in choosing a particular location.

The 1997 Black Horse Relocation Service survey asked respondents to rank a number of factors which are known to be important in location decisions. Table 2.5 shows that the most important factor overall was the availability of a quality workforce; 47 per cent of respondents cited it as the most important factor, and it was ranked as most important by all groups of respondents, regardless of turnover or employment size. The availability of a quality workforce was also the most important factor in the 1995 and 1996 surveys. Behind this came the cost and availability of business property, overheads (*eg* rates, wages), and the transport network. Quality of personal life was third from bottom, having risen from bottom in 1995, while government incentives were second from bottom, with 26 per cent of respondents ranking them as the single least important factor, and their mean score in the rankings has been falling year on year since 1995.

Figure 2.1 A general model which identifies location-related stress factor for corporate enterprises and some basic strategic responses to that stress



Source: Migration and Business Relocation: The case of London and the South East Region, DoE, 1993

Table 2.6 Order of importance of relocation factors (mean rank, 8 is highest, 1 is lowest)

	1997	1996	1995
Availability of a quality workforce	6.7	6.7	5.7
Cost and availability of business/property	5.4	5.5	4.2
Overheads <i>eg</i> rates, wages	5.2	5.4	4.8
Transport network	4.9	4.8	5.3
Overall business environment	4.2	4.2	4.5
Quality of personal life	3.9	3.7	3.2
Government incentives	3.0	3.3	3.5
Quality of potential local clients	2.9	2.6	4.4

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

The 1998 Black Horse Relocation Service survey focused in particular on small and medium sized enterprises (SMEs) and used a slightly different questionnaire and so is not directly comparable with previous year's surveys (Black Horse Relocation Service, 1998). Nevertheless, the survey asked respondents to rank a list of location factors in terms of importance, and the quality of the available workforce was again the most important factor overall, slightly ahead of property and premises, with 27 per cent of respondents citing the quality of the available workforce as the single most important factor (Table 2.6).

A comparison between the 1997 survey and the 1998 survey suggests that the importance of labour market factors, particularly in relation to property factors, may be greater for larger organisations than for smaller firms.

Looking further afield, an EU-wide survey of small and medium sized enterprises sought to identify the key factors in the SME

Table 2.5 Location factors important to businesses

	Most important %	Mean score (out of 9)
Quality of available workforce	27	7.2
Property and premises	22	7.1
Transport network	23	6.8
Quality of life	16	5.9
Business networking opportunities	10	4.3
Cost of workforce	4	5.5
Access to IT requirement and support	2	3.4
Support from organisations	2	3.3
Quality of higher education establishments	2	2.6

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1998

location decision from a survey of almost 1,400 companies (Moore, Tyler and Elliott, 1991). Respondents were asked about factors influencing the location decision, and the availability of regional development assistance was found to be the most important factor, with 24 per cent of respondents citing it as the most important factor (Table 2.7). This was followed by access to customers, with 19 per cent citing it as the most important factor. The quality and size of labour supply was the third most important factor; 11.5 per cent of respondents cited it as the most important factor, while a further 14 per cent cited it as the second most important factor. Level of wage costs came fifth, behind the availability of good conditions for future expansion, with six per cent of respondents citing it as the most important factor.

Table 2.7 Factors influencing the location decision according to degree of importance

Factor	Degree of importance %		
	Most important	Second most important	Third most important
Availability of regional development assistance	23.9	4.8	4.6
Level of wage costs	5.9	8.1	3.4
Quality and size of labour supply	11.5	13.8	6.7
Access to customers	18.8	10.6	4.9
Access to suppliers	4.1	4.8	4.4
Refused permission to expand in another area	3.7	3.3	2.5
Good conditions for future expansion	9.7	14.3	13.3
Attractive environment	4.5	5.5	7.2
Level of rents	1.9	2.4	5.5
Quality of public transport	0.5	1.2	1.6
Quality of infrastructure	2.4	3.6	6.8

Source: Moore, Tyler and Elliott, 1991

There were differences by the characteristics of the companies. Looking firstly at variation by industrial sector, service sector companies were less likely to view the quality and size of labour supply as the most important location factor than were production companies; only 8 per cent of service companies viewed labour supply as most important, compared with 14 per cent of production companies, and labour supply was ranked fourth in terms of importance by service companies, dropping below good conditions for future expansion (Table 2.8). There was little difference in the importance of wage costs between service and production companies.

