

ABSTRACT

Owing to globalization, municipalities face new challenges with local firms increasingly adopting relocation strategies to transfer their activities to other locations more suitable for serving their international operations. In order to prevent local firms to relocate abroad, local municipalities need to understand what factors influence a firm's decision to relocate and not least how the municipality can prevent the local firms from doing this. This paper examines small and medium sized international firms' intention to relocate. First we discuss how a loyalty approach can help regions to better understand firm's propensity to relocate and we suggest a number of hypotheses in relation hereto. Next, we test our suggested hypotheses on data collected from international firms located in Danish municipalities. The results to a large extent support our hypotheses and thus show that a loyalty approach may be a useful way to understand how to 'anchor' the local firms within a region.

KEYWORDS: Location, Relocation, Loyalty, SMEs, Regional Development

AN EXAMINATION OF INTERNATIONAL FIRMS' INTENTIONS TO RELOCATE: A LOYALTY APPROACH

INTRODUCTION

Classical industrial location theory, first formalized by Weber in the beginning of the 20th century (see e.g. Weber, 1929), theorized that individual firms choose the location that minimizes the cost of production at optimal production level. In Weber's model, demand was assumed to be constant in both quantity and location, and production takes place at a single location, too. Therefore, transportation cost associated with production as well as distribution processes became the principal factor in determining firms' location. In international business these location factors were focused on explaining the origin, level, pattern and growth of the offshore activities of the firms. In the seminal article by Dunning (1998) he explores three factors that influence this development. The **first** condition – Ownership – answered the 'why go abroad' or 'how is it possible to go abroad' question. O advantages were characteristics of MNEs that gave them a net competitive advantage over other firms supplying particular foreign markets. The **second** condition – Location deals with the 'where' or 'why do firms produce in one country rather than in another' question. L advantages meant that it was more profitable for the firm to use its O advantages together with factor inputs outside the home country. Dunning (1979) simply listed L advantages (e.g., spatial distribution of inputs and markets, transport and communication costs, government intervention, psychic distance) without grouping them. The **third** condition – Internalization answers the 'how' or 'by which route' question. I advantages meant that it was more beneficial to the firm to use its O advantages internally rather than lease or sell them in the external market. Dunning (1993) saw the incentives of firms to internalize activities as twofold: to either avoid the disadvantages of imperfections in external mechanisms for allocating resources or capitalize on the advantages.

Firms often benefit from their presence in physical space. The access to external resources that comes when operating in the "right" place helps firms to develop their own resources, consolidate their competitive positions, and nurtures their growth (Dunning, 1998; Foss and Eriksen, 1995; Porter, 1990; Rasmussen and Servais, 2002). The additional benefit that firms in a particular location have in relationship to firms in other locations constitutes the focal point in the location advantage. In essence, the location advantage arises from more or less privileged access to external resources. Since, among the determinants of international production and growth of the firm, location advantage has received the least attention in management studies, we have a less clear understanding of the process by which it is created (Dunning, 1998).

In this process the local authorities (municipality or region) play an important but also dual role. Local authorities naturally want to serve their local firms optimally in order to help them expand and subsequently create more work for local citizens and to tax payers. Yet, they may face a di-

lemma. On the one hand the local authorities want to create optimal conditions for their local firms in hope for their growth and eventual internationalization. On the other hand, evidence shows that as firms internationalize their likelihood for relocation increases (Rasmussen, Servais and Jensen 2007), and subsequently possible loss of work places and firm taxes. To cope with these problems naturally the municipalities are concerned about how to prevent firms from relocating and eventually how to attract new firms to the municipality. To that end, the municipalities need to understand what factors cause a firms choice of location and, not least, what factors make the firms stick to the chosen municipality. This paper deals with these questions. First, we briefly review theories of firms' location choice and relocation decisions. Second, we introduce Dick and Basu's (1994) framework of customer loyalty and discuss how this framework may be applied within the context of firm's decisions to relocate or stick to their location. Various antecedents to and consequences of place loyalty are suggested and formalized in corresponding hypotheses. Next, we test our hypotheses on data collected from international firms located in Danish municipalities. And finally, we discuss how our findings can be used by municipalities to build place loyalty among their local firms.

