

Working paper R2008:001

The International Location of Headquarters of Multinationals

The Swedish Experience

Anne-Christine Strandell

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Anne-Christine Strandell

ITPS, Swedish Institute For Growth Policy Studies
Studentplan 3, SE-831 40 Östersund, Sweden
Telephone: +46 (0)63 16 66 00
Fax: +46 (0)63 16 66 01
E-mail info@itps.se
www.itps.se
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For further information, please contact Anne-Christine Strandell
Telephone +46 8 456 67 28
E-mail anne-christine.strandell@itps.se

Foreword

The relocation of headquarters from Sweden to other countries has been subject of an intensive debate, and this has been particularly associated with relocation of strategic functions such as research and development (R&D).

The main purpose of this report is to analyse whether there is a correlation between location of headquarters and the location of R&D centres.

The findings suggest that other factors than location of headquarters has a bigger impact on location of strategic functions such as R&D. For example, the driving force behind increase in number of headquarters abroad is mainly foreign control. The increase of R&D abroad is often related to acquisitions or location of certain kind of production.

This study is mainly based on statistics and analysis carried out in Sweden during the period 1997–2007 and was prepared for a meeting at the Working Party of Globalisation and Industry, OECD, in November 2007. The study was conducted by Anne-Christine Strandell, ITPS.

Östersund, February 2008

Brita Saxton

Director General

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Summary

This paper on location of headquarters is mainly based on statistics and analysis carried out in Sweden. Most reports deal with the business climate in Sweden. Eight reports during the period 1990 to 2004 covered the location of large multinationals' headquarters. The relocation of the headquarters from Sweden to other countries is one of the consequences that has been the subject of an intensive debate, and this has been particularly associated with the relocation of strategic functions such as R&D. This has created a threatening picture whereby when the headquarters moves from Sweden other activities are moved too. The proportion of headquarters abroad has increased since 1990 and the first and largest increase took place between 1997 and 2000. Subsequently, this development has continued. The proportion of companies responding that their headquarters were abroad increased from 30 per cent in 2000 to 52 per cent in 2004.

The majority of all Swedish companies interviewed have their headquarters in Sweden and most, but not all, foreign controlled companies have their headquarters abroad. It is not possible to see any clear trend for Swedish companies to physically move their headquarters abroad. The most important reason for having the headquarters abroad is foreign control. Comments from those interviewed indicate that headquarters do not appear to be a function that is moved from the home country in the first instance.

It seems that factors other than location of the headquarters has a bigger impact on location of strategic functions such as R&D. For example, the increase in R&D investment abroad is often related to acquisitions or the location of certain kind of production.

The international location of headquarters of multinationals

Sweden is a small economy and highly dependent on foreign trade and direct investment. For example, there has been a steady increase in location of production of Swedish multinational enterprises abroad, as well as inward foreign direct investment. Changes in location of headquarters and R&D has also increased since the late 1990s. The impact of factors such as research and development on strategic activities in Sweden due to relocation of headquarters abroad has been widely debated.

Purpose

This paper aims to analyse the relation between location of headquarters and location of research and development (R&D).

- Hypothesis 1: There is a correlation between the geographical location of headquarters and the location of R&D centres.
- Hypothesis 2: An increased number of headquarters abroad would have a negative impact on the volume of R&D carried out in the home country.

Method

This paper on location of headquarters is mainly based on statistics and analysis carried out in Sweden. Most reports on location of headquarters are based on studies of the business climate in Sweden. Eight reports during the period 1990 to 2004 covered the location of the headquarters of large multinationals. But the results are also based on other sample surveys carried out in Sweden. Data on R&D is based on ITPS official statistics on research and development in international enterprises, which is carried out every other year. The location of headquarters might also have an impact on other strategic functions such as purchase of advanced services, but due to limited access to such data the focus will be on the development of R&D expenditure by Swedish and foreign controlled enterprises in Sweden.

