

# Corporate Headquarter Function in Osaka: Is It Still Shifting to Tokyo?<sup>1</sup>

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## Abstract

Loss of corporate headquarters from Osaka, the second largest economy in Japan, to other regions, mainly Tokyo, has been a longstanding issue since 1960s. While considerable number of Osaka-based corporations have already shifted their headquarters, or establish Tokyo headquarter while leaving Osaka headquarter in a ritual sense, the local government needs to understand whether this trend has been ceased or accelerated, as it gives a large impact on the local economy.

Based on the extensive interview survey to 64 large-scale corporations in Osaka, this article attempts to examine changes in factors of such shift, and discuss possible policy implications by the local government. The survey revealed that some corporations consider further shift of headquarter functions, though it cannot be determined as the trend has been accelerated, rather than it is gradually ongoing.

Keywords: corporate headquarters, central management functions, local economy, Osaka

## I. Shift of Corporate Headquarters

The phenomenon of shift of corporate headquarters from Osaka the second largest economy in Japan, to other regions especially Tokyo, has been a concern for the local economy. While the economic activities and number of corporations are concentrated to Tokyo as shown in Figure 1, this has been a recurring issue for Osaka. It has been regarded as symbolizing the relative decline of the Osaka economy.

Figure 1 Number of Listed Enterprises and GDP in Five Largest Prefectures in Japan (2001)

	Number of Listed Enterprises		Nominal GDP (Billion Yen)	
		Share to National Total (%)		Share to National Total (%)
Tokyo	1,721	47.7	84,763	17.0
Osaka	508	14.1	39,504	7.9
Aichi	224	6.2	33,656	6.7
Kanagawa	190	5.3	30,687	6.1
Hyogo	115	3.2	18,529	3.7
National Total	3,609	100.0	499,724	100.0

Source: Toyo Keizai Shinposha, Cabinet Office "Prefetural Accounts FY2001".

The shift of corporate headquarter function, including the shift of headquarters itself, introduction of dual headquarter where they establish another headquarter than Osaka headquarter, or virtual shift of individual function of headquarter, has already begun by 1960s. Several surveys had been conducted by several institutes including Kokumin Keizai Research Institute [1964], and Osaka Chamber of Commerce and Industry [1970]. Osaka Prefectural Institute of Economic Research [1979] found that various industries in Osaka adopted so called

dual headquarters even in the late 1970s (Figure 2).

Figure 2 Osaka Companies Adopting Dual Headquarters by Industry (1978)

Industry	Number of companies adopting dual headquarters	Total number of companies	Ratio (%)
Food	1	10	10.0
Textile/Apparel	3	28	10.7
Chemical	5	23	21.7
Pharmaceutical/Paints	–	19	–
Steel/Metal	2	36	5.6
Machinery	3	62	4.8
Rubber/Ceramics, Paper, Other manufacturing	1	24	4.2
Construction/Housing	7	27	25.9
Wholesale	11	31	35.5
Marine Transport/Warehouse	2	8	25.0
Railroad, Electricity, Real Estate, Services	–	23	–
Total	35	291	12.0

Source: Osaka Prefectural Economic Research Institute “Economic Structure of Osaka Prefecture and Its Changes”, p.166.

Today there have been intensive discussions on concrete measures to reduce and prevent the shift of headquarters from Osaka. On January 2003, top-level agreement by Osaka Prefectural Government, Osaka City Government, Kansai Economic Federation, and Osaka Chamber of Commerce and Industry expressed that they attempt to “prevent further hollowing out of the industry as in the shift of corporations including headquarters and factories”, in their “Urgent Appeal in Industry and Employment.”

It is difficult, however, to capture the updated situation on location of headquarter function in a quantitative basis. For annual trends, usually figures from “Statistical Yearbook of National Tax Agency” are used, in which the number of ordinary corporations is regarded as identical to headquarters. However, it has shortcomings on indicating whether a specific company shifts its headquarter to other regions from one prefecture, which calls for different methods.

