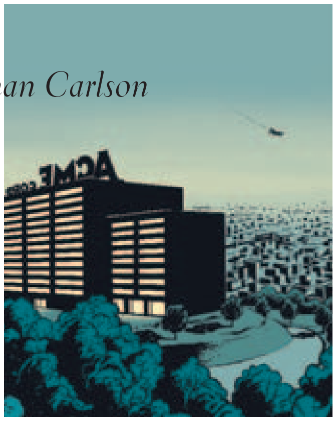
By Jane Katz ~ Illustrations by Jonathan Carlson



Get me headquarters!

The prosperity of American cities has long been linked with the large local corporations headquartered there. Local workers have spent their lives employed at companies such as Gillette in Boston, Norton in Worcester, United Technologies in Hartford, and Textron in Providence. In some of these firms, jobs were held by several family members, as each


ACME

generation bought homes, educated their children, and enjoyed their retirement with their earnings. These companies invigorated the region's larger economic development, encouraging the spread of technology and skilled workers and spawning a network of associated firms and suppliers.

The influence of large companies went well beyond jobs. Companies and their top executives were often key players in the community, a source of civic leadership and philanthropic effort. In the 1960s and 1970s, for example, powerful Boston executives formed the Boston Coordinating Committee (nicknamed "The Vault" for the safe near its meeting place at the Boston Safe & Deposit Company), which for a time was important in setting the local agenda on issues ranging from public education to the state budget. Senior executives and their wives sat on the boards of schools, museums, libraries, and hospitals, taking a lead role as benefactors and fundraisers for local charities.

Much of this economic energy and philanthropic largesse was assumed to be the direct outgrowth of the location of the company headquarters, typically near the firm's production and other facilities. When economic times were tough, senior executives were

Headquarters have been an engine of local jobs, charitable contributions, and civic energy. In the 21st century, will this still be true?

People who work at headquarters tend to be highly educated and paid—one reason headquarters are so desired

thought to be more reluctant to lay off local workers—who were also neighbors. Top management was often concerned about the community and the quality of the schools, streets, and hospitals that their workers used—in part, because their parents and children used them, too.

As better communication and transportation allowed firms to geographically separate various parts of the operations to lower-cost regions or to locations closer to their customers, the region's industrial economy began to give way to a service economy. Manufacturing jobs and firms left the region, and many expressed concern that company headquarters and the economic boost and the civic involvement they had traditionally provided would go along with them.

Perhaps then it is surprising to find that despite the turnover in companies that have their central offices here, New England has prospered as a location for large company headquarters. Many of the industries in which the region has long specialized—aerospace and defense, computers, and financial services—are still present in some form, legacies of earlier strengths. And growing industries, like retail, are also gaining a toehold. Whether headquarters still bring the same economic and community benefits is less clear.

WHAT DO HEADQUARTERS DO?

Modern large company headquarters are primarily in the information business. They collect, produce, and disseminate information. Headquarters employees regularly gather data and intelligence from other employees, customers, competitors, and outside experts and consultants. They use the material they collect to generate solutions to complex and unpredictable business problems: those of managing the diverse elements in a far-flung enterprise, identifying the best business strategies, developing and evaluating marketing campaigns, resolving legal issues, and turning out accounting and financial reports.

The people who work in headquarters tend to be highly educated and highly paid—one reason that headquarters are considered so desirable for a regional economy. According to the Bureau of Labor Statistics, the average annual pay of headquarters employees in New England ranged from $46,900 in Vermont to $104,800 in Connecticut in 2001, substantially higher than the pay in other establishments. (See table on page 17.) In the first quarter of 2001, average weekly wages at headquarters ranked second only to wages in the finance and insurance sector.

Headquarters also depend heavily on regular face-to-face contact with a network of outside suppliers of highly paid business services—investment and commercial banks, lawyers, accountants, advertising and media companies, and consulting firms. In addition, headquarters seem to benefit from congregating near one another. Studies suggest that business services firms are attracted to areas with a large market for their wares, leading to greater variety, higher quality, and lower prices.

This means that headquarters and their business service providers tend to end up locating near each other. And they tend to cluster in areas that can attract and retain a highly-skilled professional and technical workforce, with the educational institutions and the cultural amenities that such workers and their families favor. Also important is convenient access to airports, highways, and state-of-the-art telecommunication to ease the cost and hassle of being in contact with people in the field.