Definition of headquarters

There is no nationally well established definition of headquarters in Sweden, but often business leaders refer to it as the place where the CEO and the top management at the enterprise group level are located. In this case it could be the location of 10 to 20 persons.¹

It is also important to observe that the head of a foreign controlled subgroup in Sweden might have no employees at all or is not registered for value added taxes (VAT). The main business in such cases is carried out by the subsidiaries in Sweden.

Sometimes some advisory functions are defined as the “headquarters” or “head office”, i.e. business administration, information and personnel department. Headquarters might also be defined as the domicile of the enterprise, i.e. where the group head is registered. The top management, advisory functions and legal domicile could be located in different countries.

In one of several surveys of the business climate in Sweden, the business leaders at groups with headquarters abroad have also been asked which functions were located abroad.² Of those business leaders who responded that the headquarters was located abroad, about half

¹ Axelsson S (1998).

² Axelsson S, Löf P, Strandell AC (2003).

of the main functions were located abroad. According to the responses only the domicile, top management or advisory functions were located abroad. This implies that some kind of a headquarters' function was located in Sweden. In addition, 45 business leaders at foreign controlled enterprises stated that the headquarters were located in Sweden.

In another survey³ information, financial and legal functions were carried out at the headquarters' level in all companies surveyed. Functions such as purchases, logistics and R&D were no longer as centralised as those mentioned above.

In defining the importance of the location of headquarters, it is also important to note how a large enterprise group is organised. In the survey of the business climate, the questions have focused on the location of the headquarters at enterprise group level and in some cases the headquarters of a subgroup or a subsidiary. In an enterprise group there could be more than one headquarters, i.e. for each enterprise belonging to the group, for subgroups etc. Besides, the management of the subsidiaries could either be centralised or decentralised. The kind of organisation and governance of a group could thus have an impact on decisions regarding the location of strategic functions such as R&D.

Non-European multinationals have a European headquarters

According to ITPS statistics on foreign controlled enterprises in Sweden, about half of the group heads from non-European countries of origin had a special headquarters for coordinating their business operations in Europe. In 2006 there were 1 842 foreign controlled enterprises in Sweden originating from countries outside Europe. Of these enterprises 709 had a European headquarters. Most of these kinds of headquarters were located in the United Kingdom, the Netherlands and in Switzerland.

Table 1 Numbers of European headquarters by country of location 2006.

Country of location	Number of European headquarters
UK	237
Switzerland	107
The Netherlands	79
Germany	74
Sweden	44
France	44
Ireland	17
Other European countries	107
Total in Europe	709

Note: Number of European headquarters by non-European enterprises located in Sweden.

Source: ITPS, International Enterprises.

³ ISAs Ekonomiska Råd (1999).

Three examples of unclear definitions

According to a special analysis of possible reasons for relocation of headquarters, some of the business leaders had different views from ITPS regarding where the headquarters should be defined as being located. In one case the enterprises were controlled by a chain of owners. The immediate owner was located abroad and the ultimate owner was located in Sweden. The respondent stated that the headquarters were located abroad. In another case the enterprise was 50 per cent controlled by an owner abroad and 50 per cent by a Swedish owner. The name of the enterprise included the name of the foreign partner. Also in this case, the respondent considered that headquarters were located abroad. In the third case, the enterprise in Sweden was a franchisee of an American enterprise, but with owners, management, and domicile in Sweden. As in the cases mentioned above, ITPS would have defined these headquarters as being located in Sweden in contrast to the respondent's view.⁴

The main reasons for relocation of headquarters

The nationality of the owners controlling the business has an impact on the location of headquarters. In Sweden, most Swedish controlled groups have their headquarters in Sweden and most foreign controlled enterprises have their headquarters for the group abroad. For both categories of enterprise groups there are some exceptions regarding the location of headquarters. Relocation of headquarters from Sweden to other countries is mainly due to changes in ownership/control as a consequence of mergers and acquisitions. But there are also some examples of relocation from Sweden to other countries as regards the top management of Swedish controlled groups. Recently some of these headquarters have moved back to Sweden, mainly due to personal reasons.⁵

Table 2 Ranking of the most common reasons for relocating headquarters. Numbers of responses 2003.