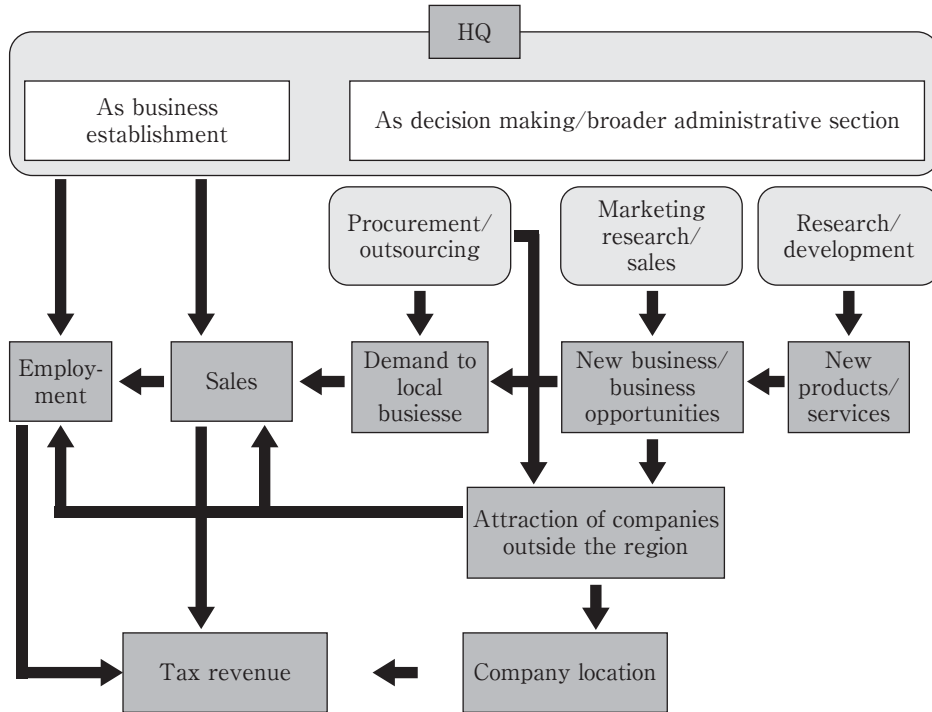
This article attempts, therefore, to understand the quantitative degree of the shift of corporate headquarters from Osaka, by developing a method using existing corporate data. It also shows the result of the interview survey that led to analyze headquarter location at function-level.

## II. Significance of Headquarters to The Local Economy

### (1) Why are headquarters so important?

For the local economy, the headquarter has the significance just as more than mere business establishment, which create employment, and tax revenues through sales and income of employees, as a result of economic

Figure 3 Impact of the Corporate Headquarter to the Local Economy



Source: Institute for Advanced Industry Development.

activities in the region, illustrated in Figure 3.

First, it provides the opportunity of new business creation, as the headquarter has a function of decision-making on new business, products/services, and technology. It contributes to the region by playing the role of attracting corporations, human resources, and capital.

Second, headquarters have a larger impact on the local industries. As the base of decision and management on procurement, purchasing, and outsourcing, it creates demand for local businesses, by ordering products and using service industries. Also, business agglomeration brings further opportunities to local businesses, especially small and medium sized enterprises. For these factors, location of headquarters largely influences the economic dynamism of the region.

## (2) Corporate headquarters: Definition

Definition of headquarter has been thoroughly discussed by Tanaka [1999] and Tokyo Metropolitan Government [2003]. Headquarter function can be understood as 1) the decision-making body, and 2) broader management function. In this article, the headquarter function assumes the following: Management planning, market research, R&D control, Sales control, public & investor relations, human resources management, financial management, international operations, information systems, and other management functions.

Shift of corporate headquarters, meanwhile, include the following: 1) Shift of headquarter location, 2) Adoption of dual headquarters, and 3) Shift of each function. Location of headquarter and headquarter function refers to practical site, not location of registered headquarter.

## (3) Issue of Dual Headquarters

In understanding the shift of corporate headquarters, it needs to be examined that the decrease of headquarters in Osaka can be reasoned to the fact that Osaka is the second-largest city, after the capital city.