HEADQUARTERS CLUSTER

As a result, large company headquarters have historically been concentrated in the largest cities in the Northeast and Midwest—and particularly in densely populated New York City. A haven for large corporate headquarters, New York City completely dominated the game for most of the last century. In 1960, for example, New York was home to the largest number of Fortune 500 firm headquarters, including six of the top ten: Standard Oil, General Electric, U.S. Steel, Mobil Oil, Texaco, and Western Electric. (Fortune 500 companies are ranked by sales. As measured by its share of all Fortune 500 assets, New York had an even greater lead.)

Although the 1960s and 1970s saw an exodus from the central city, as old-line New York firms such as General Electric, Xerox, and Union Carbide moved to the Connecticut suburbs and to other regions of the country, New York continued to dominate. In 1987, for example, the greater New York metro area accounted for 160 Fortune 500 headquarters representing $2,237 billion in firm assets, more than five times that of Chicago, the next-largest metro area, according to economists Steven Holloway and James Wheeler. Today, the New York metro area is still by far the largest U.S. headquarters city, whether measured by number of companies or by assets.

1960 FORTUNE 500 companies headquartered in New England

To be eligible for the Fortune 500 in 1960, a firm must have derived half of its sales from manufacturing and/or mining (top of table). This requirement indicates the importance of manufacturing, which then accounted for almost 40 percent of New England jobs. Lists of the top firms in other sectors were published separately (bottom of table); New England's strength in financial services is already evident.

COMPANIES THAT PUBLISHED FINANCIAL DATA AND DERIVED MORE THAN 50 PERCENT OF SALES FROM MANUFACTURING OR MINING, RANKED BY SALES

MANUFACTURING	HEADQUARTERS	SALES*	EMPLOYEES	PRODUCT
United Aircraft	East Hartford, CT	$988	57,371	Aircraft engines and accessories
Raytheon	Lexington, MA	540	40,724	Electronics, high-tech defense
Textron	Providence, RI	383	29,000	Electronics, high-tech defense
Gillette	Boston, MA	225	9,670	Razors, shaving products, hair products, pens
Grinnell	Providence, RI	209	9,500	Burglar and fire alarm systems
Norton	Worcester, MA	182	14,000	Sandpaper, grinding wheels, other abrasives
Bridgeport Brass	Bridgeport, CT	142	4,746	Copper and copper alloy products
Scovill Manufacturing	Waterbury, CT	142	9,647	Brass mill, fasteners, appliances, electronics
Eastern Gas & Fuel Associates	Southbridge, MA	139	7,142	Coal, natural gas pipeline, home heating
Armstrong Rubber	West Haven, CT	117	3,693	Tires
Kendall	Boston, MA	112	7,220	Hospital supplies; industrial equipment
American Chain & Cable	Bridgeport, CT	111	7,852	Chains
Pepperell Manufacturing	Boston, MA	100	7,500	Mills, textile production
Polaroid	Cambridge, MA	99	2,834	Cameras, film
United Shoe Machinery	Boston, MA	97	7,469	Shoes
Stanley Works	New Britain, CT	95	7,198	Steel strapping, bolts, screws, hardware; hand tools
Eastern States Farmers' Exchange	West Springfield, MA	92	2,112	Feed, fertilizer, and farm supplies
American Optical	Southbridge, MA	91	9,438	Lenses, precision optical products
Seaboard Allied Milling	Newton, MA	81	944	Flour milling

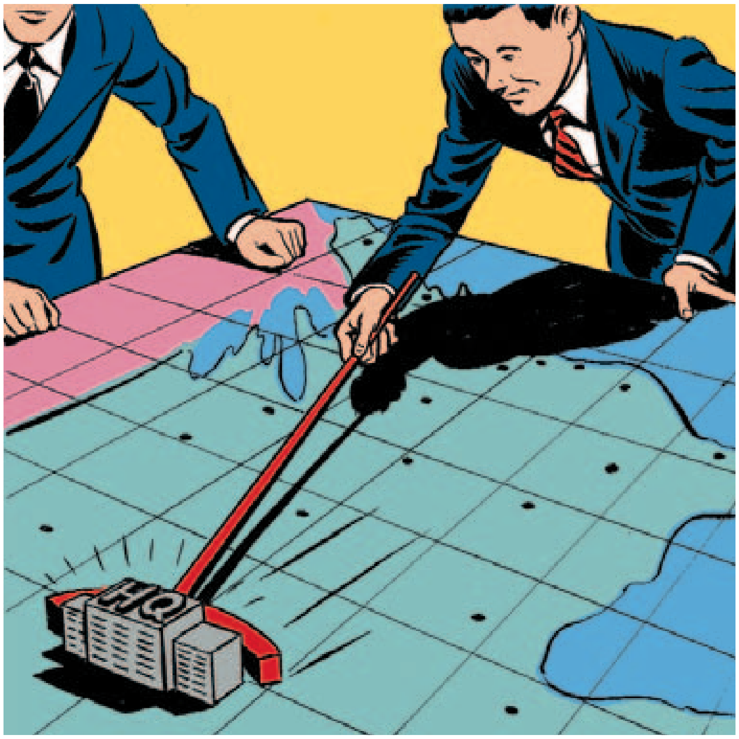
TOP COMMERCIAL BANKS, LIFE INSURANCE, MERCHANDISING, TRANSPORTATION, AND UTILITY COMPANIES