Ranking	Main reason	Number of responses
1	Foreign control	42
2	Changes of ownership	24
3	Proximity to customers	2
4	Lower taxes	1
Total number of headquarters abroad		69

Note: In this survey 117 enterprises had their headquarters in Sweden and 69 in other countries. In total 188 business leaders were interviewed.

Source: Axelsson S, Löf P, Strandell AC (2003).

In another Swedish sample survey⁶ on location of headquarters, the main reasons were favourable personal income tax and transportation infrastructure. This survey also confirmed that the main driving forces for relocation of headquarters are associated with cross-border mergers and acquisitions.

Location of headquarters abroad is increasing

The share of headquarters located abroad has increased since 1990. The debate in Sweden started in 1997 due to an expectedly high increase in relocation of headquarters over a short period, 20 per cent in comparison with about 10 per cent during 1990 to 1997. The

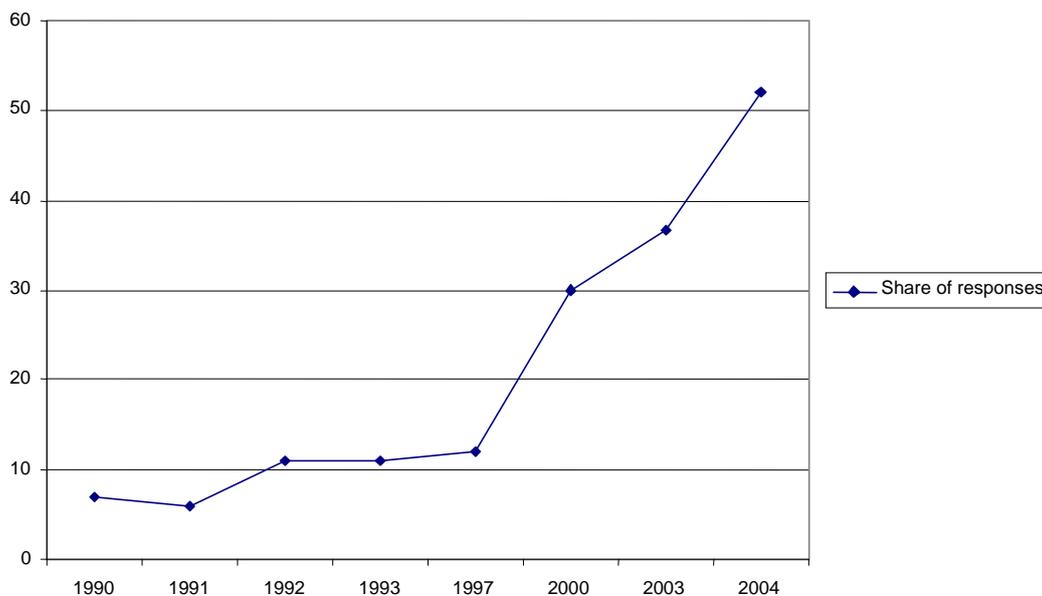
⁴ Löf P and Strandell AC (2003).

⁵ Forsberg B (2007).

⁶ ISAs Ekonomiska Råd (1999).

increase in relocation continued afterwards, from 30 per cent in 2000 to 52 per cent in 2004. The share of headquarters abroad in 2004, mainly reflects the fact that many of the enterprise groups surveyed were foreign controlled. The share of foreign controlled enterprises of all enterprises surveyed was also higher in 2004 compared to earlier years.

Figure 1 Share of enterprise groups with headquarters outside Sweden. Per cent of responses.



Note: The surveys are based on the opinions of 200-300 business leaders in Sweden.

Source: ITPS, Nutek, Several issues concerning the business climate in Sweden.

