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Is a new office a blessing in disguise? The strategic importance of relocation

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Abstract

Purpose/Goal: Corporate relocation is a rare event in the history of an individual company. The choices related to location, building and workplace constitute major long-term strategic decisions that determine the company's future operating environment. However, business decision-makers often do not evaluate all the aspects of relocation before making relocation decisions. Thus, the aim of this paper is to systemise the knowledge behind corporate relocation and the strategic qualities and impacts of these choices.

Methodology/Approach: This conceptual paper is based on a comprehensive literature review of 68 articles on the strategic qualities of short-distance corporate relocation of knowledge-intensive firms. Based on the review insights, a conceptual model of the strategic operational qualities for work environment selection is developed.

Findings: The paper identifies three strategic layers of physical environment change, namely, location, building, and physical work environment, which need to be considered when deciding to relocate. Corporate relocation affects a company through five operational qualities, namely, staff productivity, costs, employee retention and availability, operational changes, and organisational culture.

Originality: This paper uses a strategy and organisation lens to provide a systematic overview and synthesis of the strategic qualities of short-distance corporate relocation of knowledge-intensive firms.

Implications: Relocation is a complex process for an individual company. Justifying choices based on direct costs can lead to unexpected changes in indirect costs for the company. This paper helps decision makers understand the strategic importance of corporate relocation, identify relocation goals, and plan successful relocation.

Keywords: office relocation, real estate management, strategic decision making, knowledge-intensive firms, impact, work environment

1. Introduction

The relocation of companies is rarely studied in the academic literature, in particular, the short-distance relocation of quite small non-listed companies (Knoben and Oerlemans, 2005). The short-distance relocation of knowledge-intensive companies, i.e., the moving of an office to new premises within a city, is a strategic decision that has far-reaching implications for the company and its business. Short-distance relocation refers to a relocation process in which, as a rule, employees remain in the company and do not have to change their homes (O'Mara, 1999; Rothe, 2015). Short-distance relocation is an expensive and time-consuming process (Nunnington and Haynes, 2011; Rothe et al., 2015). It is a strategic company choice regarding the location, the building, and the workplace, which together form the work environment. These choices determine, among other things, the company's future operating environment and have both direct and indirect effects on a company's strategic goals. Relocation implications on employee
retention and productivity are especially important for knowledge-intensive organisations, which are the focus of this paper (Duque et al., 2020). Knowledge-intensive other than labour or capital-intensive organisations are characterised by non-standardized production, creativity, high education levels and dependency on personnel, their minds, and networks (Alvesson, 2011). They are engaged in business-to-business services, and their focus is on doing rather than making (Miles et al., 2018).

Although the importance of location, building, and workplace for the success of a company is known, companies still face challenges with real estate management and proactive strategic planning (Allard and Barber, 2003). Often, relocation arises more as a response and necessity and less as a strategic decision. Companies look primarily for the office space to meet their space needs rather than the needs of the organisation itself. Moreover, companies might not have the necessary expertise (Rothe et al., 2015). As a result, companies often lack a holistic understanding of the strategic qualities of relocation and seldom consider the strategic significance of relocation choices. Despite several studies on the strategic nature of relocation, there is no systematic synthesis of or integrative lens regarding the strategic qualities of short-distance relocation and how these are related to one another when making relocation decisions.

The article is designed as a conceptual paper based on an extensive literature review, outlining the strategic qualities of short-distance relocation. It focuses specifically on leased premises. The article discusses the causes of relocation, the process, and decision makers. It introduces the different aspects the work environment relocation, namely, location, building and workplace, and the significance of the related choices for the company's future operating environment. The article ends with conclusions and discussion on how companies could relocate more strategically.

2. The process of short-distance relocation

Brouwer, Mariotti and Van Ommerenent (2004) define a company's relocation as a firm's geographical movement. The Department for Business, Energy and Industrial Strategy (BEIS, 2018) categorises a company's relocation based on the moving parts, distance of the move, and extent of asset transfer.