Figure 4 Location of Corporate Headquarters by Countries

	City with most headquarters (Concentration rate: %)	City with second-most headquarters (Concentration rate: %)	Other major cities	(Concentration rate: %)
Japan	Tokyo (Wards) (51.3)	Osaka (9.8)	Yokohama Nagoya Kobe	(3.0) (2.8) (1.7)
United Kingdom	London (39.5)	Glasgow (2.1)	Leeds Manchester Birmingham	(1.5) (1.1) (0.9)
France	Paris (26.8)	Lyon (2.0)	Toulouse Marseille Bordeaux	(1.2) (0.9) (0.6)
Canada	Vancouver (22.6)	Toronto (19.4)	Calgary Montreal Edmonton	(15.6) (5.3) (1.8)
Italy	Milan (21.8)	Rome (13.3)	Genova Naples Torino	(3.6) (0.6) (0.6)
Germany	Munich (8.2)	Hamburg (8.1)	Frankfurt Köln Düsseldorf	(5.9) (4.2) (3.8)
United States	New York (6.4)	Chicago (2.6)	Houston Boston Los Angeles	(2.5) (1.5) (1.1)

Note: As of February 2004. Data used for United States is U.S. Company Data.

International Company Data is used for other countries.

Concentration rate = Number of listed companies of a city

/ Number of listed companies in the country

Source: Institute for Advanced Industry Development (compiled from Mergent Online Database).

As shown in Figure 4, other nations have similar phenomenon that the difference is large between cities with most headquarters and those with second-most headquarters<sup>2</sup>. Compared to nations like U.K. and France, Osaka as the second city has a considerable position, leaving a larger gap with other cities. On the other hand, concentration to the city with most headquarters, namely Tokyo, is more prominent. However, it is considered as a unique situation to Osaka, where a number of companies in the region has another headquarter in the different city.

### III. Corporate Headquarters in Osaka

#### (1) Trend of the numbers of corporate headquarters in Osaka

With the above circumstances, the survey was conducted in 2003 to understand the degree of the shift of headquarters from Osaka<sup>3</sup>. The consideration is focused on whether the shift has been accelerated in recent years, and it is different from neighboring prefectures of Kyoto and Hyogo.

The survey analyzed changes of locations of corporate headquarters with the capital of 10 billion yen or more, using “*Kaisha Shikihou* (Japan Company Handbook)” in every five year since 1985 to 2003 to grasp the trend of the shift of headquarters. Corporations based in Osaka (Kyoto and Hyogo), as well as those in Tokyo which used be headquartered in Osaka, are classified into the four categories as follows<sup>4</sup>:

- a) Category I-- Single headquarter;  
corporations with headquarter in Osaka (Kyoto or Hyogo) only,
- b) Category II-- Dual headquarters (Osaka);  
corporations with two headquarters, of which the major one in Osaka,
- c) Category III-- Dual headquarters (Tokyo);  
corporations with two headquarters, of which the major one in Tokyo,
- d) Category IV-- Corporations moved to Tokyo;  
corporations with headquarter in Tokyo only, which used be headquartered in Osaka.

Figure 5-1 Number of Headquarters in Osaka  
(1985-2003, Corporations with the capital of 10 billion yen or more)

	Category I (Single HQ)	Category II (Dual HQ- Osaka)	Category III (Dual HQ- Tokyo)	Category I-III Total	Category IV (Moved to Tokyo)	Category I-IV Total
1985	48 (60.0)	24 (30.0)	8 (10.0)	80 (100.0)	-	80
1990	89 (61.8)	43 (29.9)	12 (8.3)	144 (100.0) <80.0>	2	146 <82.5>
1995	92 (59.0)	51 (32.7)	13 (8.3)	156 (100.0) <8.3>	2	158 <8.2>
2000	92 (58.2)	53 (33.5)	13 (8.2)	158 (100.0) <1.3>	8	166 <5.1>
2003	79 (54.5)	48 (33.1)	18 (12.4)	145 (100.0) <-8.2>	11	156 <-6.0>

Note: Figures in ( ) is the proportion to Total of Category I-III.

Figures in < > is the change from the previous period (%).

Source: Institute for Advanced Industry Development.

Figure 5-2 Companies Moved to Category IV (Shifted to Tokyo) for 5-year Period

Year	Number of corporations	Company Name
1985-90	2	Cosmo Oil Wako Securities
1990-95	0	-
1995-2000	6	Kanebo Lion Takuma (Another HQ in Hyogo) Nippon Valqua Industries Kanematsu Matsushita Ecology Systems (Aichi)
2000-03	5	Sumitomo SMBC Financial Group Pocket Card Nichimo Autobacs Seven

Note: Wako Securities and Matsushita Ecology System were delisted by 2003, leaving the total number of category IV companies 11.