Relocation – a personal matter

Besides mergers and acquisitions, some decisions to relocate headquarters were due to personal preferences of the top management. An article in *Affärsvärlden* (a Swedish business magazine) 2007 presented a follow up of some relocated headquarters. Below are some examples of location of headquarters due to personal reasons.

Securitas, a global Swedish group in business services, relocated its headquarter, defined as the location of top management, from Sweden to London in the United Kingdom. Recently this group moved its headquarters back from London to Stockholm. The main reason was that the new CEO preferred to live in Stockholm. The group head has been registered the whole time in Sweden.

The Swedish group **Stora** merged with the Finnish group **Enso** and registered the new company in Helsingfors, Finland. But the top management was located in London due to the different nationalities of the management. London was also regarded as an efficient place for travelling in the world.

The Swedish group **Ericsson** planned to relocate the top management to London, but they never moved except for some advisory functions. But these functions were relocated back to Sweden in 2003.

Autoliv planned to relocate their headquarters to London after a merger with American Morton Automotive Safety Products. The merger resulted in a top management with only Swedish managers and the headquarters was never relocated from Sweden.

The Swedish group **Esselte**, with more than 90 per cent of all its employees outside Sweden, relocated headquarters to London in 1999. The main reason was the favourable conditions for travelling from London to its subsidiaries. Close access to financial institutions was another reason. In 2002 Esselte was acquired by the American company J.W. Childs and the headquarters were relocated to Stamford in Connecticut. The highest appointed European business leader works in Warsaw, because he was born in Poland. Some other business leaders in Europe operate from London and Stockholm. They all travel about 150-200 days a year and they prefer to live in the country where they have their families. Top management uses the freely available Skype telephone services for business meetings.⁷

Location of R&D

Swedish controlled enterprise groups have increased their R&D expenditures abroad, but not by as much as the volume of production, measured as number of employees. They have in principle kept the volume of R&D expenditures at an unchanged level in Sweden at the same time. A new trend is that investment in R&D has increased in low wage countries such as China, India, some countries in Central and Eastern Europe, and in South America. The percentage increase of R&D expenditures has been high in the above mentioned countries, but the total amount of R&D expenditures is still on a low level in these countries compared to other countries. For example, the total share of these enterprises' R&D expenditures in China and India amounted to 1.4 and 1.3 per cent respectively of their total spending. The corresponding share of R&D located in Sweden was 56 per cent in 2005. The fact remains that there will continue to be subsidiaries in EU15, North America, and neighbouring Nordic countries which account for the majority of enterprises' R&D in countries other than Sweden, even though this may have decreased somewhat in recent years, particularly in North America.

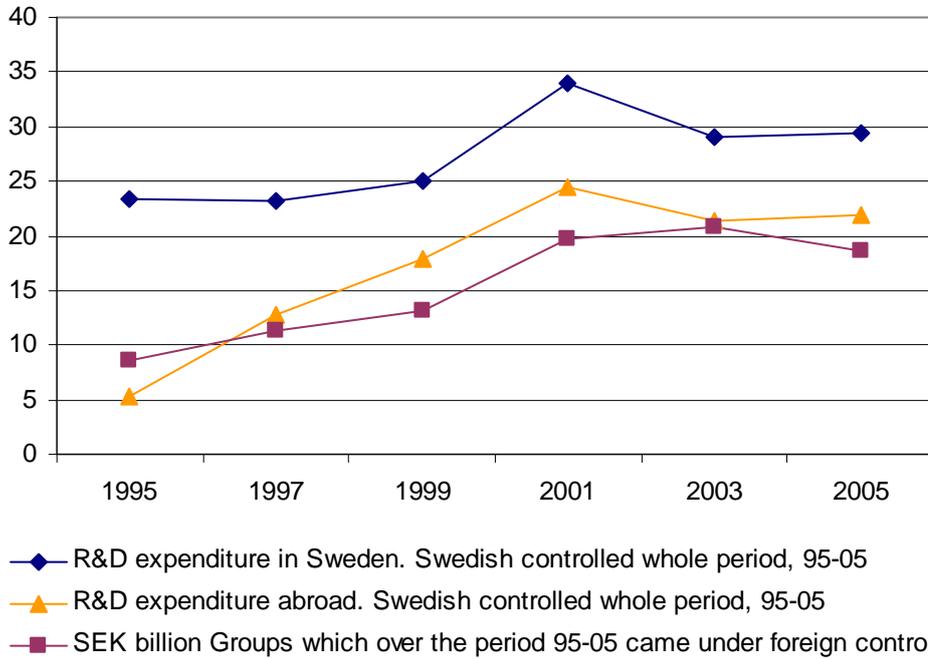
The Swedish groups surveyed have significantly higher R&D intensity in Sweden than they have in other countries, measured as person years carried out in R&D in relation to total number of employees in respective countries.⁸ R&D intensity in Sweden amounts to 17 per cent compared with 4 per cent abroad.