2.1. Typical reasons of relocation

The BEIS (2018) identifies a long list of drivers that affect firms’ relocation decisions, categorising them into five groups: firm characteristics, decision-maker characteristics, location ‘market’ factors, location ‘nonmarket’ factors, and public policy. However, the effects of these drivers vary depending on the type of firm and the type of relocation. This
article concentrates on the knowledge-intensive organisations that typically lease their (office) premises and considers only a short-distance relocation; thus, many of the identified drivers (such as public policies) are not applicable.

Decker and Crompton (1993) divide typical reasons for relocation into intangible and material (or quantifiable) reasons. The typical material reason is cost savings (Christersson and Rothe, 2012; Hassanain et al., 2020; Morgan and Anthony, 2008). Other reasons include, for example, the termination of a lease (Rothe et al., 2015), an increase or decrease in staff, and the health and safety of involved facilities (Hassanain et al., 2020). More intangible reasons would be a company’s desired growth, mergers, capacity enhancement, or image (Hassanain et al., 2020; O’Mara, 1999). Relocation usually occurs at the end of a company’s previous lease (Christersson and Culley, 2018), when there is presumably more than one reason for relocation (Williams and Harris, 1988). Some of the reasons can be both practical and strategic at the same time; for example, a more central location could be both practical for staff and a strategic choice for proximity to customers.

According to Wrigglesworth and Nunnington (2004), the decision on location is sometimes strongly influenced by the personal preferences and interests of the decision maker rather than the firm. One way to avoid the bias of personal interests is to make accurate calculations of the impact of location on costs and profitability as a decision-making tool (Williams and Harris, 1988).

2.2. The nature of relocation processes

Rothe, Sarasija and Heywood (2015) describe short-distance relocation as an unsystematic and complex process that requires multiple parties, steps, and decisions. Relocation is often a stressful and multi-risk process for decision makers (Rasila and Nenonen, 2008), with far-reaching economic, social, and environmental impacts (Christersson and Rothe, 2012). Often, the complexity of the relocation process is understood only after the relocation has taken place (Rothe et al., 2015).

Because business premises are usually changed only a few times during a company's life cycle, companies do not accumulate sufficient expertise, which often leads to improvised relocation management (Rothe and Heywood, 2015). Typically, in the relocation process, decision-makers are senior management and may have recommendations for relocation made by external experts. Senior executives have other roles, as well and little experience with relocation, which can be seen as both change management and property-related decision-making (Rothe et al., 2014). According to Vischer (2007), company management perceives relocation issues as being distant from the company's core competencies and thus perceives the impact of business premises
on the company’s mission to be similarly distant. In large companies, the final decision is often made by the board, but in this case, it is often only a proposal prepared in advance by the members of the management team; thus, the influence of the board is limited (Greenhalgh, 2008).

Large companies typically have a dedicated facility/property manager, and in these cases, relocation is primarily the responsibility of that person (Christersson and Culley, 2018; Nunnington and Haynes, 2011). It is estimated that in organisations where a facility manager has been appointed, the strategic importance of a company’s real estate is understood better than in companies without a person specialising in real estate due to constant communication with the management team about business premises supporting the strategic goals of the organisation. However, due to the infrequent appearance of relocation, the knowledge of facilities managers is also often limited (Christersson and Culley, 2018). This might be the reason why the relocation process is most often handled by consultants (Jensen and van der Voordt, 2020).

Christersson et al. (2017) define the relocation process as beginning with a relocation decision and continuing until after the move, when the premises are fine-tuned during subsequent use. Typically, the relocation process includes determining the need and mapping supply to meet those needs (Nunnington and Haynes, 2011), locating and comparing sites, lease negotiations, site design, and physical relocation (Christersson et al., 2017; Rothe et al., 2014). Relocation involves at least three changes, namely, location, building, and workplace, and sometimes, as a fourth, change in work patterns (Christersson et al., 2017). Usually, the desired location is the first thing to determine when choosing a new work environment (Rothe et al., 2014), which naturally limits building options. Then, the available buildings and office space options are compared in the selected area (Nunnington and Haynes, 2011). Finally, the companies choose the space that best serves them from the selected property and design the workplace solution to meet the needs of the company. Sometimes the choice can be made by first finding a suitable space or building and then adapting the needs of the company to the chosen solution, or the choice can be guided by the offered lease, including good financial incentives (Nunnington and Haynes, 2011). According to Nunnington and Haynes (2011), a successful process is iterative because few firms know exactly what they need before determining it. Thus, initiating relocation by selecting a particular target reduces the chance of a successful outcome.