BANKING & LIFE INSURANCE	HEADQUARTERS	ASSETS*	EMPLOYEES	BUSINESS
John Hancock Mutual	Boston, MA	$6,127	18,126[1]	Life, accident, health insurance
Aetna	Hartford, CT	4,031	14,300	Life, accident, auto, health, liability, air travel insurance
Travelers	Hartford, CT	3,316	20,325	Life, accident, sickness, hospital, liability insurance
Mass. Mutual Life Insurance	Springfield, MA	2,440	3,239	Life insurance
Connecticut General	Hartford, CT	2,232	2,435[1]	Life, accident, air travel insurance; pensions
New England Mutual	Boston, MA	2,211	1,530	Life, accident, health insurance
First National Bank of Boston	Boston, MA	1,905	4,758	Commercial banking
Connecticut Mutual	Hartford, CT	1,594	1,000	Life insurance
Phoenix Mutual	Hartford, CT	894	1,695[2]	Life, accident, health insurance
State Mutual of America	Worcester, MA	734	1,036	Life, accident, sickness insurance

RETAIL & MERCHANDISING	HEADQUARTERS	SALES*	EMPLOYEES	BUSINESS
First National Stores	Somerville, MA	$536	>15,000	Grocery stores
United Fruit	Boston, MA	304	60,209	Bananas, sugar, other products
Stop & Shop	Boston, MA	239	8,000	Grocery stores

UTILITIES & TRANSPORTATION	HEADQUARTERS	OPERATING REV.*	EMPLOYEES	BUSINESS
New England Electric System	Boston, MA	$180	8,085	Electric services
Boston Edison	Boston, MA	124	4,172	Electric services
NY, New Haven & Hartford Rail.	New Haven, CT	134	11,670	Railroad

* In millions of dollars
[1] Figure for 1961
[2] Includes agents
SOURCES: "The Fortune Directory: the 500 Largest U.S. Industrial Corporations," *Fortune*, July 1961; "The Fortune Directory: Part II," *Fortune*, August 1961; *Moody's Industrial, Bank & Finance, Public Utility, and Transportation Manuals*, 1961 and 1962; and company annual reports, 1960



Large company headquarters began to move beyond the older industrial areas in the Northeast and Midwest

As small and midsize cities grew larger in the second half of the twentieth century, however, more of them developed the population, professional workforce, and network of high-quality business services necessary to support large company headquarters. Advances in communications and transportation, particularly the expansion of smaller airports, made them viable headquarters sites; lower costs served as an attraction. As early as the 1960s and early 1970s, large company headquarters began to move beyond the older industrial cities in the Northeast and Midwest to areas in the South and, to a lesser extent, the West.

According to Chicago Federal Reserve economists Thomas Klier and William Testa, this trend continued through the 1990s, as the South added headquarters faster than population. Using a slightly larger sample of firms (public companies with 2,500 or more employees) they find that Houston, Atlanta, Nashville, and Miami, in particular, attained the size and skilled workforce necessary to attract headquarters to their metro areas. By contrast, headquarters grew more slowly than population in the West, leaving that region relatively "under-headquartered" by the decade's end.

The biggest increases both in population and in headquarters growth occurred in metro areas with a population between 1 and 2 million people—places such as Orlando and West Palm Beach, Florida and Greensboro, North Carolina. At the same time, high-tech manufacturing headquarters became more geographically concentrated—about 80 percent were located in the 10 largest metro areas, as compared to 60 percent for non- high-tech firms—perhaps because companies that face rapid innovation and intense competition are especially reluctant to separate the information-gathering and problem-solving tasks performed at headquarters from research and development and production facilities.