In Figure 2 a comparison is made between R&D of Swedish groups in Sweden with the R&D they carry out abroad, and with groups that have come under foreign control since 1995. During the period 1999-2003 there was an increase in location of headquarters outside Sweden. At the same time foreign controlled groups increased their R&D expenditure in Sweden.

⁷ Forsberg B (2007).

⁸ ITPS (2007).

Figure 2 Comparison of changes in R&D expenditure of Swedish groups with groups coming under foreign control 1995–2005, SEK billion.

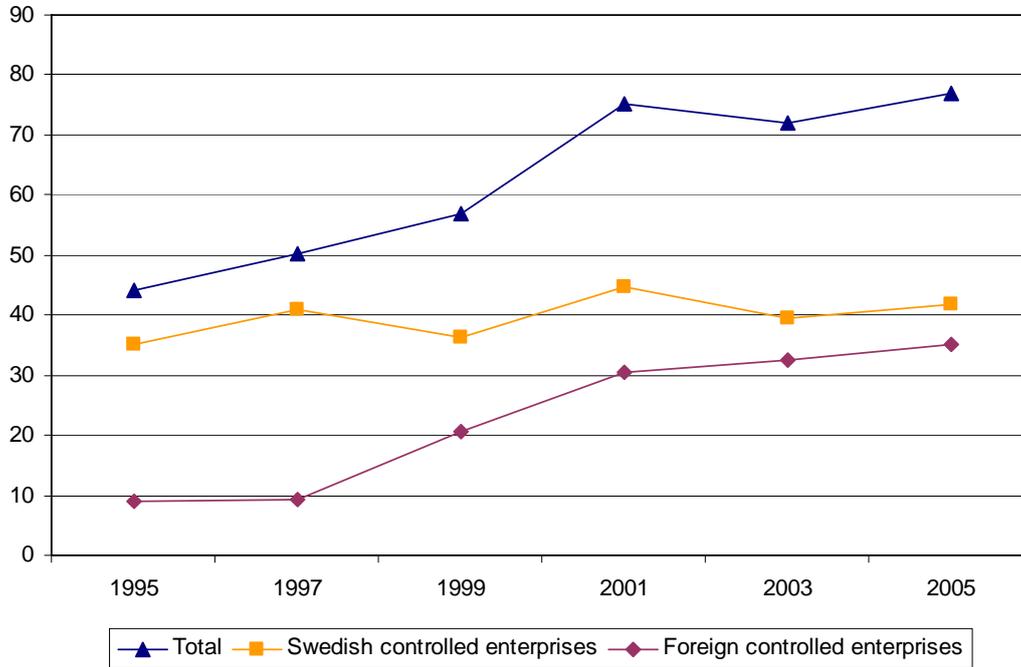


Source: ITPS (2007).