2.3. The lack of a holistic view on strategic qualities of relocation

Corporate offices are often seen as a prerequisite and a mandatory part of a company’s operations. Most often, companies look for an office space to meet their space needs rather than the needs for successfully conducting business (Rothe et al., 2014). Thus,
operational decisions, such as costs of real estate, often drive the choices of a company's relocation.

However, the workplace is also an important strategic resource that has an impact on a company’s success (Rothe, 2015). A company's relocation to new premises determines, among other things, the company's future operating environment and affects productivity, staff retention, new recruits, customers, and the company's image. It can also be utilised as an accelerator of organisational change (Inalhan, 2009). The problem often arises that some decisions regarding a company’s real estate do not have an immediate and direct impact on the company’s performance, such as increasing employee satisfaction or reducing turnover (Lindholm and Leväinen, 2006). Thus, companies might unknowingly disregard the impact of relocation. Lindholm, Gibler and Leväinen (2006) explain that first and foremost, suitable real estate strategies should be identified to suit a company's goals. These strategies should then guide operational decisions related to a company’s real estate. This type of proactive strategic planning of business premises is still difficult in practice (Allard and Barber, 2003); thus, there is a need to emphasise the indirect and long-term effects of office relocation on organisational performance.

3. Corporate relocation is defined by three strategic levels of changes in the physical work environment

Christersson et al. (2017) identify three levels of changes in the physical work environment: location, building, and workplace. These levels of changes are conceptualised as the strategic levels of physical work environment selection, and their qualities are synthesised in the following sections.

3.1 The strategic qualities of the location

When choosing a location, a company should determine what is important about a particular location. Elgar and Miller (2010) suggest that, in theory, firms should look for the best location for a business by calculating the impact of various location factors on their operating profit.

The choice of location is influenced by, among other things, the image, visibility, accessibility, and rental level of the area (Elgar and Miller, 2010). However, in reality, the analysis is difficult to implement due to uncertainties and incomplete information. In short-distance relocation, the location is dealt with as a micro-location, for example, within a city or a district. However, even at the micro-level, there are differences between two locations (Christersson and Rothe, 2012). For example, the arms of ring roads differ significantly from public transport hubs as business locations, even if the distance is only
a few kilometres (McQuaid et al., 2003; Tenkanen and Toivonen, 2020). Differences between prime and other locations just a few kilometres away might vary significantly in terms of rent levels (Dow and Porter, 2004).

Location plays a significant role in organisational performance and collaboration (Motoyama and Knowlton, 2017; Porter, 2000). Changes in employees’ commuting to the new location and labour availability in the area should be considered when selecting a location (Dow and Porter, 2004). The availability of labour can be affected, for example, by the attractiveness of a new location (Rothe et al., 2014). From an employee’s perspective, when a company relocates over a short distance, the employee’s commute and services available might lead to a decrease in employee satisfaction and productivity (Christersson and Culley, 2018; Dow and Porter, 2004; Behren et al., 2018; Pritchard and Frøyen, 2019; Rau et al., 2019). The cost savings achieved by a location can quickly disappear if the new location is disadvantageous in terms of employee resources (Dow and Porter, 2004).

Location choice also influences the accessibility of the other key stakeholders (Dow and Porter, 2004). Customers, suppliers, advisors, and other stakeholders need to be considered in terms of location changes. For example, if customer accessibility deteriorates, this may lead to a decline in profitability due to extended travel times and increased travel costs (Rothe et al., 2014). Furthermore, successful production and delivery of services depends on physical co-presence, spatial proximity, and the development of trust (Growe, 2018).