How did this changing distribution of locations come about? Direct relocation—such as when a company simply picks up and moves its headquarters—is one avenue, although not necessarily the most common. A change can also result from the accumulated effects of the rise and fall of local firms and the industries of which they are a part. Successful companies thrive and grow large; regional giants fade and vanish as the result of poor management, competitive pressures, or changing demand or technology. Another route is a change in ownership—when one company acquires another or two companies merge. After the deal, one headquarters assumes leadership for the combined firm—sometimes choosing the larger company, sometimes the larger city—and the other is absorbed. The significance of these three factors (direct relocation, rise and decline of local firms, and ownership change) will likely vary over place and time.

Nonetheless, Klier and Testa conclude that when it comes to growing, attracting, and retaining headquarters, the most densely populated metro areas still have the advantage. Or, put another way, large company headquarters remain far more geographically concentrated than the U.S. population at large. According to their calculations, the 50 largest U.S. metro areas had 87 percent of headquarters in 2000—exactly the same percentage as in 1990. So while headquarters showed some tendency to shift away from the very largest metro areas, they identify no overall shift to places with fewer than 1 million people.

WHAT ABOUT NEW ENGLAND?

Despite this drift to midsize cities in the South and West, New England and particularly metro Boston (the 7th largest U.S. metro area with a population of 5.8 million), has more than managed to retain its share of headquarters. In 1960, 17 of the Fortune 500 firms were located in the region, accounting for about 1.9 percent of the list's total sales and 1.6 percent of total assets. Forty-one years later, New England has 28 companies on the list, accounting for 5.9 percent of revenues and 7.6 percent of assets. Even excluding the eight suburban Connecticut companies located in the New York metro area, New England's share rose to 3.3 percent of revenues and 4.6 percent of assets, respectively. (Tables on pages 13 and 15 show New England's Fortune 500 companies in 1960 and 2001.)

Interpreting these figures is not completely straightforward. To qualify for the Fortune 500 list in 1960, for example, firms had to receive at least 50 percent of revenues from manufacturing and/or mining. But New England also had a significant number of big insurance companies that were listed in a separate Fortune 50. This makes comparisons with 2001 (when there was one list for all industries) more complicated. In addition, the percentages noted above suggest not only that more New England companies are making the list in 2001, but also that the firms may be comparatively larger than in 1960, as measured by sales or assets. Nevertheless, it's worth remembering that the sales and assets themselves are national figures, and not the

2001 FORTUNE 500 companies headquartered in New England

By 2001, New England was home to the headquarters of 28 firms in the Fortune 500. Regional specialties such as metal production disappeared from the list; the number of retail chains headquartered in the region rose, reflecting a similar increase nationally. Aerospace and defense, computers, and financial services all continued to be well represented. With the exception of Massachusetts Mutual in Springfield, all firms could be found in the region's most densely populated metropolitan areas, including 12 in metro Boston, five in Hartford, and two in Providence. Another eight were part of the New York City consolidated metro area.

COMPANIES THAT PUBLISHED FINANCIAL DATA IN ALL INDUSTRIES, RANKED BY REVENUES

DIVERSIFIED FINANCIALS	HEADQUARTERS	REVENUES*	EMPLOYEES	BUSINESS
General Electric	Fairfield, CT†	$125,913	310,000	Diversified financial
MANUFACTURING	**HEADQUARTERS**	**REVENUES***	**EMPLOYEES**	**BUSINESS**
United Technologies[1]	Hartford, CT	$27,897	152,000	Aerospace and building systems
International Paper	Stamford, CT†	26,363	100,000	Forest and paper products
Raytheon	Lexington, MA	16,867	87,200	Aerospace and defense
Xerox	Stamford, CT†	16,502	79,000	Computers, office equipment
Textron	Providence, RI	12,321	51,000	Aerospace and defense
Gillette	Boston, MA	8,084	31,500	Household, personal products
EMC	Hopkinton, MA	7,091	20,100	Data storage for computers
Praxair	Danbury, CT†	5,158	24,222	Industrial gases; metallic and ceramic coatings
Emcor Group	Norwalk, CT†	3,420	20,000	Engineering, construction
Pitney Bowes	Stamford, CT†	4,690	32,724	Computers, office equipment
MeadWestvaco	Stamford, CT†	3,984	17,530	Forest and paper products
BANKING & INSURANCE	**HEADQUARTERS**	**REVENUES***	**EMPLOYEES**	**BUSINESS**
Mass. Mutual Life Insurance	Springfield, MA	$19,340	10,929	Life, health insurance[3]
FleetBoston Financial	Boston, MA	19,190	55,909	Commercial banking
Hartford Financial Services	Hartford, CT	15,147	27,400	Property/casualty insurance[4]
Liberty Mutual Insurance	Boston, MA	14,256	34,516	Property/casualty insurance[3]
John Hancock Financial	Boston, MA	9,361	8,355	Life, health insurance[4]
State Street	Boston, MA	5,637	19,753	Back-office, asset management for institutional investors
Allmerica Financial	Worcester, MA	3,312	6,000	Property/casualty insurance[4]
RETAIL	**HEADQUARTERS**	**REVENUES***	**EMPLOYEES**	**BUSINESS**
CVS	Woonsocket, RI	$22,241	110,000	Drugstores
Staples	Framingham, MA	10,744	40,914	Office supplies superstores
TJX	Framingham, MA	10,709	89,000	Off-price apparel retailer
BJ's Wholesale Club	Natick, MA	5,280	15,800	Membership warehouse
Ames Department Stores[2]	Rocky Hill, CT	3,648	32,700	Discount retailers
UTILITIES	**HEADQUARTERS**	**REVENUES***	**EMPLOYEES**	**BUSINESS**
Northeast Utilities	Berlin, CT	$6,874	7,400	Gas & electric utilities
NSTAR	Boston, MA	3,192	3,262	Gas & electric utilities
HEALTH CARE	**HEADQUARTERS**	**REVENUES***	**EMPLOYEES**	**BUSINESS**
Aetna	Hartford, CT	$25,191	35,700	Insurance and financial services[3]
Oxford Health Plans	Stamford, CT†	4,421	3,400	Health benefits provider