Source: Institute for Advanced Industry Development.

According to this classification, the survey counted each corporation to indicate changes in headquarter location.

As shown in Figure 5-1 indicating the result of this analysis, the increasing number of corporations adopted dual headquarters during 1985 and 1990. The ratio of single headquarter to dual headquarter, however, did not change significantly as single headquarter also increased. After 2000, single headquarter corporations in Osaka decreased for the first time, with increasing dual headquarter and loss of numbers due to the rise in bankruptcies and mergers. Consequently, the shift of headquarters is more visible recently than previous years.

Figure 5-2 shows companies that shifted their headquarters during each 5-year period. Though the number is increasing, it cannot be determined as the shift is accelerated in recent years.

## (2) Location of top management

This survey also analyzed the number of executives (including outside board members and auditors) by location, from *Yakuin Shikiho 2003*. It is notable that in single headquarter corporations, 4 of 79 companies in Osaka (5.0%) have more than half of board members located in Tokyo. This ratio is higher in Dual headquarter (Osaka) corporations at 27.1%, or 13 of 48 companies, in 5 of which all members are located in Tokyo.

It implies that in these companies, actual decision-making (and operations carried out by the headquarter) is conducted in Tokyo. Single headquarter corporations therefore do not always equip all the function of headquarter in Osaka.

Furthermore, interviews to 64 corporations in Osaka revealed that in 27 Osaka-based companies (excluding 8 companies already shifted headquarters to Tokyo), top management spends the most of the week in Tokyo offices (Figure 6). It also indicates the shift of headquarter function could be accelerated than the surface trend of numbers.

Figure 6 Location of CEOs and Headquarter Function in Surveyed Corporations

		Location of CEO in a week													Total
		Mainly in Osaka				Equally in Osaka & Tokyo				Mainly in Tokyo					
Category		I	II	III	IV	I	II	III	IV	I	II	III	IV	O*	
HQ function in Osaka	Mostly remaining	15	6				1				1	1			24
	Partially remaining		3			2	1			3	10			2	21
	Mostly Shifted to Tokyo									2	6	3	8		19
Total		24				4				36					64

Note: O=Others (unable to classify)

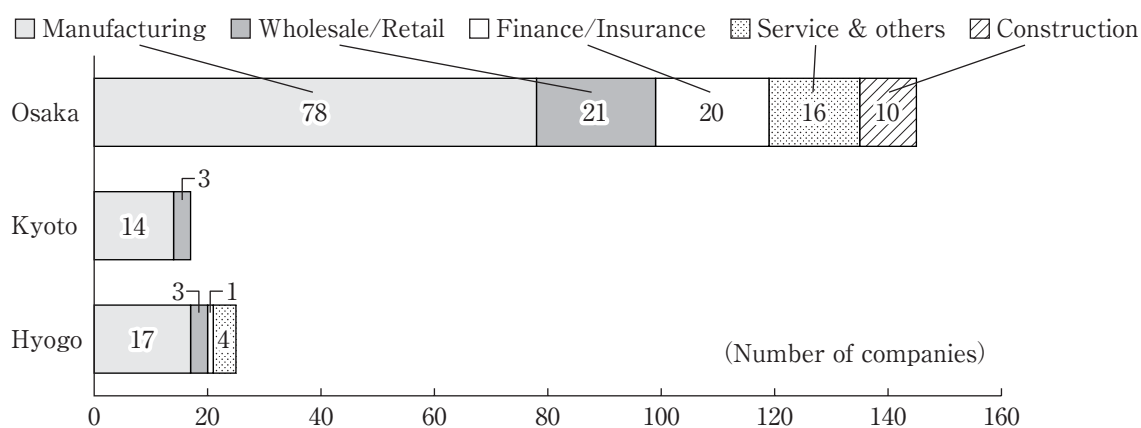
Source: Institute for Advanced Industry Development

#### IV. Comparison with Neighboring Area

It is conventionally argued that neighboring area of Kyoto and Hyogo see seldom shift of corporate headquarters unlike the case for Osaka. According to the survey, several differences were found among these prefectures as follows:

- a) Osaka has far more number of corporations with the capital of 10 billion yen or more,
- b) Corporations in Osaka has longer operation history than other prefectures, many of which were established before the World War II,
- c) The ratio of manufacturing is high among corporations in Kyoto and Hyogo, while more finance/insurance and wholesale/retail industries are located in Osaka, which have the higher tendency in shifting headquarters to Tokyo (Figure 7).

