

Towards a Regional Strategy: The Role of Regional Headquarters of Foreign Firms in Singapore

Henry Wai-chung Yeung, Jessie Poon and Martin Perry

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Summary. This paper presents a framework for analysing the role of regional headquarters in the globalisation strategies of transnational corporations (TNCs). Drawing upon a theoretical gap in existing urban studies and international business literature, we argue that the triadisation and regionalisation of TNC activities increase the demand for control and co-ordination functions previously performed by the global headquarters. Many global corporations consequently establish regional headquarters to penetrate into emerging markets, which may be too geographically distant to be co-ordinated and managed by the global HQs, and to achieve simultaneously global integration and local responsiveness. Based upon an empirical survey of 130 RHQs in Singapore and 20 follow-up personal interviews, we test some of the propositions of this regional strategy framework. Our findings tentatively confirm that three independent variables play a statistically significant role in shaping the strategic decision by global corporations to establish RHQs in Singapore: geographical distance, strategic necessity and the availability of business services.

Introduction

How do global corporations manage their value-added activities outside their home regions? The accelerated globalisation of transnational corporations (TNCs) from North America, western Europe and Japan since the late 1960s has challenged their capabilities to manage subsidiaries and affiliates abroad. With increased global reach, TNCs have to resolve the daunting issue of how to manage complex production and marketing networks outside their home countries and regions (Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989; Bartlett and Hedlund, 1996; Nohria and Ghoshal, 1997). This transnational management task is

intensified by global competition in most leading industries (Porter, 1986; Hood and Valne, 1988; Hamel and Prahalad, 1994). On the other hand, a parallel process to globalisation is regionalisation in which three regions have clearly emerged as the leading pillars of a tripolar global economy—North America, western Europe and east Asia (Lévy, 1995; Poon, 1997; Mirza, 1998). The driving force behind regionalisation is the formation of relatively homogeneous markets, an outcome of economic integration at the regional scale. While the truly global market-place is still to be created in most industries, TNCs are organising regional

Henry Wai-chung Yeung and Martin Perry are in the Department of Geography, National University of Singapore, 1 Arts Link, Singapore 117570. Fax: 65 777 3091. E-mail: HenryYeung@nus.edu.sg and MartinPerry@nus.edu.sg. Jessie Poon is in the Department of Geography, University of Buffalo–SUNY, Wilkeson Quad, Buffalo, New York 14261, USA. Fax: 716 645 2329. E-mail: jessypoone@acsu.buffalo.edu.

strategies consistent with the relative market homogeneity at this geographical scale.

In this context of globalisation and regionalisation, we find that many global corporations are increasingly adopting a regional strategy in which regions become the primary organisational focus of the worldwide web of TNC activities. This strategy is necessary for two reasons. First, even within the relative market homogeneity at the regional scale, localised management is required to understand fully the nature and ever-changing conditions of host regions. Secondly, managing from a distance, particularly cross-regional management, is no longer an acceptable tool for strategic management in a world of keen competition and high demand for local responsiveness. The implementation of a regional strategy in managing foreign activities takes the form of establishing regional headquarters (RHQs) in host regions. Taking a stricter definition, we view regional headquarters as a business establishment that has control and management responsibilities for the operation of one or more other subsidiaries or affiliated companies located in the same host region. This definition effectively excludes regional offices that are defined as either solely a representative office or a sole operating establishment in the region. For American TNCs, the regional strategy is translated into establishing regional co-ordination and management centres in Europe and Asia (see Heenan, 1979; Daniels, 1987; Sullivan, 1992). Similarly for European TNCs, their entry into the Asia-Pacific markets is spearheaded by setting up RHQs in Asia (see Lasserre, 1996; Ho, 1998). Coming from Asia, Japanese TNCs are increasingly establishing RHQs not only in North America and western Europe, but also interestingly within Asia to manage their diverse production and sourcing networks in east and south-east Asia (Aoki and Tachiki, 1992). Together, these trends towards a regional strategy in the global reach of triad-based TNCs become an exciting topic for research in urban studies and international business.