3.2 The strategic qualities of the building

One of the reasons for relocation decisions can be the factors related to the building's technical or functional quality and services available in the building. Adnan, Daud, and Mohamed Razali (2015) provide a list of factors affecting tenants’ decisions regarding their offices in categories of location, lease, building and financial/cost factors. In the building category, the authors distinguish responsible management and maintenance, modern IT equipment, and fire prevention and protection.

Responsible management and maintenance can contribute to significant cost savings through lower energy and operating costs. More sustainable materials choices remain usable for a long time and thus affect maintenance costs even though the construction costs might be higher (Pitts, 2008). Moreover, environmentally friendly buildings can help reduce the consumption of water and other materials (Kato et al., 2009) and indirectly affect employee satisfaction and productivity (Heerwagen, 2000).
Buildings can also have a significant effect on employees, e.g., through increased natural light, efficient ventilation, and healthier building materials (Heerwagen, 2000, Al Horr et al., 2016). For example, improved indoor air quality results in fewer symptoms within occupants, increased satisfaction and reduced sick leaves (MacNaughton et al., 2016; Palacios et al., 2020).

3.3. The strategic qualities of the workplace

Office design has been seen as playing a strategic role in company performance (Chan et al., 2007; Craig, 2005; Kim, 2014). Haynes (2008b) notes that workplace design plays a major role in a company’s brand, staff efficiency, and satisfaction. Workplace design also affects knowledge sharing and innovation processes in organisations (Appel-Meulenbroek et al., 2017; Wineman et al., 2009). Sometimes the implementation of a new workplace concept is even a reason for relocation (Hassanain et al., 2020; Nenonen and Danivska, 2020). Changes in office design and workplace concepts have significant effects on employee outcomes such as well-being (Cordero et al., 2020) or productivity and motivation (Petrulaitiene and Jylhä, 2015).

Different workplace concepts might have different effects (Arundell et al., 2018; Haynes et al., 2017). Boge et al. (2019) define different types of office design solutions: shared open spaces, designated workrooms or booths, group spaces divided by teams or organisational structure, and multi-space offices with areas for concentrated and group work that can be either designated or shared within a team or whole organisation. For example, an open plan office can enable more innovation and communication between employees but can also impair employee productivity. On the other hand, individual rooms improve the concentration of the individual employee but reduce communication (Haynes, 2008a). Multi-space office design is often approached as a flexible office or an activity-based workplace, where a certain space should be chosen based on the type of activity that needs to be done (Morgan and Anthony, 2008). The flexible office concept is seen as the most satisfactory design from the employee perspective (Leesman, 2019).

4. Strategic operational qualities of relocation

The literature identifies multiple ways in which corporate real estate can add value to organisations (Lindholm and Leväinen, 2006), and this value can be added through various interventions (Jensen and van der Voordt, 2020), with relocation being one of them. Here, that added value is represented by certain strategic operational qualities for the company. Based on a comprehensive review of the literature, five strategic operational qualities of relocation can be identified: (1) staff productivity, (2) costs, (3) employee retention and availability, (4) operational changes, and (5) organisational
culture. The effects can be positive or negative, depending largely on whether the strategic qualities have been considered in the relocation and whether the process has been derived to support the strategic objectives of relocation. The effects of these qualities are discussed in further sections.

4.1. Staff productivity

Corporate relocation can impact employee productivity either positively or negatively. A company can support employee productivity by, e.g., relocating to a more meaningful place (Rothe et al., 2014). However, a poorly implemented relocation can, at worst, lead to employee dissatisfaction, reduced efficiency, and increased turnover. For example, extended commutes reduce staff productivity and, at worst, affect company performance (Down and Porter 2004).

According to Harris (2019), staff productivity in the office is improved by offering a variety of spaces, for example, for concentration and breaks, providing good working conditions through ergonomics and technology, and considering environmental factors such as indoor air and lighting. Vischer (2007) classifies productivity into three different subcategories: individual, group, and organisational productivity. The productivity of an individual employee can be improved by developing workstations in a comfortable and ergonomic work environment. Optimal ergonomic and comfortable conditions presumably reduce sick leaves, which further enhance the performance of an individual employee. The group’s productivity is significantly affected by the group’s proximity and size. The layout of the workplace can enhance communication and collaboration and the shared use of different tools (e.g., Appel-Meulenbroek et al., 2017). In organisational productivity, the workplace is seen as a resource designed to support a company’s business objectives, and this resource is strongly influenced by, for example, building services, quality level, and usability (Vischer, 2007).