* In millions of dollars
† Part of New York City consolidated metropolitan area
1 Formerly United Aircraft on 1960 Fortune 500 list
2 Ames declared bankruptcy in 2001 and closed all stores in 2002
3 Owned by stockholders
4 Owned by policyholders
SOURCE: "Fortune 500 Largest U.S. corporations," *Fortune*, April 2002

The most promising approach to fostering new headquarters may be to promote and nurture firms born in the region

amount sold or located in New England. Overall, however, the statistics do suggest that New England's large companies and the business services that support them continue to be successful at finding and attracting the educated workers necessary to keep headquarters in the region.

In contrast to the trend in the rest of the nation, New England's headquarters do not seem to be shifting to the region's smaller cities, but instead have become even more concentrated in its largest metro areas. In 1960, New England's Fortune 500 firms were scattered. In 2001, all but one of metro Boston's 12 firms are located within its outer beltway, Route 495; the other two metro areas large enough (population 1 to 2 million) to support Fortune 500 headquarters are Hartford (five) and Providence (two). Only Massachusetts Mutual Life, in Springfield, is located outside these three metro areas.

New England's roster of firms has also undergone significant turnover over the past 40 years. Of the 17 companies on the list in 1960, five no longer had head offices in the region 10 years later; another three had disappeared by 1980; and by 2001, only Raytheon, Textron, Gillette, and United Aircraft (renamed United Technology in the late 1970s) were still present both in the region and on the Fortune 500 list.

Particularly evident is the disappearance of the old-line manufacturing firms that milled flour, produced rubber tires, milled and manufactured metal and machinery, textiles, and shoes. In a few cases, such as Stanley Works, the company continued to grow, just not fast enough to hold its place in the Fortune 500. More often, there was a change in ownership (or a series of such changes) driven by financial problems or industry consolidation. For example, Bridgeport Brass was bought by Olin Corporation; Pepperill merged with West Point to become West Point-Pepperill (headquartered in Georgia); American Optical was sold to Warner-Lambert Pharmaceuticals (headquartered in New Jersey); Norton merged with French firm Saint-Gobain to avoid a hostile takeover by a British conglomerate; and so on. Except for the sale of Bridgeport Brass to Olin—then in Stamford, Connecticut and now in Norwalk, Connecticut—the corporate headquarters went elsewhere.

As some headquarters moved away, others took their place, with newcomers in keeping with New England's traditional strengths. Aerospace and defense firms continue to be well represented among those headquartered here. Insurance companies and financial services firms also remain in the region, even after several decades of deregulation and consolidation. In 1960, eight of the nation's top 20 life insurance firms were headquartered in New England. In 2001, New England remains the home of a number of insurance companies, one of the country's larger banks, and State Street Bank, which provides asset management and back-office services to institutional investors.

One notable change is an increase in the number of retailers on the list, in line with the national trend toward large retail chains. While in 1960, most department stores, hardware stores, stationery stores, and pharmacies were locally owned and run, in 2001, 9 percent of Fortune 500 firms were retail chains, including 21 specialty retailers such as Staples (headquartered in Framingham, Massachusetts), Home Depot, and even Amazon.com, which made the list for the first time in 2001.