With a few exceptions, urban studies and

international business research have not fully addressed the role and functions of RHQs in the global reach of TNCs. Instead, the literature has focused exclusively on the configurations of parent–subsidiary relationships and the responsibilities allocated to foreign subsidiaries (see, for example, Alegg, 1971; Otterbeck, 1981; Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989). Since the 1970s, these studies have evolved from the strategic management school in which it is believed that the understanding of the relationships between parent TNCs and their subsidiaries will enhance the effectiveness of implementing global strategies and managing foreign subsidiaries. Early studies of parent–subsidiary relationships focused on various mechanisms through which TNCs could combine faster growth with the control and co-ordination of their foreign affiliates and subsidiaries (Alegg, 1971; Youssef, 1975; Doz and Prahalad, 1981, 1984; Cray, 1984; Gates and Egelhoff, 1986; Martinez and Jarillo, 1988, 1991; see also the branch plant literature in Britton, 1976; Dicken, 1976; Watts, 1981; Phelps, 1993; Turok, 1993). A key dimension for distinguishing international strategies was the extent of integration and level of autonomy that foreign subsidiaries had from parent TNCs. Control and co-ordination mechanisms contained both strategic and cultural attributes. Strategically, foreign subsidiaries of TNCs could be controlled through resource allocation by parent HQs. These strategic resources could be capital, materials, technology and, sometimes, knowledge in networks (Gupta and Govindarajan, 1991; Marschan *et al.*, 1996). Boards of directors in foreign subsidiaries could also be a useful mode of strategic governance (Kriger and Rich, 1987). In other cases, however, consensual decision-making was also recognised as a facilitator of cultural control (see, for example, Jaeger, 1983; Baliga and Jaeger, 1984). Various social control mechanisms were recognised such as informal communications, socialisation, trust relationships and rotation of top executives.

Another recent strand of the literature on parent–subsidiaries relationships focuses on

Table 1. Typologies of subsidiary role types

Key authors	Local implementer	Specialised contributor	World mandate
White and Poynter (1984)	Miniature replica	Rationalised manufacturer Product specialist	Global mandate
D'Cruz (1986)	Branch plant	Globally rationalized	World product mandate
Bartlett and Ghoshal (1986)	Implementer	Contributor	Strategic leader
Jarillo and Martinez (1990)	Autonomous	Receptive	Active
Gupta and Govindarajan (1991)	Local innovator Implementer	Global innovator	Integrated player
Roth and Morrison (1992)		Integrated	Global subsidiary mandate

Source: Birkinshaw and Morrison (1995, Table 1).

the role of subsidiaries within a TNC's investment portfolio. These studies have moved away from such questions as how to control and co-ordinate foreign subsidiaries. Instead, they ask what is the role of foreign subsidiaries in the overall strategy of the TNC. Various typologies to capture the role types of foreign subsidiaries have been proposed (see Table 1). A local implementer, for example, is expected to have only limited geographical, product and value-added scope (Birkinshaw and Morrison, 1995; Birkinshaw, 1996). Its existence is merely to localise the global strategy pre-determined by the parent TNC. There is not much scope for innovations and active participation in the formulation of global strategies. In this sense, the organisational structure of a TNC with several local implementers resembles that of a multidomestic structure (Dunning, 1993). This is in fact how most TNCs managed their overseas subsidiaries in the early 20th century. The role of a subsidiary as a specialised contributor means that it has considerable expertise in certain functions or activities, although the subsidiary is still highly co-ordinated with other subsidiaries of the same TNC. The role of a specialised contributor is thus rather passive because it has to perform certain functions 'imposed'

by its parent firms. Through specialisation in certain products or functions, a subsidiary can contribute to the successful launch of global products by the parent TNC. A final role type of subsidiaries is the world mandate that works with its HQ to develop and implement global strategy (Roth and Morrison, 1992; Birkinshaw and Hood, 1997).