THEORETICAL BACKGROUND

Location theories

Following Hayter (1997) a distinction could be made of three types of location theories; a neo-classical, a behavioral and an institutional approach. The firm has a history, and this history is likely to have an influence on the location outcome of the process. Some factors push towards a location whilst others might drag the firm into a location. A similar distinction exists between **push** and **pull** factors in marketing. Location theory focuses on the optimal location choice, which can be defined as the location factors determining the attractivity of a site for firm location, or **pull** factors. Since the firm has a history location theory must also take into account the first step, the **push** out of the present location; that is if we do not consider entrepreneurial start-ups. In this respect Hayter (1997) refers to two paths of development. The first is the **seedbed** start-up where the motivation is the desire to live in one's own locality. The rationale is the fact that new entrepreneurs are thoroughly familiar with their home locals and within these locales they are likewise known. As such they have contacts to local financial institutions, knowledge of local markets, understanding of the characteristics of local labor, available equipment and suppliers and logistics. The home of the entrepreneur provides a ready-made company headquarter and it may for a while host manufacturing. Local entrepreneurs therefore *'inherit considerable knowledge about their local environment as part of their*

birthright. To locate elsewhere would involve all the costs and uncertainties in collecting and understanding information on unfamiliar places' (ibid p.224).

On the other hand also newcomers might become entrepreneurs in the sense that the incubator start-up situation might be more concessive, e.g. ethnic groups that facilitate the nurturing of immigrant entrepreneurs. The rationale of the **incubator** hypothesis is that an industrialized section of an area offered new firms a supply of building and close access to cheap accommodation, suppliers, markets and a variety of business services. By concentrating together new and small firms create external economies of scale by buying and selling among each other and sharing close access to storage facilities as well as transportation, wholesales, which facilitates export and import. Such locations *'also provide access to labor pools, while providing various employee related services such as public transportation and shops'* (ibid p.226). Especially in regard to technology-oriented complexes the incubator hypothesis have found usage e.g. in the study of science parks and it is being closely connected to the term of industrial districts.

Relocation theories

In the sense of relocation, Hayter (1997) erects the following stage model: (1) the decision whether to move or not; (2) The search for alternative locations; (3) the evaluation of alternative locations; and (4) the choice of the new location. A fifth stage might be added in which the implemented decision is assessed and evaluated. In this article the main focus will be on the differences in the immovability of international SMEs regarding their future location.

Firm relocation situation differs from the firm location situation because it explicitly takes account of the fact that one location is substituted for another. The firm has a history, and this history is likely to have an influence on the location outcome of the process. This location outcome is therefore a conditional one. The specific nature of these conditional effects is important for any study of the firms' relocation decisions. A way to study this process is to separate the relocation process into two sequential steps: first the decision to move, and second, conditional upon a move, the decision to relocate to another location. A similar distinction exists between push and pull factors influencing the decision. Location theory focuses on the optimal location choice, which is about location factors determining how attractive a site is for a firm location, or pull factors. Relocation theory also takes into account the first step, the push out of the present location. Brouwer et al. (2004) identify three main categories of factors influencing firm relocation that can be found in the literature: (i) internal factors (e.g., size); (ii) external factors (e.g., market size) and (iii) location factors (e.g., local authorities).

According to Brouwer et al. (2004), the main forces driving firm relocation are expansion and the need for more suitable premises (Hayter, 1997). A second reason is cost saving. Firms aim at taking

advantage of favorable cost conditions in other locations i.e., due to wage differentials, scale economies, energy prices, local incentives or other factors. Access to raw material and energy sources as well as market-oriented strategies; they are other prevailing motivations. Finally, firms are ‘pushed’ to move by government policy through subsidies. This strategy has been adopted in most industrialized countries since the 1950s, mainly to reduce interregional inequalities in income and employment opportunities. According to Simon (1957) and Cyert and March (1963) the firm thus shows a loyalty toward the municipality in which the firm is located in the sense that the firm can observe the benefits of relocation. On the other hand the firm also has some ties with the local environment in which the firm is located. In order to deal with this contrast we introduce Dick and Basu’s (1994) framework of customer loyalty and discuss how this framework may be applied within the context of firms’ decisions to relocate or stick to their location.

A framework of firms’ loyalty

In Dick and Basu’s (1994) framework, customer loyalty is conceptualized as a relationship between relative attitude toward an entity and repeated patronizing. The entity can be a product, a brand, a store or as in this paper a particular location for a firm. Dick and Basu (1994) introduce the term “relative attitude” as a composite of attitudinal differentiation and attitudinal strength. If the customer is unable to differentiate among alternatives and/or sees no or very few differences between alternatives, relative attitude will be low, and will result in the absence of true loyalty. Furthermore, Dick and Basu (1994) argue that relative attitude is at its highest when influenced by high attitudinal strength which in this study will be equalized to the concept of purchase involvement. Dick and Basu (1994) divide the behavioral and attitudinal dimensions into two levels (high and low), and provide a GRID model with four loyalty categories, and identify a number of antecedents and consequences related to loyalty.

| | | Repeat Patronage | |
|-------------------|------|------------------|----------------|
| | | High | Low |
| Relative Attitude | High | Loyalty | Latent Loyalty |
| | Low | Spurious Loyalty | No Loyalty |

Figure 1: The GRID model from Dick and Basu (1994)

No loyalty is characterized by a low relative attitude combined with no or limited repeat purchases. Customers see few differences between the alternatives and switching to another alternative is common and likely to be caused by situational factors. In the context of a firm in a particular municipality, this kind of firm is typically more random in their choice of location and may have high tendency to relocate the firm again.