4.2. Costs

Cost is the most easily identifiable effect on relocation for a firm and is often a typical reason for relocation (Christersson and Rothe, 2012). Previous chapters have noted that the selected location and building can affect both the rental levels and the operating costs. When a company moves, there are direct costs of brokerage services, designers, furniture, and IT investments and indirect costs or savings on rent, employee travel costs, and sick leaves that affect the work environment (Rothe et al., 2014). In addition, costs arise from, among other things, consultants and possibly the costs of premature termination of a previous lease (Christersson and Rothe, 2012).
In relocation, location decisions involve delimiting areas according to their price level (Rothe et al., 2014). In building selection, the rental cost can be affected by the selected space size and the terms of the lease. Cost savings can also be obtained through incentives such as rent-free months or compensation of relocation costs (Pfrang and Wittig, 2008). Within the workplace, cost savings can be achieved during the design and use of new premises. These indirect costs or savings may arise from, for example, employee productivity, changes in the company's image, and proximity to customers, competitors, and suppliers. At its best, relocation can have a positive impact on a company’s key figures such as revenue, profit, or profitability (Rothe et al., 2014).

In the long term, through relocation, a company can prepare for future changes. This can be done by signing a beneficial lease agreement, including flexibility options such as reducing the size of the physical space and expansion options (Leishman et al., 2003; Rasila and Nenonen, 2008). By choosing flexible spaces, companies can modify their spaces at a low cost as their business changes (Bradley and Osborne, 1999). An example of the change needed may be teleworking, which may first reduce the need for company workstations but, on the other hand, also increase the need for small rooms suitable for video calls.

Even though the cost is a significant factor, there is a risk that decision-makers will place too much weight on it in decision-making. Although operational costs are a large expense item, they rarely have a significant direct impact on a company’s productivity. Thus, costs should be seen as a whole. That, if properly considered, can pay for themselves in multiples (Williams and Harris, 1988).

4.3. Retention and availability of labour

Relocation can have significant effects on the retention and availability of labour (Christersson and Rothe, 2012). In relocation, it is strategically important for knowledge-intensive organisations to find a work environment, where it is likely to retain staff and be efficient in gaining a new workforce. If the change caused by relocation is perceived as negative among the staff, this may affect the turnover and work ethic (Greenlagh, 2008). On the other hand, at best, a positive change can lead to a recruitment benefit and employee satisfaction (Rothe et al., 2014).

Relocation can increase a positive attitude towards the company through, e.g., easier commutes, parking lots, services, a comfortable work environment and sometimes by only the image of the geographical location (O'Mara, 1999). Moreover, high-quality working conditions affect the company's internal identity, as they play a significant role in employee perceptions towards the company (Rothe et al., 2014). Uncomfortable or badly managed office spaces reduce employee motivation and satisfaction, while even small
improvements to workspaces can have a positive impact on a company’s staff experience of the work environment.

4.4. Operational changes

Corporate relocation has both short- and long-term effects on companies' operations. In the short term, the pre-relocation phase poses challenges to work due to many people being involved in relocation planning, and often the actual relocation causes business interruption. Nonetheless, business interruptions can be shortened or minimised by a well-planned change management process (Austin and Currie, 2003; Shiem and Then, 2012).

In the long term, relocation defines the new operating environment, such as new working methods, communication, and systems (Christersson and Rothe, 2012). For example, a company may move from personal workrooms to an open-plan office, or there may be significantly fewer workrooms. This requires new guidelines for working. The change in the workplace also affects communication. For example, teams can be set up so that teams working closely together sit close together, and individual teams work in common open spaces to facilitate the flow of information and creative thinking.