Table 2.8 Factors critical to the location of companies (per cent)

	Service companies	Production companies
Availability of regional development assistance	16	26
Level of wage costs	6	7
Quality and size of labour supply	8	14
Access to customers	27	15
Access to suppliers	3	5
Refused permission to expand in another area	4	4
Good conditions for future expansion	11	6
Attractive environment	5	4
Level of rents	4	<1
Quality of public transport	<1	<1
Quality of infrastructure	2	3
<i>N</i> =	334	789

Source: Moore, Tyler and Elliott, 1991

Turning to variation by the employment size of companies, Table 2.9 shows that a clear pattern emerges of rising importance of labour supply and wages with the size of company. Thus only 10 per cent of small companies (1-200 employees) viewed the quality and size of labour supply as the most important location factor, compared with 13 per cent of medium companies (201-500 employees) and 18 per cent of large companies (500+ employees); similarly four per cent of small companies considered the level of wage costs to be the most important location factor, compared with eight per cent of medium companies and nine per cent of large companies. This ties in with the findings from the Black Horse Relocation Services surveys, that labour market factors are more important for larger organisations than for smaller firms.

Table 2.9 Factors affecting the location of companies, by size (per cent)

	Small	Medium	Large
Availability of regional development assistance	22	26	25
Level of wage costs	4	8	9
Quality and size of labour supply	10	13	18
Access to customers	25	15	9
Access to suppliers	4	5	3
Refused permission to expand in another area	3	5	1
Good conditions for future expansion	9	12	9
Attractive environment	7	3	4
Level of rents	3	1	-
Quality of public transport	1	1	-
Quality of infrastructure	3	1	7
<i>N</i> =	960	176	80

Source: Moore, Tyler and Elliott, 1991

Finally, the analysis looked at variation by whether the company was a new business when it began operations in its present location, an expansion of a company already in the local area, or a relocation from outside. Table 2.10 shows that the quality and size of labour supply was less important for relocations from elsewhere in the country than it was for new business or expansions, although the reverse was the case for the level of wage costs. The availability of regional development assistance was most important for relocations from elsewhere in the country, with 45 per cent of these companies citing it as the most important factor compared with the proportion for all companies of 25 per cent.

Table 2.10 Location factors and characteristics of companies (per cent)

	New business	Expansion	Relocation from region	Relocation from country	Relocation from abroad
Availability of regional development assistance	24	19	24	45	30
Level of wage costs	6	4	2	9	30
Quality and size of labour supply	12	11	10	8	30
Access to customers	21	18	15	12	10
Access to suppliers	4	6	1	4	—
Refused permission to expand in another area	2	4	12	9	—
Good conditions for future expansion	9	16	14	6	—
Attractive environment	5	3	3	2	—
Level of rents	2	1	7	1	—
Quality of public transport	<1	1	—	1	—
Quality of infrastructure	3	4	2	1	—
<i>N</i> =	<i>802</i>	<i>186</i>	<i>124</i>	<i>91</i>	<i>10</i>

Source: Moore, Tyler and Elliott, 1991

The study also looked beyond the simple bi-variate differences which are presented above, to undertake a multi-variate analysis which can separate out the different influences of the characteristics of the firm, and identify which are the key characteristics which would lead a firm to report that the quality and size of labour supply, or the level of wage costs, would be the single most important relocation factor.

Looking first at the significant influences on the likelihood that the quality and size of labour supply would be selected as the single most important location factor, the study found that faster growing firms, and those which recruited more of their workforce locally, were more likely to make this choice, which is to be expected. In addition, firms with a high proportion of sales made nationally or overseas, and manufacturing firms were also more likely to choose the quality and size of labour supply as the most important factor. In the case of firms selling nationally or

internationally, there is an argument that they have weaker ties with any particular locality and are likely to be more sensitive to local economic conditions in their location decisions; in the case of manufacturing firms this may reflect a greater need for trained workers. Single-site operations were less likely to select the quality and size of labour supply as the most important influence, as were those receiving financial assistance; the former have stronger local ties and are less sensitive to local economic conditions, while the latter may be cushioned from conditions by the assistance they receive.