The fate of the region's high-tech headquarters has received special attention at various points, particularly after a number of Fortune 500 firms were swallowed up by bigger ones headquartered elsewhere. "Piece by piece, outsiders are making off with the crown jewels of Route 128," declared the *Boston Globe* in 1995, after Cambridge-based Lotus was bought by IBM in Armonk, New York. There were similar concerns voiced in 1998 when Compaq acquired Digital Equipment and its headquarters shifted from Maynard, Massachusetts to Houston.

It is hard to know exactly how much to make of this. Any young industry characterized by rapid technological change is going to exhibit a great deal of volatility as particular firms and technologies either catch fire or burn out, and the industry matures. So it can be risky to infer too much about longer-run trends from what happens over a short period of time. In addition, many successful tech companies are still small by Fortune 500 standards; making the 2001 list required sales greater than $3 billion. Focusing only on firms big enough to make the Fortune 500 risks missing perhaps more important changes occurring at high-tech firms below the cutoff.

Yet, even with Klier and Testa's somewhat larger group of firms, the evidence remains tantalizingly inconclusive, in part, because there is no single definition of what makes a company "high-tech." Using their sample and a stringent (OECD) definition, the number of high-tech companies headquartered in New England fell during the 1990s from seven to six; using a more inclusive (BLS) definition, it rose from 14 to 20.

Perhaps the most striking feature of the New England roster in 2001—in fact, in any year—is that so many of the companies are home grown, with roots in New England's traditional industries. Textron was initially founded in 1923 as the Special Yarns Corporation, a small Boston textile company; by 1960, it had only just begun to assume its modern form with the addition of businesses that sold home generators and helicopters. Defense giant Raytheon was established in Cambridge in 1922 as the American Appliance Company to commercialize a prototype refrigerator using artificial coolants developed by an MIT professor. And CVS traces its history back to the late nineteenth century and the Melville Corporation, a company that mass-produced and distributed shoes. These examples also suggest that firms that manage to stick around often undergo significant changes in their lines of business.

NOT YOUR FATHER'S HEADQUARTERS

When Seattle-based Boeing decided to move its headquarters in 2001, the event was treated in the press as part beauty pageant and part sporting event. Chicago, Dallas-Fort Worth, and Denver each put its best foot forward in a competition for the top offices of a company that produced more than $50 billion in revenues and employed 188,000 people. After two months of site visits and negotiations, Boeing declared Chicago the winner, spurred in part by promises of tax breaks and grants reportedly worth about $50 million to $60 million over 20 years.

Yet, while Chicago won bragging rights, the other benefits seem less clear. To be sure, there are still potential rewards that accompany large headquarters, including the direct contribution of new jobs, spillovers in increased revenues and employment at local banks, law firms, and other business services, and the additional source of philanthropic energy and charitable giving in the local community. But there are also reasons to think that the size of these rewards may have diminished.

For one, the direct contribution of headquarters to local employment is small. Less than 1 percent of all U.S. establishments are headquarters and, even in large companies, they account for relatively few jobs. In the case of Boeing, Chicago was only expected to receive about 500 new jobs (or half the 1,000 jobs at Seattle headquarters) as a result of the move. This means that when a headquarters leaves a metro area, the direct job loss is also relatively small. In a striking (and perhaps extreme) example, when Tosco, an independent oil refiner with worldwide revenues of more than $24 billion, was sold to Phillips Petroleum in 2001, only a couple of dozen employees worked at its headquarters in Waterbury, Connecticut, making the direct job impact minuscule.

In addition, the past 20 years has seen a number of forces that continue to keep headquarters job counts down. Global competition and shareholder pressure to cut costs and increase productivity have pushed firms to streamline or eliminate administrative and managerial positions at headquarters, and to move top managers into the field and closer to operations. "Headquarters glamour is increasingly seen as gluttony—an unnecessary layer of bureaucracy and overheads," observed the *Economist* in 1990. After the leveraged buyout of RJR Nabisco, for example, company headquarters moved from Atlanta to New York City and the staff was reduced from 650 to 350. Closer to home, Union Carbide's headquarters jobs in Danbury, Connecticut peaked at 3,000 in the early 1980s, after which the firm spun off several of its business units (including Fortune 500 company Praxair) under threat of takeover. By 2001, when it merged with Dow, Union Carbide had only about 650 employees left at headquarters.