4.5. Organisational culture

Relocation is an excellent opportunity to encourage change in an organisation (Christersson and Rothe, 2012). Even the smallest changes in the work environment require changes in employee behaviour (e.g., commuting routes) and thus require change management (Rothe and Heywood, 2015; Vischer, 2012).

A company's physical work environment in knowledge-intensive organisations is key in communicating a company's culture, value and image to its customers and employees (Christersson and Rothe, 2012; Williams and Harris, 1988). It is a visible message to others, and relocation can strengthen it. In relocation, it is important to understand what values the company wants to communicate now and in the future (Rasila and Nenonen, 2008). For example, Katon et al. (2009) explain that environmentally friendly buildings have the potential to promote visitors' image of the company as environmentally friendly and to increase interest among recruits.

Major changes in the organisation often raise the resistance to change. The resistance at the beginning of the relocation process later transforms into the adaptation to change (Laframboise et al., 2003). Adapting to change, however, requires employee approval for change (e.g., Rothe and Heywood, 2015). According to Spiker and Lesser (1995),
resistance to change does not automatically arise from the change itself but rather from the management of change which might eventually overthrow large projects.

5. Discussion

5.1. How can short-distance relocation become more strategic?

The short-distance relocation discussed in the paper has much effect on the company’s performance and the company’s employees. This paper opens the complexity of the relocation process in the organisation. Corporate relocation is a strategic process for the company that starts prior to the move and continues until the adjustments have happened after the move. It involves three levels of changes—location, building, and the workplace—that constitute the full work environment of a company.

The previous literature identified that cost is a typical reason for relocation for companies. It is a simple, understandable, and comparable factor for decision-making. However, this paper notes that the direct costs of relocation do not reflect the overall economic impact of relocation. The physical work environment is a long-term financial investment and has a wide-ranging impact. The effects that the work environment has on the company are most often indirect (Gregory et al., 2005). Companies should therefore not try to minimise costs with relocation but rather consider the suitability of the work environment for their business needs. The cost savings achieved through relocation can be quickly lost if, for example, the new location increases other costs, reduces productivity, or reduces customers Section four identifies five areas of strategic importance to the company’s business that will be affected by relocation. These factors, which we term strategic operational qualities in relocation, are important competitive factors for knowledge-intensive companies, and it is important for a company to consider how the planned relocation may affect them and how the company can choose a work environment that maximises the overall benefits.

For this, a multiple-criteria decision-making process should be implemented. Haddad, Sanders and Tewksbury (2020) have proposed a model where first the criteria for relocation are decided, then different weights to those criteria are applied, and finally, risks are evaluated. Even though they used the model for corporate relocation between cities, the same principle can and should be applied in short-distance relocation.

Figure 1 illustrates the three strategic levels of the physical work environment and five different strategic effects on the operation of business, the emergence of which is influenced by the relocation process. We hence propose to use the five strategic operational qualities for work environment selection and the three levels of work
environment as criteria to be assessed in the initial stage of relocation and to be followed up until the relocation and adjustments at the new workplace have taken place.

<INSERT FIGURE 1 HERE>

Figure 1. Three strategic levels combined with five strategic operational qualities for physical work environment selection

In knowledge-intensive organisations, employees and their needs should be emphasised in the decision-making process. They are the most important resource of this type of organisation; thus, employees should be the starting point for the entire relocation and a part of the whole process. For this, change management becomes even more important, ensuring that the relocation is successful with as few business disruptions as possible. Change management requires good practices and models that can combine a company's strategic and workplace change processes and utilise employee knowledge (Ruohomäki et al., 2016; Finch, 2012). A user-centric approach to decision-making and user involvement throughout the planning and relocation process reduces the possibility of negative effects after relocation. Such user-centric approach does not only include the professionals that will work at the location but also their current and prospective customers.

Relocation is a unique event for a company and is thus quite far from the company’s core competencies. Companies should therefore rely on multi-professional teams during the relocation process, specifically involving people who understand their strategy, buildings, and employees. In case where companies lack such access to such expertise, they should fill that gap with external sources. Multi-professional teams, which approach relocation analytically and as a strategic decision, ensure that relocation supports the company’s business in the long run.

6. References


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