The large increase in R&D expenditures by foreign controlled enterprises in Sweden was mainly due to some major mergers and acquisitions at the end of the 1990s. These foreign controlled groups have relatively increased their R&D expenditures more in Sweden compared to the groups which were still under Swedish control

During the period from 2003 to 2005, the foreign controlled enterprises' share of total R&D expenditures in the Swedish business sector amounted to 46 per cent and their share of the number of employees in R&D amounted to 41 per cent.

Figure 3 R&D expenditure in Sweden by total business sector, Swedish and foreign controlled enterprises, 1995–2005, SEK billion.



The prospects for R&D in Sweden

According to ITPS statistics on R&D in international enterprises, Swedish controlled enterprises have increased their R&D expenditures abroad, but those enterprises dominating R&D investment in Sweden still account for more R&D expenditures in Sweden than abroad. R&D seems to be more stable in Sweden compared to production. In the latest survey on the business climate more enterprise groups intended to increase R&D expenditures in Sweden than planned to decrease them. About 25 per cent of the business leaders interviewed expected that the volume of R&D would increase in Sweden during the five coming years (2005–2010), while less than 10 per cent expected R&D volume to decrease. A rather large share of all respondents (33 per cent) expected that spending on R&D in Sweden would be unchanged during this period.

Table 3 Prospects for the years 2005 to 2010. Per cent of responses.

	Purchases	Production	R&D spending	Employment in Sweden	Employment abroad
Decrease	29	23	10	23	12
Unchanged	37	15	33	26	23
Increase	23	48	25	48	38
Don't know	2	3	3	2	11
Not relevant	9	12	29	1	15

Note: Purchases of goods and services, volume of production and R&D spending refer to forthcoming activities to be carried out in Sweden. The data is based on the views of 300 business leaders in Sweden.

Source: Vikström P and Strandell AC (2005).

There are differences among business leaders in Swedish and foreign controlled enterprises as regards expected spending on R&D. Business leaders in Swedish controlled enterprises are more optimistic than those in foreign controlled enterprises, 37 respectively 20 per cent of the respondents expect increased R&D spending in Sweden. The difference is less regarding expected decrease in R&D spending, 7 respectively 11 per cent.

How and why location of R&D has changed

Swedish major groups have increased their R&D expenditure in low wage countries both by acquisitions and by new establishment of R&D operations. The main reasons behind location to low wage countries are the adaptation to customer needs as well as market demand. In high wage countries they have increased R&D expenditure mainly by acquisitions of companies but also by increased investment in existing subsidiaries. Also in high wage countries, adaptation to customer needs is a frequent reason for location. In addition, many subsidiaries need their own R&D capacity for production.

Major foreign controlled groups have increased their R&D in Sweden by investment in existing enterprises and also by acquisitions. These groups prioritise location in Sweden mainly due to access to research but also due to their own internal needs for R&D production capacity.

A conclusion is that location of R&D is mainly related to the location of production and/or access to excellent research centres and not to the location of headquarters.

Foreign control, strategies of HQ and local business environment

Foreign controlled enterprises seem to have a positive impact on the local economy if they have developed valuable competencies and own resources or if they have a strong mandate from corporate HQ. It is more likely to find such competencies and strong mandates in subsidiary units if they are located in dynamic business environments.

This survey⁹ suggests that on the one hand a dynamic business environment will strengthen the competence development of the subsidiary, but on the other hand, the same forces will decrease the controllability of the subsidiary's development from the perspective of corporate HQ. This implies that the least controllable subsidiaries are the ones that hold the greatest competencies, given that they are embedded in dynamic business environments.