Improvements in transportation and communication have also left firms freer to put different parts of the company in different places. Firms have grown increasingly sophisticated in site selection, putting headquarters in the best spots for headquarters' tasks, back-office operations in the best places for those functions, production facilities in one place, and warehouses in another. In many firms, top managers have been moved out of the central office and into the field so they can better run operations. But these forces have left headquarters more tightly focused on problems such as corporate strategy and finance, and have reduced any tight link to jobs in production facilities or other parts of the operation.

Boeing, for example, deliberately chose a headquarters location apart from its three existing business units in Seattle (commercial jets), Long Beach (space and communications), and St. Louis (military aircraft). And it had no plans to move any new facilities or employment into Chicago. Rather, Boeing wanted its headquarters to be insulated from operations—centrally located St. Louis was not even on the short list of cities considered—so that headquarters executives could be more ob-

In Charge

Headquarters account for only 0.5 percent of all U.S. establishments, but pay there is relatively high, in part because of the high share of professional and technical staff.

	HEADQUARTERS		ALL	
	NUMBER	AVERAGE ANNUAL PAY	AVERAGE ANNUAL PAY	% PAY DIFFERENCE
U.S.	**37,100**	**$68,965**	**$36,219**	**90**
Connecticut	**562**	**$104,824**	**$46,993**	**123**
Maine	**226**	**$51,210**	**$28,815**	**78**
Massachusetts	**1,091**	**$66,563**	**$44,975**	**48**
New Hampshire	**265**	**$68,936**	**$35,481**	**94**
Rhode Island	**111**	**$62,435**	**$33,603**	**86**
Vermont	**25**	**$46,977**	**$30,238**	**55**

NOTE: Headquarters are North American Industry Classification System 55, "Management of Companies and Enterprises."
SOURCE: U.S. Bureau of Labor Statistics

While headquarters may still bring jobs and philanthropy to a region, there are fewer guarantees of this than in the past

jective and focus on all three divisions equally. The distance would also encourage the heads of the business units, recently moved from Seattle into the field, to run their operations with less interference from the central office.

Similarly, the gain or loss of a headquarters after a merger or acquisition may be more dependent than in the past on the particular circumstances of the companies and industries involved. In some instances, such as with high-tech firms that employ workers with skills not easily found in all parts of the country, job loss may be attenuated. A marriage with a larger company may even provide capital and other resources that allows the local office to expand in ways that would not have been possible otherwise. When IBM bought Lotus for $3.5 billion in 1995, for example, there was a great deal of concern about how the firm would fare once headquarters shifted. "Lotus may be just another doomed company caught up in the bureaucracy of IBM," observed an industry analyst in *Software Industry Report*, an industry newsletter. But less than three years later, Lotus was prospering; employment had risen to 8,500 people (3,000 more than before the purchase); and Lotus Notes sales had increased from 2.2 million to 20 million units. "We have been freed and liberated from the chains of having to compete against Microsoft on a constrained budget," said one software engineer to the *Boston Globe*.

This is not to say that the loss of headquarters is never cause for concern. By 2001, for example, Lotus's employment was back down to 5,000. And when Compaq bought Digital Equipment in 1998, employment in the Massachusetts area was cut by 3,500 jobs the first year after the purchase. But the extent to which these losses are attributable to the headquarters moves versus other factors—such as increased competition or decreased product demand—is hard to disentangle.

THE GEOGRAPHY OF CORPORATE GIVING

When Norton Co., the largest private employer in Worcester, Massachusetts was bought by the French firm Saint-Gobain, in 1990, many locals braced for change. Founded in the late 1900s, Norton had been run by members of the same Worcester-based family for three generations. Even after professional managers took over in the 1970s, family members remained active in the community, and the company continued to be visibly involved in everything from the public schools to helping the homeless to supporting the local Boy Scouts. "I don't think we'll see the same degree of paternalism that we've seen in the past because they will be responsible to another corporate entity," said a local official in the *Boston Globe*.

These are reasonable concerns when the headquarters of a large firm moves away. Large employers tend to be major contributors to local causes such as the United Way, notes Harvard Business School Professor Rosabeth Moss Kanter. In fact, it is often argued that the traditional strength of corporate philanthropy (as opposed to funds from foundations) has been that its giving is largely local in nature.

But beginning in the late 1970s and 1980s, the rise of "strategic philanthropy" rendered the impact of headquarters location less clear. Before that, corporate giving and community involvement were not universally recognized business functions, and company participation was frequently haphazard and subject to the whim of senior management. In addition, the community with which the company was involved was typically the local community immediately surrounding headquarters.