Spurious Loyalty exists when a customer is stable in behavior (e.g. repeat patronizing) but has no relative attitude or preferences for the particular alternative. Since spurious loyal customers lack true preferences to an alternative, they easily switch to another one because of situational circumstances such as a better deal offered by a competitor. As an example in our context, this could be a firm staying at a particular location for many years, but simply is doing this due to convenience/inertia or because of influencing environmental/external factors such as for example, children's school, partners work, lower tax, etc. Such firms are just as the no loyalty type very vulnerable to changes in these conditions and therefore not as sticky to their actual location as are the true loyalty firms.

Latent Loyalty is characterized by a strong attitude or preference for a particular alternative, but with no or a limited stickiness to that alternative. A municipality promoting suitable premises for a firm's operation may be able to attract latent loyalty firms.

True loyalty exists when a high level of stickiness is due to a high relative attitude or preference for a particular alternative. Loyal customers are less likely to be influenced by situational factors, are less motivated to search for alternatives, are more resistant to counter-persuasion from competitors, and are more likely to act as ambassadors passing along positive word-of-mouth to other firms (Dick and Basu, 1994). In our context, this firm is most valuable for a municipality or a region. The firm typically sticks to the municipality and has clear preferences for and a positive attitude toward the municipality. The firm will tend to stay in the municipality even when other circumstances may suggest relocating. For example possible cost savings from moving to another location may be neglected.

Antecedents to relative attitude and loyalty

Dick and Basu (1994) point out that identification and deeper understanding of important antecedents will be beneficial for managers in order to create and maintain customer loyalty. Dick and Basu suggest a number of antecedents grouped as cognitive, affective and conative antecedents. In the following we outline some of the antecedents which we find relevant in the context of firms' decision to relocate.

Cognitive antecedents: Centrality and clarity are among the cognitive antecedences proposed by Dick and Basu. With respect to centrality (importance), we expect that the more considerations and

choice criteria a decision unit put into a decision, the more central is the relative attitude towards that decision. Clarity concerns confidence in the attitude towards an object. We expect that the longer the firm has been located in the municipality the more clarity in relative attitude toward at municipality. All else equal, the longer the firm stays in the municipality the more possible it is for a municipality to build a strong relationship with the firm. We therefore suggest the following hypotheses:

H₁: The more considerations in the choice of location, the stronger the relative attitude towards the chosen municipality

H₂: The longer the firm has been located in the municipality, the stronger the relative attitude

Affective antecedent: Satisfaction obviously is a major factor in building strong relative attitude and loyalty. Bitner (1990) suggests that a matching of expectations with perceived performance will result in satisfaction or dissatisfaction, which in turn acts as an antecedent to loyalty. Satisfaction with a location can be subdivided in central aspects (important for running the business) and peripheral aspects (e.g. social factors as partners' workplace, children's school etc). We therefore suggest the following hypothesis

H₃: Satisfaction with various central aspects will result in a stronger relative attitude towards the municipality

Conative antecedents: Are, in contrast to the cognitive and affective antecedents, not related to the relative attitude, but concerns the behavioral dispositions produced by for example perceived sunk costs and/or switching costs. Switching cost in our context could be one time costs facing the firm by switching to another location and may include monetary costs (price for purchasing or building a new factory) as well as non monetary costs (difficulties in hiring new employees). We expect switching costs to be positively related to the size of the firm. Sunk cost is another conative factor concerning costs already invested in the present location. If finding the present location was difficult and/or required a lot of investments, the firm may be less eager to relocate. Furthermore, all else equal, the bigger the firms, the more sunk costs are included in switching to another location. We therefore suggest the following relationships:

H₄: The bigger size (e.g. number of employees), the less likely to relocate

H₅: The more difficulties perceived in relocation the less likely to relocate

Consequences of relative attitude and loyalty

Dick and Basu's (1994) conceptualization of consumer loyalty as the relationship between the relative attitude and the repeat patronizing, obviously implies the latter to be a consequence of relative attitude. Dick and Basu point out that the relationship between relative attitude and repeat purchase may be intervened by social norms and/or situational factor (we elaborate more on these aspects in a section to follow). In other words, even if a firm may find it beneficial to relocate, it may choose not to do so because it would not be a socially acceptable movement. Situational factors could be a huge increase in sale on export markets, which may make another location more suitable. However, they also suggest that a strong relative attitude has some consequences that may moderate such interventions. More specifically, they suggest that when loyalty is supported by a strong relative attitude, the customer will be less likely to search for alternatives (e.g. variety seeking), less sensible to enhanced prices on the preferred alternative and more resistant to persuasion from competitors (e.g. price deals on competing alternatives). In our context this could be less proneness to look for another location, less sensitivity to rise in taxes etc. Finally, an important consequence of a strong relative attitude is positive word of mouth communications with others, in our context for example recommending the municipality to business associates. From the above we suggest the following hypotheses:

H₆: Relative attitude will be negatively correlated with intentions to relocate

H₇: Relative attitude will be positively correlated with positive word of mouth communication about business climate in the municipality

H₈: Relative attitude will be positively correlated with likelihood of recommending business associates to locate in the municipality.

H₉: Relative attitude positively influence the perception of media information with respect to business climate in the municipality

The moderating role of social norms and situational factors

Dick and Basu suggest that in addition to relative attitude, social norms and situational factors may also have an influence on repeat patronage, in our context the firm's tendency to stick to the present location.

Social norms refer to what people find important, others think they should do, or not do in a given situation and their motivation to comply hereto (e.g. Ajzen and Fishbein 1980). An example of social norm influence in relation to a firm's decision to relocate could be the case where the decision maker is concerned about the reactions of other business associates to such a movement. Will the firm be perceived as disloyal to the municipality or even the country if the relocation produces unemployment? Firms with strong relations to local business networks may also consider relocation as

a break up break up with these networks. Firms may also consider consequences for their relationship with sourcing companies and customers. And even a concern for family members' wants to stay in the present municipality may have an impact on the decision to relocate. From these considerations we suggest the following hypotheses:

H₁₀: If the firm thinks its relocation will hurt the municipality,
it will be less likely to relocate

H₁₁: The more satisfied with the business networking in the municipality,
the less likely to relocate the firm

H₁₂: If the firm thinks their sourcing companies will react negatively
to a relocation, the firm will be less likely to relocate

H₁₃: If the firm thinks their customers will react negatively to its relocation,
the firm will be less likely to relocate

H₁₄: If the firm thinks their family is better off, staying in the municipality,
they will be less likely to relocate.

Situational factors concerns changes in the environment, which may either enhance or reduce the tendency to repeat patronage, here stickiness to the present location. Obviously, a higher degree of sourcing from or exporting to other countries may produce a situation, where the firm can get lower costs or higher income by relocating the firm closer to these countries. A remarkable rise in taxes may also make the firm consider relocation in order to avoid these extra costs. Similarly, if another municipality offers better facilities for the firm, the firm may consider moving to that municipality. We therefore suggest:

H₁₅: The higher the share of international sourcing, the more likely the
firm is to relocate abroad

H₁₆: The higher the share of export, the more likely the firm is to relocate abroad

H₁₇: A tax increase in the region will be positively correlated to the firms
intentions to relocate

H₁₈: If another municipality offers better facilities to a firm, it is more likely to
consider relocation

EMPIRICAL STUDY

Measurement of relative attitude and place loyalty

In order to classify the firms into Dick & Basu's framework, it was necessary to form measures of the behavioral and attitudinal dimensions of loyalty towards the location. Furthermore, a classification rule for transforming these dimensions into the four loyalty categories was needed. To capture the concept of behavioral loyalty, respondents were asked to indicate on a 4-point scale (1=very unlikely, 2=unlikely, 3=likely and 4=very likely), their **perceived likelihood that the firm or part of the firm is relocated**. Based on these answers it was decided to define responses of 1 or 2 as high behavioral loyalty and values of 3 or 4 as a low level of behavioral loyalty. In order to obtain a reliable measure of 'relative attitude' it was decided to create a multi-item scale composing the dimensions of attitudinal strength and attitudinal differentiation in one scale. The four items are seen in Appendix A. All items were measured on a 5-point Likert-scale ranging from 1=totally disagree to 5=totally agree. Using reversed scores for negatively framed items (refer to Appendix A); the sum of the four items constitutes a relative attitude scale ranging from 4 to 20. Scores above or equal to the scale midpoint of 12 were defined as high relative attitude while scores of 11 or lower were characterized as low relative attitude. Cross-classifying the previously defined two levels of relative attitude with the two levels of repeat purchasing leads to four categories of loyalty;

No loyalty are firms with a low relative attitude score (range 4-11) and relocation perceived as likely or very likely

Spurious loyalty are firms with a low relative attitude score (range 4-11), but relocation perceived as unlikely or very unlikely

Latent loyalty are firms with a high relative attitude score (range 12-24), but relocation perceived as likely or very likely

True loyalty are firms with a high relative attitude score (range 12-24) and relocation perceived as unlikely or very unlikely

In our presentation of the theoretical framework and the hypotheses we proposed a row of antecedents, and consequences related to relative attitude and loyalty. We also gave examples of possible social and situational aspects which may moderate the relationship between relative attitude and intentions to relocate. Appendix B, C, and D display the questions we use as measurements in order to test our stated hypotheses.