To date, there are only a handful of studies on regional HQs (see, for example, Heenan, 1979; Grosse, 1981; Daniels, 1987; Perry, 1992; Sullivan, 1992; Forsgren *et al.*, 1995; Lasserre, 1996; Ho, 1998). This oversight reflects the tendency to adopt a dichotomous view of the relationships between parent HQs and their foreign subsidiaries. In other words, any TNC is perceived to have only one headquarters based in a particular country. Everything else is a subsidiary which experiences varying degrees of control and co-ordination, depending on the nature of its relationships with the HQ and its role in the global strategy of the parent firm. Although the notion of a subsidiary as a world mandate of global strategies can provide some insights into the role of regional HQs within the TNC organisation, it is still far from offering a comprehensive understanding of their functions, organisation, structure and responsibilities within the overall corporate

hierarchy of TNCs. Another reason for the relative lack of attention to regional HQs in existing research may be attributed to the perceived lack of direct importance in these corporate entities. Early internationalisation of TNCs followed a multidomestic structure in which foreign affiliates and subsidiaries performed a local implementer role. At that time, regional HQs were redundant because local subsidiaries were expected to follow the general guidelines and strategic predisposition of parent firms in North America and western Europe. It should be noted, however, that this tight control of some distant branch plants might not always be effectively co-ordinated from parent companies. The global market then was also very fragmented without clearly recognisable regional divisions of labour and emerging regional markets. Today, the complexity of accelerated globalisation has forced TNCs to consider the strategic option of using RHQs to control and co-ordinate their value-chain activities in different regions.

This paper presents some empirical findings from an exploratory study of the RHQs of foreign firms in Singapore. We have chosen Singapore, a city-state with a high concentration of RHQs controlled by foreign TNCs, as our location of study and survey. The major concentrations of RHQs in the Asia-Pacific region are found in Singapore, Hong Kong and Tokyo, although a wider range of locations is now being promoted as competing centres (for example, Seoul, Taipei, Kuala Lumpur and Bangkok; see Figure 1). Hong Kong and Singapore are well known as 'twin capitals' for the location of RHQs that are responsible for the entire Asia-Pacific region. It should be noted, however, that some global TNCs maintain one RHQ each in Hong Kong and Singapore because both RHQs have different sub-regional scope within Asia. Whereas RHQs in Hong Kong tend to be responsible for controlling and managing other subsidiaries in east Asia (i.e. China, Taiwan and South Korea), their counterparts in Singapore take charge of subsidiaries in south-east Asia and, sometimes, Australia and New Zealand. Such

a complementary sub-regional division of labour among RHQs in Hong Kong and Singapore is more common among US and European TNCs. It is much less common among Japanese TNCs (and to a lesser extent Taiwanese and South Korean TNCs) because the parent companies can control operations in east Asia directly. But they often establish a RHQ in Singapore to manage their subsidiaries and production networks in south-east Asia. Together with Tokyo, Hong Kong and Singapore were rated the 'big three' centres for RHQs in the Asia-Pacific region in the 1990s (Business International, 1990; *The Straits Times*, 28 May 1990; *Business Times* (Singapore), 26 June 1991). The Economic Development Board of Singapore recently estimated that Singapore hosted some 2000 regional offices, one-quarter of which might be RHQs of foreign firms (*The Straits Times*, 31 January 1996). The samples in our study are therefore designed to be representative of RHQs of foreign firms located in Singapore.

This paper is based on results from a questionnaire survey of 130 RHQs of foreign TNCs in Singapore and follow-up personal interviews with 20 respondents. It aims to make two modest contributions to the literature: to build a general analytical framework for understanding the management and control of regional operations by global TNCs; and, to test some of the underlying propositions in this framework. Through an analysis of both quantitative and qualitative data, we find that there is a strategic necessity for global corporations to establish RHQs in order to achieve greater locational benefits through regional positioning and information intelligence activities. We also note that host country conditions play a crucial role in attracting the urban location of these RHQs. Analytically, the propensities of global corporations to establish these regional organisational structures are dependent upon the structural context of globalisation and regionalisation and the regional context of home country variables (proximity, familiarity with and commitment to host regions, etc.) and host country variables (government



Figure 1. Major capital cities in east and south-east Asia

incentives, local infrastructure and proximity to regional markets, etc.).