Figure 7 Listed Companies in Osaka, Kyoto, and Hyogo (by Industry)



Source: Institute for Advanced Industry Development.

#### V. Conclusion

This survey indicated that since the latter half of 1980s, the shift of corporate headquarters has been progressed until today, although gradually. While considerable numbers of corporation remain in Osaka with sole headquarter, the survey confirmed the shift has not ceased, in forms of adoption of dual headquarters and partial shift by functions.

Many cases found in interviews suggest the shift occurred by the difference in population and market size between Osaka and Tokyo, and relationship with overseas business. That is, functions such as sales and international operations, which is necessary, or can be advantageous to locate in Tokyo, tend to shift earlier than other functions. Such a shift is often accompanied by longer station of top management, it triggers other decision-making functions and administrative functions to follow suit gradually. Especially in recent years, concentration of public/investor relations has been notable.

Once after headquarter functions shifted, it is unlikely for the region to restore them in the same form. Non-economic factors, such as attachment of companies to their birthplace, should not be excluded from consideration. However, local policy is required to generate incentives to provide economic rationality for corporations to locate their offices with headquarter functions.

In some cases, corporations locate their headquarter function, although limitedly, again in Osaka<sup>5</sup>. Taking lessons from such cases, future policy implications should include both short and long term commitment. In a short term, the local government of Osaka can promote location of partial headquarter functions like administrative functions by pursuing inexpensiveness of operation costs and better living environment (i.e. shorter commuting hours) compared to Tokyo. It is also realistic to combine office location with factory location, which Osaka eagerly promote, facilitating them to bring production control-related offices in the region.

In the medium to long-term, meanwhile, the region should consider measures to attract decision-making functions of corporations. Osaka needs to create pro-business environment (environment that is suited and supportive to corporate activities) through reinforcing promotion functions, specialization of support to more competitive sector of industries, generation and promotion of new businesses.

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## Note

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<sup>2</sup> The comparison method is drawn upon Abe [1996]. Matsubara ed. [2003] classifies Japan, U.K., France as single polar countries; Canada and Italy as bipolar countries; Germany and U.S. as multi-polar countries.

<sup>3</sup> Outline of this survey is as follows:

1. Literature Research

Using *Kaisha Shikiho* (Japan Company Handbook) by Toyo Keizai Shinposha, It attempted to quantitatively identify the shift of headquarters.

2. Company Interviews

Institute for Advanced Industry Development, with the Osaka Prefectural Government conducted company interviews as follows:

Subject: 64 Listed & publicly-traded companies in Osaka with the capital of 10 billion yen or more (with a few exception of unlisted large-scale companies, and companies Tokyo that once were headquartered in Osaka)

Date: August through December 2003

3. Survey Questionnaire on Corporate Headquarter Function

Subject: Listed & publicly-traded companies in Osaka, Hyogo, and Kyoto prefectures with the capital of 100 million yen or more

Date: November 2003 (upon visit for 64 interviewed companies)

Samples: 707 questionnaires sent, 145 responded (20.5% response rate)

<sup>4</sup> This survey does not capture cases that have shifted from Osaka (Kyoto, Hyogo) to Tokyo before 1985. It was subjected to companies with capital of 10 billion yen or more, which is considered to have a large impact on the regional economy by shift of headquarters.

Using "*Kaisha Shikohou* (Japan Company Handbook)", location of headquarters and its changes were listed in each survey year. The address in bold appeared on the top of each company's profile is regarded as the main headquarter. If other headquarters are listed, they were classified as sub-headquarters.

<sup>5</sup> For example, ORIX consolidated its administration center from Tokyo to Osaka, They first searched Tokyo metropolitan area for offices, but due to high price and consideration on crisis management, they turned to Osaka, and decided to locate Shin-Osaka area (according to Sankei Shimbun on 24 November 2003).

Also Sumitomo Life Insurance concentrated administrative operations like call centers and benefit services, which were conducted in separate offices in Japan to Osaka headquarter. The company, which has dual headquarters, says that call centre is "best suited in Osaka headquarter where we have massive training function and it is easier to recruit good personnel" (according to Yomiuri Shimbun on 7 October 2003).