Data collection and sample

The data for this paper is based on a web-based survey carried out by the authors in 2005 in the region of southern Denmark. The population of the survey was all firms that in 2005 were located in this region and was further limited to firms that were started or moved to an address within the region in the interval 1995-2005 and with less than 250 employees but more than 1 employee. The population was not limited to any particular industry or size of firm. In total we identified 4200 E-mail addresses on firms in this population. An E-mail was sent to these firms with an invitation to participate in the survey and a link to the web-survey. Immediately after the dispatch of the E-mail some 500 return mails were intercepted with a notice that the address was wrong or had ceased to exist, after a while further 50 mails were received with the similar notice. At the deadline some 692 usable questionnaires were received, a new mail was sent out to thank those who had filled out the questionnaire and with a call to the rest to fill out the questionnaire. Some additional 180 firms responded to this call adding to a total of 931 responding firms. However, for the purpose of this paper, we only include responses from production firms and service firms with services to other firms and with at least 10 percent export sales and/or at least 10 percent of the firms' total sourcing from abroad. Additionally, cases with missing response on any of the items intended for the relative attitude scale or the question on intention to relocate were excluded. Following this procedure we arrived at a total of 356 cases. Table 1 displays the study sample with respect to average number of employees and year of establishment.

Table 1: Description of total sample used in this study

| | |
|------------------------------------|--------------|
| <i>Average number of Employees</i> | <i>n=356</i> |
| <5 employees | 46.2% |
| 6-10 employees | 21.1% |
| 11-25 employees | 18.9% |
| 26-50 employees | 6.5% |
| 51-250 employees | 7.3% |
| Total | 100.0% |
| <i>Year of establishment</i> | <i>n=356</i> |
| 1995 | 5.9% |
| 1996 | 6.5% |
| 1997 | 8.4% |
| 1998 | 7.9% |

| | |
|-------|--------|
| 1999 | 11.0% |
| 2000 | 11.5% |
| 2001 | 15.7% |
| 2002 | 13.5% |
| 2003 | 11.0% |
| 2004 | 6.2% |
| 2005 | 2.5% |
| Total | 100.0% |

RESULTS

The presentation of results is broken down into two sub-sections. The first section focuses on the concept of relative attitude. For each firm, responses on the four suggested items are summed to obtain an overall score for their relative attitude toward the municipality, and subsequent the relationship between relative attitudes and the suggested antecedents and consequences is tested. In the second section, the firms are classified into one of Dick and Basu's four suggested loyalty categories and anticipated consequences from loyalty formation are examined by testing differences in scale means and percentages between the four loyalty categories.

Relative attitude and its relationship with hypothesized antecedents and consequences

By adding up the values responded to each of the four scale-items, we constructed a relative attitude scale ranging from 4 to 20. The inspection of scores across the firms shows a reasonable distribution of scale values from the lowest to the top end of the scale. In the following, we examine the relationships between the calculated relative attitude scores and the proposed antecedents and consequences. Table 2 shows the relationship between the hypothesized antecedent variables and relative attitude. First we find support for H_1 ($H_0: r=0.162, p<0.01$), providing evidence of a stronger relative attitude, when choice of location is based on a lot of thoughts. Interestingly, we also find support for a relationship between the number of years the firm is located in the same municipality ($H_2: r=0.104, p<0.01$). This leads us to conclude that when firms are concerned about the facilities and service from a municipality, it is possible for a municipality to produce a strong relative attitude over time.

H_{3a-g} concerns the affective antecedents and tests the relationship between relative attitude and firm satisfaction with various conditions in the municipality. Interestingly, we found no support for a relationship between relative attitude and aspects concerning infrastructure and taxation of the firm (H_{3a-d}, $r = -0.069$ to 0.051 , $p > 0.05$), whereas we found a positive and significant relationship with regard to municipality policy of commerce (H_{3e}, $r = 0.129$, $p < 0.01$), municipality services (H_{3f}, $r = 0.169$, $p < 0.01$), and possibility of participating in business networks (H_{3g}, $r = 0.159$, $p < 0.01$). This finding is interesting, since it parallels to Herzberg's (1959; 1966) two-factor model suggesting that all aspects generating work satisfaction can be classified as either a motivating factor or a hygiene factor. Hygiene factors are concerned with the conditions of work rather than the work itself (big office, air conditioning etc.). In our context we can view taxes and infra structure as conditions for the firms' operations in the municipality. This leads us to conclude that taxation policies and good infrastructure facilities do not in themselves create a strong relative attitude toward a firm's municipality of location. It seems more important for a municipality to create good relationships by its policy of commerce, its services, and by facilitating business networks in the municipality.