Turning now to the significant influences on the likelihood of the firm selecting the level of wage costs as the single most important location factor, the study found that firms with a high proportion of sales made nationally or internationally were more likely to make this choice, as they were with the quality and size of labour supply, and for the same reasons *ie* they have relatively weak ties to the local economy. In addition, firms relocating from overseas were significantly more likely to rate wage costs as the most important location factor, as again these firms have weak local ties and are more likely to be highly sensitive to local wage levels than new business start-ups and firms with strong local ties. However, the study found that firms relocating from within the same region were significantly less likely to select wage costs as the most important factor; the analysis seemed to indicate that these firms were driven to relocate by restrictions on expansion at their present site, and if the variation in wage rates across the region is relatively small then this would cease to be an important factor in the location decision.

Further studies have examined Japanese inward investment, and the factors determining their locations. Firstly, a survey of Japanese manufacturing companies found that the reliability and quality of suppliers was the most commonly reported factor, with the availability of skilled labour a close second; however, low labour costs and the cost of property were found to be much less important (Munday, 1990).

A second study analysed the factors affecting the geographical distribution of Japanese manufacturing (Taylor, 1993). Rather than adopting a survey approach and asking Japanese inward investors why they chose the particular location, the study undertook a multi-variate statistical analysis of the inter-county variation in the number of Japanese manufacturing establishments, and is thus based on secondary data. The study looked at the extent to which a number of labour market variables, and whether the county contained Development Areas or Intermediate Areas, affected the number of Japanese manufacturing establishments in the county. The model found that the presence of Development Areas or Intermediate Areas were a significant influence on the presence of Japanese establishments, as were a number of labour market variables. The industrial structure of counties was a significant

influence, with Japanese manufacturing establishments attracted to counties with a high proportion of employment in both the manufacturing sector, and in finance, business and other service (*ie* the public sector, and other private services) sectors; also the unemployment situation was a significant influence, with establishments attracted to areas with large numbers of unemployed, but, somewhat perversely, with a low unemployment rate. Inter-county variations in wages, female participation rates or population density were found not to influence the geographical distribution of Japanese manufacturing investment.

While the above studies identify what factors are considered in a location decision, they do not provide evidence as to whether companies consider a number of different locations when making location decisions. Some studies show that it may be a minority of companies who consider more than one location in an investment or relocation decision. For example, a study for the Department of Trade and Industry surveyed companies who had applied for Regional Development Grant or Regional Selective Assistance, and found that only 35 per cent of respondents considered alternative locations for their investment project in the early stages of their decision-making process, while a further three per cent of all respondents did consider alternative locations when appraising their investment decision (Department of Trade and Industry, 1986).

Thus, while labour market factors may not be an important influence on the decision to relocate, they are a more important factor, and in some cases the most important consideration, in choosing where to locate.

2.3 Geographical attractiveness of British cities

The Black Horse Relocation Services survey in 1997 asked respondents to state which two cities out of a list of 48 were best for each of the eight relocation factors considered. Thus, these rankings are based on companies' own perceptions on which how cities compare on each factor, rather than on an objective comparison between them on secondary data.

Table 2.11 shows that in terms of the availability of a quality workforce, the most important relocation factor, London scored highest, with 25 per cent of respondents citing it as the best city, followed by Birmingham (19 per cent), Manchester (16 per cent), Leeds and Newcastle (seven per cent), and Cambridge, Glasgow, Sheffield and Bristol (five per cent). Newcastle, Sunderland, Manchester and Cardiff score best on the cost and availability of business property, and on overheads (*eg* rates and wages). On the quality of personal life factor, Edinburgh was felt to be the best city, while Oxford, London and Cambridge also scored highly. As for government incentives, Belfast and Cardiff scored highest, followed by Newcastle, Swansea and Sunderland.