Within the framework of a Nordic study on foreign takeovers and the impact on innovation capabilities, a special analysis based on data from the Community Innovation Survey was carried out. According to the findings of this analysis, there were no truly significant differences between domestic and foreign controlled enterprises as regards innovation activities. However, domestic multinationals:

- Outperform foreign controlled enterprises in terms of R&D investments in Finland and Sweden
- Are the main beneficiaries of public R&D support

⁹ *Holm U. et al (2003).*

- Are also more closely embedded in the national innovation system compared to foreign multinationals.¹⁰

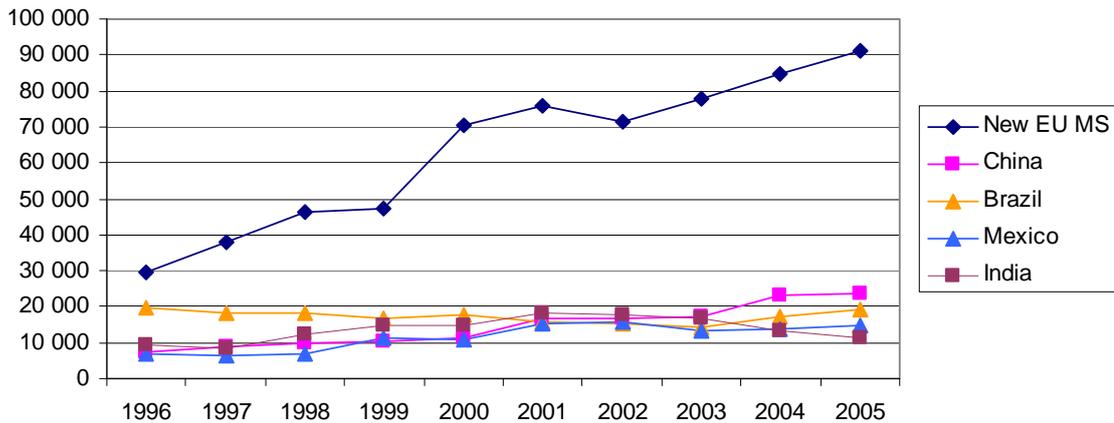
New role and structure of headquarters

The role and structure of headquarters has changed over time. The principal changes seem to be downsizing, more world wide travelling for top management and a larger use of ICT for communication. According to the studies carried out in Sweden, the need for close location of headquarter and R&D seems to have significantly diminished.¹¹ Also according to ITPS statistics on foreign controlled enterprises' R&D expenditure in Sweden does not show a correlation between the increase in a higher share of headquarters in other countries and less spending on R&D in Sweden. Although, formerly large Swedish enterprise groups have been acquired by foreign owners they have on average continued to invest in R&D in Sweden.

New trends in location

Swedish multinationals have most of their employees and R&D operations in EU15 and USA, but the increase in employment and R&D is directed to the new member states of the European Union, China and South America.

Figure 4 Number of employees in Swedish controlled groups in growing countries.



Source: ITPS, *International Enterprises*.

Besides the total expansion in low wage countries, it is mainly enterprises in the service sector that account for the increase in employment abroad especially in the new member states of the European Union. This could partly explain the fact that production is still more globalised than R&D operations, because large manufacturing groups dominate R&D expenditure abroad.

Inward investment follow the same pattern as outward investment, i.e. high wage countries dominate investments in Sweden. Low wage countries are increasing their presence but so

¹⁰ Nordic Innovation Centre (2005). *The location of headquarters was used as a proxy for the nationality of enterprises in this survey. Following countries participated in the survey: Denmark, Iceland, Finland, Norway and Sweden.*

¹¹ ISAs Ekonomiska Råd (1999).

far on a low level. The service sector has most employees in foreign controlled enterprises although inward investment has also increased in manufacturing industries.

Need for further studies

According to the Swedish Globalisation Council, there is a need for further studies in order to analyse how to attract location of headquarters to Sweden.¹² This view is based on two main reasons:

- The location of a headquarter is an important asset for a country.
- The relocation of headquarters from Sweden to other countries has been more extensive than it should have been.

Another view is that Sweden could be as attractive a location for headquarters as the Netherlands and Switzerland have been. Sweden is also vulnerable to unexpected restructuring and relocation by large enterprises. For example, in 2005 about 20 major Swedish controlled and about 10 foreign controlled enterprise groups accounted in total for 70 per cent of R&D expenditure in the business sector.¹³ This means that Sweden is very sensitive to large geographic changes as regards location of R&D. According to the Swedish Globalisation Council, further information is thus needed for a better understanding of the most important prerequisites for large enterprises' to keep and expand their businesses in Sweden, especially strategic functions.