Table 2 Antecedents to relative attitude and intention to relocate

| | <i>Items correlated with relative attitude</i> | <i>r</i> |
|-----------------|---|------------------------|
| H ₁ | Choice of location based on many considerations (thoughts/criteria) | 0.162** |
| H ₂ | Number of years the firm has been located in the present municipality | 0.107** |
| H _{3a} | Satisfaction with local road system | 0.066 ^{n.s.} |
| H _{3b} | Satisfaction with ship, railroad and airport facilities | -0.055 ^{n.s.} |
| H _{3c} | Satisfaction with possibilities of attracting skilled labor | 0.039 ^{n.s.} |
| H _{3d} | Satisfaction with taxation of companies in the municipality | 0.047 ^{n.s.} |
| H _{3e} | Satisfaction with policy of commerce in the municipality | 0.138** |
| H _{3f} | Satisfaction with the municipality services | 0.209** |
| H _{3g} | Satisfaction with possibilities of participating in business networks | 0.153** |
| | <i>Items correlated with intention to relocate</i> | |
| H ₄ | Number of employees in the firm (firm size) | - 0.089 * |
| H ₅ | Perceived difficulties in relocation | - 0.349** |

n.s. Not significant at 0.05 level

* Statistically significant at 0.05 level

** Statistically significant at 0.01 level

In the lower part of Table 2, we find support for our hypotheses about conative antecedents. The bigger the size of the company (measured by number of employees), the less likely is the firm to relocate (H_4 : $r = -0.089$, $p < 0.05$). Furthermore, the more difficulties expected if relocating, the less likely is the firm to relocate (H_5 : $r = -0.345$, $p < 0.01$).

Table 3 Consequences of relative attitude

| | r |
|--|----------|
| H_6 Intentions to relocate | -0.124** |
| H_{7a} Frequency of discussing business climate in the municipality with business associates | 0.180** |
| H_{7b} Discussions with other business associates about business climate in the municipality mainly been negative or positive? | 0.108** |
| H_8 Likelihood of recommending other business associates to locate their firm in the municipality | 0.186** |
| H_9 Newspaper: Information about business conditions in the municipality perceived as negatively or positively? | 0.122** |
| <i>n.s. Not significant at 0.05 level</i> | |
| <i>* Statistically significant at 0.05 level</i> | |
| <i>** Statistically significant at 0.01 level</i> | |

Table 3 lists the test results of our hypothesized consequences to be produced by a high relative attitude. In the upper part of the table we find support for our hypothesized relationship between relative attitude and intentions to relocate the firm (H_6 : $r = -0.124$, $p < 0.01$). Furthermore, our expectation of a strong relative attitude to facilitate discussions about the municipality with other business associates is supported (H_{7a} : $r = 0.180$, $p < 0.01$), as are the hypothesized positive influences of relative attitude on the kind of communication transferred to and from business associates (H_{7b} : $r = 0.108$, $p < 0.01$). Finally, our hypotheses about the influence of relative attitude on the way respondents perceive information from the media, is supported with respect to information read in the newspaper (H_9 : $r = 0.122$, $p < 0.01$).

This leads to the conclusion, that producing a strong relative attitude may positively influence a firm's stickiness to a municipality, both in a direct way by loyalty formation and in an indirect way by stimulating positive word of mouth communications and creating immunity towards negative information about the municipality in the media.

Table 4 displays test results of our hypothesised influences of social norms and situational factors. In the upper part of the table (H₁₀ – H₁₄), we find support for our hypothesised relationships between social factors and intentions to relocate with respect to three of the five proposed social aspects. (H₁₁: $r = -0.107$, $p < 0.01$; H₁₃: $r = -0.206$, $p < 0.01$; H₁₄: $r = -0.191$, $p < 0.01$). Networking with business associates, customers and family are social aspects which may reduce the firm's intention to relocate. With respect to situational factors, we do not find support for our expectations of share of export and share a international sourcing to increase the firm's intention to relocate (H₁₅ and H₁₆). However, we do find support for the expected consequences of a local tax raise or if another region offers better facilities to the firm (H₁₇: $r = -0.307$, $p < 0.01$; H₁₈: $r = 0.427$, $p < 0.01$). This lead to the conclusion, that social aspects and/or situational changes have an impact on the firm's intention to relocate.