Table 2.11 Cities performing best on each relocation factor

Availability of a quality workforce		Cost & availability of business property		Overheads (eg rates and wages)		Transport network	
Rank	Best city	%	Best city	%	Best city	%	Best city
1	London	25	Newcastle	9	Newcastle	12	Birmingham
2	Birmingham	19	Sunderland	9	Sunderland	9	London
3	Manchester	16	Manchester	9	Manchester	7	Manchester
4	Leeds, Newcastle	7	Cardiff	8	Cardiff	7	Leeds
5	Cambridge, Glasgow, Sheffield and Bristol	5	Liverpool	7	Swansea	7	Milton Keynes

Overall business environment		Quality of personal life		Government incentives		Quality of potential local clients	
Rank	Best city	%	Best city	%	Best city	%	Best city
1	London	33	Edinburgh	16	Belfast	15	London
2	Birmingham	21	Oxford	13	Cardiff	15	Birmingham
3	Manchester	20	London	11	Newcastle	12	Manchester
4	Leeds	10	Cambridge	11	Swansea	11	Leeds
5	Milton Keynes	7	Exeter	10	Sunderland	10	Bristol

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

The cities rated as being good for each relocation factor were given scores according to the importance of that factor to come up with a weighted ranking of the cities.

Table 2.12 Weighted ranking of cities as business locations

	1997	1996	1995
London	1	1	2
Birmingham	2	2	1
Manchester	3	3	3
Newcastle	4	4	4
Leeds	5	6	5
Edinburgh	6	8	8
Cardiff	7	7	10
Glasgow	8	5	7
Milton Keynes	9	10	11
Bristol	10	9	9
Sunderland	11	13	16
Sheffield	12	16	13
Liverpool	13	17	18
Cambridge	14	14	12
Nottingham	15	12	23

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

Overall, London was the best city, scoring highest in the rankings for availability of a quality workforce, overall business environment, and quality of potential local clients. Table 2.12 shows the top 15 cities, and shows that, with the exception of London, only two of the top 15 are in the south and east of the country, namely Milton Keynes and Cambridge.

Table 2.13 Top 10 current city work locations/likelihood of relocating in next 5 years

City where work	Likely to relocate %	Unlikely to relocate %
Reading	44	56
Birmingham	32	68
London	31	67
Liverpool	30	65
Sheffield	29	68
Manchester	28	70
Leeds	28	69
Cambridge	20	80
Glasgow	19	78

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

The Black Horse survey also contained a breakdown of the likelihood of relocating in the next five years by the city work location of the company. Table 2.13 shows that Reading was the city from which companies were most likely to relocate. The Table also shows that all of the cities with the exception of Reading also feature in the top 15 cities for business locations.

Table 2.14 Most desirable UK cities if relocating

	1997	1996	1995
Oxford	1	1=	1=
Birmingham	2=	6	3=
Cambridge	2=	4=	3=
Manchester	4=	4=	6=
Edinburgh	4=	1=	5=
Bristol	6	3	1=
Southampton	7=	13=	7=
Leeds	7=	7=	7=
London	7=	11=	19=
Exeter	7=	7=	7=
Nottingham	7=	7=	10=
Milton Keynes	12	13=	10=
Plymouth	13=	7=	10=
Newcastle	13=	7=	15=

Source: Britain's Best Cities for Business, Black Horse Relocation Services, 1997

Finally, the Black Horse survey also asked respondents for their top three cities they would prefer to locate to, if they were thinking of doing so and had a free choice. Table 2.14 shows that Oxford is the most desirable city to relocate to, having also been joint first in the previous two years, while London has improved its ranking year on year since 1995.

3. Locational Decision-making — Case Studies

To explore further the issues around how companies make decisions regarding the location of new operations, we conducted in-depth interviews with senior managers in a number of organisations who had recently relocated or established new operations, or who were considering doing so.

3.1 Characteristics of case study organisations

In all, seven in-depth interviews were conducted. These covered eight actual location decisions, with two organisations describing two such decisions, and one of the organisations talking only about general processes and how they would be implemented in the future should a location decision arise. Of the eight location decisions, five concerned the siting of a new operation, two concerned the rationalisation of a number of local centres to a handful of regional centres, and one involved a large-scale relocation.