Today corporate giving is far more likely to be business-driven. Most large companies have written policies governing both the reasons for and recipients of their giving—generally explicitly aimed at improving relations with customers or employees. Philanthropic efforts are integrated with the firm's other interests, and run by a professional staff, and thus less likely to be aimed at causes that simply happen to be favored by the CEO and his or her spouse. In addition, as companies increasingly operate in many places across the country (and, indeed, the world), "the community has become 'communities'—no longer just the local or headquarters community, but rather multiple and scattered in whatever sites the company operates," note Boston College Professor Sandra Waddock and Clark University Professor Mary-Ellen Boyle.

How this affects the geography of giving depends on what the firm is trying to accomplish with its charitable efforts and where its workers and customers are located. Consumer products companies may focus on issues that matter to their customers; a global company that is trying to improve its image at home, for example, may initiate programs to improve educational and health conditions for workers in countries where its products are made. In other firms giving may be aimed at causes that employees care about; this might mean that giving is geographically concentrated in places where the bulk of employees work. Or the firm may target its charity for direct business reasons, such as when a publisher promotes literacy or an insurance company donates to AIDS-related causes, with uncertain implications for the geography of corporate charity.

In all these instances, headquarters location matters but other places where the firm operates matters, too. Ownership change can also impact the distribution of corporate largesse—and not always in expected ways. A Conference Board study found that merging firms headquartered in different regions were *less* likely to reduce total contributions, whereas merging companies in the same region—since they tended to support the same causes—were likely to trim some of the overlap.

How does this all add up? Reliable numbers are exceedingly hard to come by, but there is some evidence that headquarters location, while still important, is less significant than it once was for corporate charity. Craig Smith, former publisher of *Corporate Philanthropy Report,* estimates that roughly 40 percent of corporate grants are directed toward headquarters cities, down from about 60 percent before the rise of strategic giving. While people seem to be programmed for a certain amount of geographic loyalty—and headquarters locations will probably always matter—the impact of headquarters on philanthropy and community involvement appears to have declined.

TAKING A HARD LOOK

It would be a mistake to conclude, however, that the presence of large company headquarters in a region carries no advantages. Or that their loss brings no penalties. Headquarters generate revenue and jobs for local law firms, financial services providers, and advertising agencies. They contribute to travel and convention business. They remain a significant source of community involvement and corporate giving. Moreover, the success of New England's metro areas in encouraging and retaining the headquarters of Fortune 500 companies is a good measure of the overall health of its economy, the skills of its labor force, and the attractiveness of the region as a place to live.

But it does suggest that any city or state would do well to carefully evaluate the potential gains before spending large public sums in the form of tax breaks or other grants simply to attract an additional head office. For while headquarters may still bring additional jobs or philanthropy, there are fewer guarantees than in the past. And the benefits that actually flow to the region will likely depend on the firm and industry involved.

Paying too much attention to headquarters also risks ignoring other generators of high-paying jobs and economic vitality—for example, medium-sized firms and research and development facilities. Recently, Novartis bought the New England Confectionery Company (NECCO) building near MIT; the firm expects to employ 900 people in major research facilities in Cambridge, although it is keeping its headquarters in Basel, Switzerland.

If history is any guide, the most promising approach for New England may lie in promoting and nurturing the firms that are born on our soil. Growing our own has been the best source for large company headquarters in the past, and it will likely remain so in the future. ❊

Long and winding road

Although CVS has deep roots in New England, its corporate headquarters arrived in the region only recently. The firm's earliest history goes back to the Melville Corporation, a small chain of shoe stores founded in New York City in 1892. After World War I, Melville teamed up with a manufacturer in Nashua, New Hampshire to mass-produce and distribute shoes through its chain of Thom McAn stores (named for a Scottish golfer). Over the years, the firm prospered, adding factories and stores. By the close of the 1960s, Melville had grown to become the nation's largest shoe retailer.

In 1969, as part of an effort to diversify, Melville began to buy other retail chains, including the Consumer Value Stores (CVS), a string of 40 drugstores founded in Lowell, Massachusetts in 1963. The original concept was to offer discount health and beauty products; in 1968, pharmacies were added. Melville also acquired several apparel chains, including Chess King and Marshalls, and a number of other retail businesses. Sales continued to climb and the firm moved its headquarters from New York City to Westchester County. It also began purchasing drugstore chains, which it merged into CVS, eventually making CVS Melville's largest and most profitable business.

But it wasn't until the mid 1990s, that it became clear that CVS had outgrown its corporate parent. In a major restructuring, Melville decided to spin off or sell its other units and focus its attention on drugstores. In 1996, Melville was renamed CVS Corporation and its corporate headquarters moved to the CVS headquarters in Woonsocket, Rhode Island.

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