Table 4 Social norms and situational factors influence on intention to relocate

| | | r |
|------------------|--|-------------------------|
| H ₁₀ | Relocation expected to have negative consequences for the municipality | 0.022 ^{n.s.} |
| H ₁₁ | Networking with business associates in the municipality is satisfying | -0.107 ^{**} |
| H ₁₂ | Sourcing companies will not like relocation | - 0.066 ^{n.s.} |
| H ₁₃ | Customers will not like relocation | -0.206 ^{**} |
| H ₁₄ | Family like to stay in the municipality | -0.191 ^{**} |
| H _{15a} | Share of international sourcing from Europe | -0.054 ^{n.s.} |
| H _{15b} | Share of international sourcing outside Europe | 0.037 ^{n.s.} |
| H _{16a} | Share of export to European countries | -0.041 ^{n.s.} |
| H _{16b} | Share of export outside Europe | 0.071 ^{n.s.} |
| H ₁₇ | Consequence of tax raise | 0.307 ^{**} |
| H ₁₈ | Consequence of better another municipality offering better facilities | 0.427 ^{**} |

n.s. Not significant at 0.05 level

** Statistically significant at 0.05 level*

*** Statistically significant at 0.01 level*

Dick and Basu's loyalty categories and how to target the firms in each category

In accordance with the classification rules as outlined in the section about our measurement, the firms were classified into one of the four loyalty categories. Table 5 illustrates the distribution hereof.

Table 5: Percentage (frequency in parentheses) of firms in each loyal category

| | No Loyalty | Spurious Loyalty | Latent Loyalty | True Loyalty | Total |
|---|---------------|---------------------|-------------------|-----------------|----------------|
| Distribution of firms across loyalty categories | 21.6 (77) | 40.4 (144) | 8.7 (31) | 29.2 (104) | 100.0 (356) |

As expected, the greatest proportion (40.4 percent) of the firms is classified in the spurious loyalty group, representing firms sticking to their present location, but without any attitudinal commitment to their municipality. Lack of commitment to the municipality makes these firms vulnerable to situational factors (in favor of relocation) and lowers their value as ambassadors for the municipality. The municipality may attempt to produce a higher relative attitude toward the municipality by a more offensive strategy building stronger relationship between the firm and the municipality. Facilitating creation of business networks is one possible way in this direction. Another way is to make the firm aware of and confident the municipality's ability to provide a good service for the firm in the future.

If formation of a higher relative attitude is impossible, the municipality may try to create higher sunk or switching costs for the firm in order to 'anchor' it to the present location. An equivalent strategy may be useful in order to target the no loyalty group, constituting close to one fourth (21.6 percent) of the firms. These firms have no attitudinal commitment to the municipality and neither any behavioral related factor keeping them to their present location. They will be extremely likely to relocate and indeed have already intentions to do so. The municipality may attempt to inspect the factors causing their intentions to relocate and if possible try to adopt their policy in this direction. The true loyalty group constitutes almost one third of the firms (29.2). Firms in this category are not only less likely to relocate; they are also potentially good ambassadors for attracting other firms to locate in the municipality. The municipality may manage their relationships with these firms in order to maintain and strengthen their positive attitude towards the municipality.

CONCLUSION

The focus in this paper has been on the international firms as they are expected to be more ‘slippery’ than firms with no international sale or sourcing.

Data comes from a web-based survey carried out in 2005 amongst firms in the region of Southern Denmark. In this paper we limit the database to firms that are either production firms or to service firms with services to other firms. As mentioned, our focus was on the international firms defined as at least 10 percent export and/or 10 percent sourcing from abroad.

The results clearly show taxes and infrastructure must be seen as basic conditions (hygiene factors) that does not lead to strong loyalty toward the local community. Instead it is more important for a municipality or a region to create good relations to the firms by e.g. facilitating business networks in the local area.

Taking these conclusions into account we will suggest that the regions in Denmark consider the focus of their efforts to support local firms and attract new firms to the region. Only one third of the firms in a region can be labeled as loyal to the region in which they are working. This positive attitude is clearly produced by the facilities and services that a region offers. Infrastructure and taxation – two themes often discussed in the regions of Denmark – have no influence on the attitude of the firms. The policy of the region, the services and the possibility of networking with other businesses in the region; they all have a positive influence. Good relations to the local firms are thus the most important part of achieving loyal local firms.

In this paper we have shown that a strong relative attitude positively influences the loyalty directly and indirectly the positive endorsement of the firms towards other firms and immunity towards negative information about the region in the media.