The respondent organisations were all large, multi-site organisations in the service sectors; none of the manufacturing and production sector organisations we contacted agreed to participate in the study. Five of the organisations were in financial services, partly reflecting the rapid growth of new operations in the sector in recent years, particularly call centres; one of the remaining organisations was a mail order company, and the other was in the media sector.

3.2 Decision making process

Before going on to describe how organisation decided where to locate operations, and what factors were important in this decision, it is useful to describe the background to the location decision, that is what factors led to the organisation deciding to locate/relocate operations in the first place.

The evidence from the case studies was in line with the findings from the literature review reported above, that labour market factors were towards the bottom of the list of factors influencing the decision to locate/relocate, if they appeared at all. The reasons

behind the decision to look for new locations in the case studies were as follows:

- in two cases the organisation was setting up a completely new operation or part of the business;
- one organisation was bringing operations out of local branches into a large processing centre to achieve economies of scale;
- in two cases the organisation was rationalising a number of small operations into a few large operations, although in one of these the organisation was also seeking to be able to grow its business in a sensible manner at sites which permitted this expansion;
- one organisation had ran out of space in their existing premises, where office rents were very high, and so were looking for a greenfield site with room for expansion and at a lower cost than before; and
- one organisation was projecting strong business growth and was running out of capacity at its existing operation. A consideration was made as to whether technological advances would increase productivity sufficiently at its existing operation, or whether they would need to expand to achieve more capacity. In the end the organisation decided on the latter and looked for a site for a new operation.

There was a general commonality of approach to the locational decision making process among the case studies. In almost all cases a project team was set up to oversee the project, and there was HR/Personnel representation on all of the project teams; other partners in the teams generally included the business division that was running the project (although in one case the project was run by the HR division), the property division, and a facilities/implementation division which generally looked at infrastructure and logistics. In the cases where a project team was not set up, there was a board-level dictat saying where the new facility was to be located.

In five out of the eight location decisions the organisations considered more than one location. In the two cases where a large number of small centres were being rationalised into a handful of larger centres, there was consideration as to which of the locations of the smaller centres could cope with expansion, and in one of the cases the project considered greenfield sites as well as the existing operations. In two of the other cases a long list of around 40 to 50 potential locations was drawn up, and this was whittled down to a short list of up to half a dozen sites which were then explored in more detail. These cases are described more fully below. In the remaining case a small number of locations were identified as being potentially suitable, and these were then investigated fully by the project team.

People, Positions and Places – Case Study

The organisation had taken the decision to locate a new operation, and then sought potential locations. The property division was given a specification to find premises that were:

- of a suitable nature for the business;
- available, that is either built or nearing completion;
- in an area of ready supply of labour; and
- in an area of state of the art communication technology.

The property division came back to the project team with a list of around 50 locations which met those criteria, some of which were outside the UK. The other groups on the team (HR, and Facilities) considered the list of locations, and narrowed it down to four particular sites. The team then investigated these sites in more detail, including visiting each of the sites.

People, Positions and Places – Case Study

The organisation commissioned external consultants to provide it with some basic labour market information (*eg* size of labour pool, pay levels) on locations across the country, and draw up a list of the 40-50 most suitable areas. The organisation considered this list on the basis of the data and the opinions of the managers, and narrowed the list down to five areas. They then re-commissioned the external consultants to provide more detailed labour market information on the short-listed areas, and the property division were brought in to identify potential sites in the shortlisted areas.

3.3 Use of labour market information

Having asked organisations about the general processes they go through when faced with locational decision making, we went on to ask about whether, and in which ways, they use labour market information in that process.

All but one of the organisations had a formal process of collecting and analysing labour market information as part of locational decision-making, and the other organisation used an informal assessment of the labour market characteristics of the area under investigation from existing operations in that location.

A range of sources of labour market information were used by the organisations that collected LMI. Three of the organisations collected information from local sources of LMI, such as the Local Authority, the local Training and Enterprise Council, the local Employment Service Jobcentres, and from local employment

agencies. Four of the organisations used external consultants to provide them with LMI analyses, with one using consultants' reports alongside information from local sources. In addition, two of the organisations used the general perceptions of labour market characteristics from local managers alongside more formal sources of LMI. Organisations rarely undertook any independent verification of the data they received from external sources, however two organisations said that they compared the information with local managers perceptions of the locations, and in one case asked the consultant to re-examine the data as it did not tie in with the local knowledge of managers.