Conclusions

There is no commonly accepted definition of headquarters in Sweden. In many surveys the business leaders interviewed have provided their own views. Headquarter could be defined as the domicile of the enterprise (where the enterprise is registered), the location of top management or the location of advisory functions.

- The number of headquarters outside Sweden has increased whatever definition is used.
- The size of headquarters measured in employment has decreased.
- There seems to be less and less correlation between location of headquarters and location of R&D.

According to Swedish experience the main reason behind changes in location of headquarters is mergers and acquisitions, i.e. increase in the number of foreign controlled enterprises in Sweden. But there are also some cases of relocation due to personal reasons by the top management. A good transportation infrastructure and access to financial institutions has favoured London as a location of headquarters for multinationals with a global presence. It seems that R&D is more closely located to production than the location of the headquarters.

- Hypothesis 1: There is a correlation between the geographic location of headquarters and the location of R&D centres.
- Hypothesis 2: An increased number of headquarters abroad would have a negative impact on the volume of R&D carried out in the home country.

¹² *The Globalisation Council (2007).*

¹³ *ITPS (2007).*

According to the Swedish studies, the hypotheses 1 and 2 regarding the location of headquarters and R&D do not seem to be correlated. The most common reason that headquarters are located in other countries is a consequence of an increased number of foreign controlled enterprises in Sweden. Acquisitions of major Swedish manufacturing groups by foreign owners have led to increased investment in R&D in Sweden. It thus seems that factors other than the location of headquarter are more important as regards the geographic location and expansion of R&D.

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Appendix

Three surveys on R&D in international enterprises

There are three different surveys being carried out every other year in Sweden. The latest surveys were published in the statistical report *Research and development of International Enterprises 2005* at www.itps.se.

- 1 R&D in major international Swedish groups 2005:** This survey is based on a questionnaire to 22 major Swedish groups, in terms of number of employees abroad, which also carry out R&D. These groups account for a major share of the business sector's total resources used for research and development. The data relates to R&D person-years and R&D expenditure in Sweden and abroad.
- 2 R&D in major foreign groups in Sweden 2005 (formerly Swedish):** This survey is based on a questionnaire to 12 major foreign groups. Common to these is that earlier they were under Swedish control and included in the Survey on R&D in major international Swedish groups. The data relates to R&D personnel and R&D expenditure in Sweden.
- 3 R&D in Swedish and foreign enterprises in Sweden 2005:** This survey is based on data from Statistics Sweden's regular R&D survey on foreign, international Swedish and domestic enterprises. The survey covers slightly more than 7,000 enterprises in Sweden with at least 10 employees.

Definitions

Foreign controlled enterprises/groups: Enterprises which are controlled by one or more foreign institutional units with more than 50 per cent of the voting rights of shares.

Swedish controlled international enterprises/groups: Swedish controlled enterprises with at least one subsidiary and employee abroad.

Domestic enterprises/groups: Swedish enterprises without subsidiaries abroad. This also includes industrial research institutes serving the business sector.

The Swedish Institute for Growth Policy Studies (ITPS) is a Government Agency responsible for providing policy intelligence to strengthen growth policy in Sweden. ITPS primarily provides the Government Offices, Members of the Swedish Parliament, other state authorities and agencies with briefings based on statistical material, policy papers and key analyses. Business policy and regional development policy are areas given high priority.

Changes in policy should be based on:

- Statistic data and analyses of the structure and dynamics of industry – to obtain an up-to-date view of future challenges and opportunities.
- Evaluation of results and effects of policy measures and programmes – to provide benchmarks and learn from measures implemented earlier.
- Policy intelligence in order to look outwards and ahead – what issues are likely to come on the growth policy agenda in the future?

These represent the principal missions of ITPS.