Our recommendation towards the regions and other local authorities in Denmark is thus to have an offensive strategy building strong relations to the local, international firms. This will lead to more loyal firms, that will manifest a stronger tendency of stickiness (see e.g. Markusen, 1996), and secondly these firms will recommend the region to other firms that are considering relocation.

Further research needs to consider the way the international group of firms is defined. In this paper we have used a quite simple definition, but this has to be elaborated. E.g. are there any differences between firms that export/import from one or a few countries and firms that have international relations to a large number of countries. Furthermore we have to discuss whether the size of the firm and its export/import has any influence on relocation decisions. For a large firm 5% export could be of such significance that they have to relocate the part of the firm that deals with this export. In the same vein, we have not discussed partial relocation, where a part of the firm is relocated. This must clearly be done, especially for the larger firms.

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APPENDIX

| Appendix A: Scale Items Measuring Relative Attitude ^{a)} | |
|---|--|
| STR1 ^{b)} | Where my firm is located is only a minor decision compared to other strategic decisions |
| STR2 ^{b)} | For firms in our industry location does not matter |
| DIF1 | The location of my firm compared to other firms in other municipalities gives me an advantage. |
| DIF2 ^{b)} | The benefits we have in our municipality could also be achieved in other municipalities. |

a) Relative attitude is measured as a six item scale with 2 items intended to capture the level of attitudinal STrength and 2 items intended to measure perceived attitudinal DIFferentiation
All items were measured on a 5-point Likert scale from 1=totally disagree to 5= totally agree

b) Reversed score

| Appendix B: Antecedents | |
|------------------------------|---|
| H ₁ ^{a)} | How would you describe the decision process of location (5 point scale: 1=random and 5= many considerations) |
| H ₂ | For how many years have the firm been located in the present municipality? ____ |
| H _{3a-g} | Please state to which extend you are satisfied with the below stated conditions in your municipality <ul style="list-style-type: none"> - The local road system - Access to ship, railroad, airport facilities - The possibilities of attracting skilled labor - The taxation of companies in municipality - The policy of commerce in the municipality - The municipality services - The possibilities of participating in business networks (5-point scale: 1=not at all satisfied and 5=very satisfied) |
| H ₄ | How many employees are in the firm? ____ |
| H ₅ | The difficulties associated with moving the firm makes us staying in the municipality (5-point Likert scale from 1=totally disagree to 5= totally agree) |

a) Refers to the respective hypotheses in which the measured aspect is included

| Appendix C: Consequences | |
|--------------------------|--|
| H ₆ | How likely do the find a relocation of the firm or parts of its activities? (1=very unlikely, 2=unlikely, 3=likely and 4=very likely) |
| H _{7a-b} | Have you, within the last 3 years, discussed the business climate in your municipality with other business owners? (5-point scale: 1=not at all and 5=very often) If you have discussed the climate with others have you mentioned your municipality positively or negatively? (5 point scale: 1=mostly negatively and 5=mostly positively) |
| H ₈ | I would recommend other firms the settle down in the municipality. (5-point Likert scale from 1=totally disagree to 5= totally agree) |
| H ₉ | In your perception, to which extent has your municipality been mentioned negatively or positively in newspapers discussing business conditions (5 point scale: 1=mostly negatively and 5=mostly positively) |

| Appendix D: Social influences and situational factors | |
|--|---|
| H ₁₀ | Taken all in account moving the firm would be a loss to the municipality. (5-point Likert scale from 1=totally disagree to 5= totally agree) |
| H ₁₁ | The possibilities of participating in business networks (5-point scale: 1=not at all satisfied and 5=very satisfied) |
| H ₁₂ | Our suppliers would not approve if we moved to another municipality (5-point Likert scale from 1=totally disagree to 5= totally agree) |
| H ₁₃ | Our customers would not approve if we moved to another municipality. (5-point Likert scale from 1=totally disagree to 5= totally agree) |
| H ₁₄ | I believe my family is satisfied we the present location in the municipality (5-point Likert scale from 1=totally disagree to 5= totally agree) |
| H ₁₅ | Please state, in percentages, your import in 2005 (direct from suppliers) equals 100%, distributed on markets in Denmark, rest of Europe, and outside Europe |
| H ₁₆ | Please state, in percentages, your total sales in 2005 distributed on markets in Denmark, other European countries, and outside Europe |
| H ₁₇ | To what extent would a five percent tax raise on firms in your municipality influence your intentions to relocate the firm or part of it? (5 point scale: 1= no influence at all and 5=much influence) |
| H ₁₈ | To what extent would your intentions to relocate the firm or part of it be influenced by another municipality offering better facilities and business conditions? (5 point scale: 1= no influence at all and 5=much influence) |