The organisations that used LMI generally considered a wide range of labour market indicators in locational decision making. The following list of elements of LMI are ranked according to the number of organisations who collected and analysed them:

- size of labour pool – 6 organisations
- unemployment – 5 organisations
- presence of competitors – 4 organisations
- pay levels – 3 organisations
- availability of skills – 3 organisations
- training/education – 2 organisations
- economic activity rates – 1 organisation
- labour turnover – 1 organisation
- labour market overheating – 1 organisation
- presence of 'spouse jobs' – 1 organisation

The presence of competitors was a mixed indicator, in that some organisations were looking to locate in areas where there were similar employers and thus a pool of trained labour, while others were looking to avoid recruitment difficulties in areas with a concentration of similar employers. One of the organisations who were looking to locate in areas with similar employers said that they were not looking to poach staff away from competitors, but recognised that there is labour turnover and thus there would be suitable skills coming onto the labour market.

The organisations that did not look at pay levels all had national pay rates, while one of those that did consider local pay rates, in a hope of paying below normal national rate, in practice had to revert to national rates.

3.4 Factors considered in location decision

While almost all of the respondent organisations used LMI in locational decision making, labour market factors were not the only considerations, but were part of a range of factors used to

decide where to locate operations. We now go on to discuss the other factors that organisations considered in the location decision.

3.4.1 Property/premises

All of the organisations that had made a location decision said that property and premises issues were considered during the decision making process. Generally the issues were the cost and availability of suitable premises, although there was some variation in the way in which property and premises issues were considered. One organisation said that the future growth potential of premises was an important consideration. Another organisation had similar considerations about expansion, and sought in particular a greenfield site in which they could establish a campus-style operation with could expand as the business expanded. A third organisation said that they were concerned about the property asset value, and that they wanted to build up and retain the asset value of the premises they own or lease. Finally, three organisations specified that they wanted existing premises to be used as the location for the operation in question.

3.4.2 Regional factors

Some organisations had concerns about locating new operations in certain parts of the country, although the regions were particular to the different organisations and there were a number of different reasons for this.

One organisation said that they would locate new operations in the north of the country, as they had their roots in the north, and most of their customers are based in the north. Another organisation had similar sentiments in locating new operations close to their head office and home town, mainly for traditional cultural reasons, although this was becoming less of a consideration now than it was a decade ago.

Other organisations said that choosing locations close to existing operations was a factor, aside from traditional cultural reasons. One organisation that was rationalising a number of small centres into a handful of large centres said that location relative to the existing sites was important, because of a desire to transfer current staff, and not have to recruit whole new workforces. Another organisation said that one factor in choosing their location over another potential location was the presence of a pool of existing workers around that location; had they chosen the other location they would have had to relocate some staff.

Finally, one organisation said that their choice of locations was restricted to those within easy travelling distance of head offices in London, and international airports.

3.4.3 Financial assistance/grants/inducements

Four of the organisations said that grants and financial assistance were a consideration in the location decision. However, they were generally a minor concern. One organisation said that they had considered the potential availability of financial assistance in selecting some locations in their short-list, alongside other strong factors, although as it turned out the financial assistance had dried up. Another organisation received financial assistance in the location where they established their new operation, although financial assistance was also available in the other areas under consideration and so it was not a deciding factor. Only one organisation said that financial inducements was an important factor, and that they limited their search of sites to areas in which grants were available.

3.4.4 Technological infrastructure

Three of the organisations said the technological infrastructure of particular locations was a factor in the decision making process. This mainly referred to communications technology and telephony, so that remote sites can transmit information to head offices, and that a number of call centres can be managed from the same central office.

3.4.5 Local government support

Two organisations said that the support they would get from the local authorities was an important factor in the locational choice. One of them visited the areas on their shortlist and spoke with the local economic development departments about the services they offered and the support the organisation might receive. The other again made contact with the 'town fathers' in the areas they were looking at, to see what their attitude towards their own town was, what their attitude towards its future development was and to see which ones had the best understanding with the organisation and which shared the same goals.

