Firm relocation and firm performance – evidence from the Swedish wholesale and retail sector

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Abstract: This paper analyses the effects of firm relocation on firm performance within the Swedish wholesale sector. Firm relocation is in general not as extensively studied as other events of the firm demography, as for example firm entry. This is reflected in the theory, where firm relocation theories are seen mainly as specific application of location theories. However, in the recent decades we might see a renewed interest in this topic, which is strongly influenced by the seminal work of Krugman and the 'new economic geography', as well as by better accessibility of firm-level data. Several studies test the premise of importance of the regional characteristics, and in particular, of agglomeration economies effects on firm's relocation decision, using large micro-level data sets. The results of these studies imply that in general, factors that influence the firm relocation decision are mainly firm-internal factors. Size of the firm, growth in previous period, or past profitability are some of the commonly mentioned characteristics influencing firm relocation. Thus, this leads to an interpretation that firm relocation decision might be seen as a reaction on changing premises of firm-internal factors that cannot be accommodated in the firm's current location and firm's moves in order to could continue growing or to improve profitability. In our paper, using a micro-level data on Swedish limited liability firms within the wholesale trade sector in the period 1998-2010, we seek to analyse the firm's performance in the pre- and post-relocation period and in this way answer the research question: *Does firm's relocation contributes to higher firm's performance?* It is striking, that such empirical evidence is in the current literature on firm relocation clearly missing. The descriptive statistics show that those firms in our dataset that have relocated, were on average smaller and younger, and had lower profits in the period prior to relocation. These differences existed the years before the relocation, and this thus indicate a certain mechanism of 'self-selection' of firms with worse performance to relocation. To investigate the causal effects of relocation, we use three different models of propensity score matching. Propensity score matching method has a large advantage, it enables to compare 'comparable' units and thus, allows us to analyse the causal effects of the firm's relocation on firm's performance, taking into consideration the possible self-selection bias. To investigate the causal effects of relocation, the relocating firms were matched with firms, having almost identical characteristics in the period prior to relocating, however, different in the extent that they haven't relocated their activities. The results from the matched sample indicate that for average firm, the relocation leads to higher profits in the post-relocation period. Our conclusion is that relocation, indeed, on average contributes to increasing profitability of relocating firms.