3.4.6 'Quality of Life' and environmental factors

Environmental factors were not a great concern to those organisations expanding or setting up new operations; a couple of them mentioned that they had investigated 'quality of life' factors but they did not influence any decisions on location. However, the organisation that relocated their operation said that 'quality of life' was a very important consideration. Factors such as a pleasant location with a good housing stock, good schools and good recreational and leisure facilities were very important in selling the relocation to staff. The organisation organised trips for their staff to visit the proposed location and site and then canvassed their opinions on it. The organisation felt that the new location

would improve the quality of life for those staff who would relocate, and felt it would have been difficult to successfully relocate otherwise.

3.4.7 Other factors

Some organisations mentioned other factors which they felt were considerations in locational decisions, although these were either only mentioned by one organisation, or there were conflicting opinions on them.

One organisation mentioned that accents were an important consideration in choosing a location, and this would lead them to choose a northern location over a southern location for a call centre operation. However, another organisation that had set up a call centre felt that the accent issue was exaggerated.

One organisation said that they would look to establish new operations (call centres) on the basis of a number of smaller facilities in different areas rather than one large facility, as insurance in case of an unforeseen disaster, so that if one facility goes down the others do not. However, another organisation was put off establishing a remote operation and expanding their existing operation because of the perceived logistical problems of operating a remote site.

Finally, one organisation said that they would consider the culture or tradition of labour relations in a location, although this would only be a secondary issue. However, ten years ago labour relations would have been a primary issue, and the company would have looked to avoid hotspots of union militancy, and resistance to flexibility.

3.5 Relative importance of locational factors

Having looked at what labour market and other factors organisations considered in location decisions, we now go on to look at the relative importance of labour market factors *vis a vis* other factors.

The general pattern across most of the organisations was that labour market factors were in the top rank of importance, either alongside, slightly behind, or more rarely slightly ahead of property and premises issues. In some ways the issue of labour and premises is a 'chicken and egg' situation – there may be a location with excellent premises but if there is no available labour in the area then the organisation will find it very difficult to staff its operation; conversely, an area may have an abundance of labour but if there are no suitable available premises then the organisation will not be able to establish its operation there.

When comparing locations across the factors, it was generally a case of a location having to get over each 'hurdle', rather than a location beating another on each factor. Thus if two locations both had a sufficiently large labour pool, then they would be compared on another factor rather than the one with the larger labour pool being chosen.

Thus, the other considerations were brought into play when organisations were faced with a number of areas that had both suitable premises and sufficient labour.

However, there were examples where the decision to locate somewhere on premises grounds, without regard to labour market considerations or despite negative labour market indications, had led to difficulties recruiting staff.

People, Positions and Places – Case Study

One organisation set up two additional operations as their business expanded. The location of the first additional operation was chosen purely on the grounds that the organisation had an available site in that area which was suitable. For the second location decision the organisation went through a rigorous process to identify areas on property and labour market criteria, and eventually established the operation in the most suitable location on the basis of those criteria. The organisation has experienced fewer problems in recruiting and retaining staff in the latter location compared with the former location.

People, Positions and Places – Case Study

One organisation sought to develop a new call centre, which would also undertake some central administrative work. A decision was made that this should not be in the same location as its main head office, given its dominance of that labour market and potential difficulties recruiting sufficient numbers of new staff. Due to a cultural disposition towards the most senior managers being able to visit all important sites on a daily basis, the nearest large city was chosen as the most likely new location, and a particularly good deal was available to take over a large building that would be ideal. Some labour market analysis was undertaken which warned that this site was unsuitable – the company would be competing head-on with quite a few similar recruiters and the labour market was known to be tight and growing tighter. The HR function (which commissioned the labour market study) lost out to the Facilities division (which wanted the good deal on the property) and the company went ahead. Since then the company has paid a premium to attract and retain suitable staff. Having experienced the costs of not valuing labour market intelligence, the company says that in future it will accord labour market data equal weight with other factors.

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