This paper is organised into four sections. The next section sets the empirical context of this paper by briefly reviewing the role of RHQs of foreign firms in Singapore. In section 2, the paper outlines the role and func-

tions of RHQs according to shifts in regional strategy and functions. We then propose a regional strategic approach through which global TNCs manage their foreign subsidiaries/affiliates in different geographical regions. Based on qualitative information from personal interviews with top executives

from RHQs in Singapore, we build an analytical framework for understanding the regional organisation of TNC activities. We also derive some testable propositions from this framework. In the penultimate section, we use data from a survey of 130 RHQs in Singapore to test some of our earlier propositions. In the concluding section, we summarise the main findings of this paper and identify some limitations of this study.

Regional Headquarters of Foreign Firms in Singapore

Despite the recent economic crisis, the Asia-Pacific region remains an increasingly important centre of gravity in the global economy (Dixon and Drakakis-Smith, 1993; Abegglen, 1994; Kawagoe and Sekiguchi, 1995; Lasserre and Schütte, 1995; de Bettignies, 1996). The influx of inward FDI into the region has been on a huge scale, primarily through the activities of TNCs. Several countries within the region (China, Singapore, Malaysia and Hong Kong) are the leading destinations for FDI and TNCs among the developing countries. Together, these 4 Asian economies accounted for 37 per cent of the total FDI to all developing countries (US\$281 billion) for the period 1981–92 (UNCTAD, 1994, Table I.5). Singapore is a city-state strategically located at the southern tip of peninsula Malaysia in the south-east Asian region (see Figure 1). It has grown from a British colonial *entrepôt* in the late 19th century and early 20th century to a modern economic centre specialising in high-value-added manufacturing activities and international financial and business services (Régnier, 1991; Huff, 1994; Perry *et al.*, 1997; Low, 1998). As early as 1970, Singapore was ranked second in Asia in terms annual per capita income, after Japan (Yeung, 1973, p. 6). Today, it has an annual GNP per capita at US\$26 400 (*Asia Magazine*, 16–18 August 1996, p. 17). The domestic economy has experienced high growth rates above an average of 6.7 per cent in the past three decades (see Table 2). Foreign investment has always been one of the cor-

nerstones of the island economy (Hughes and Sing, 1969; Yoshihara, 1976; Mirza, 1986; Rodan, 1989). As shown in Table 3, net foreign investment commitments in Singapore's manufacturing sector have grown tremendously from S\$89 million in 1963 to S\$5716 million in 1996, representing more than 64-fold jump over a period of three decades (see also Ramstetter, 1996). This surge in foreign investment became much more drastic in the post-1985 period when Japanese investment supplemented inflows from leading investors in the US, the UK, the Netherlands and Germany. In 1996, Japan (S\$1960 million) came very close to the US (S\$2262 million) as the second-largest investor in Singapore's manufacturing sector. Foreign-owned companies in Singapore accounted for over half of total equity investment from Singapore in 1993. Throughout the 1980s and into the early 1990s, Singapore attracted over 10 per cent of all FDI received by destinations outside the OECD (Perry *et al.*, 1997, p. 15).

Given its export orientation and small domestic economy, Singapore has relied upon foreign investment to drive its industrialisation process and economic development over the past three decades. Since its independence, Singapore has relentlessly pursued a national development strategy that depends heavily on the influx of foreign capital in the form of direct investment and on the leading role of state-owned enterprises. This reliance on foreign capital worked very well in the first two decades of Singapore's industrialisation by plugging itself into the so-called new international division of labour. The strategy of courting foreign capital was perceived as

essential in view of the weak domestic technological base and the long lead-time needed to transform domestic *entrepôt* traders and small-scale entrepreneurs into a dynamic industrial entrepreneurial class able to compete in the global market (Chia, 1997, p. 32).

The city-state was transformed from an island of massive unemployment in the

Table 2. Singapore's macro-economic indicators, 1960–92 (percentage)

Indicators	1960–66	1960–69	1970–79	1980–92
Annual real GDP growth rate	5.7	8.0	8.3	6.7
Annual inflation rate	1.1	1.1	5.8	2.4
Savings ratio (over GDP)	6.7	11.5	28.8	42.7
Investment ratio (over GDP)	17.5	20.7	40.5	41.3
Foreign investment (percentage of GFCF)	—	—	22.1	26.3
	1960	1969	1979	1992
<i>Gross domestic product</i> (S\$million)	5 059	10 730	26 285	64 771
Agriculture and quarrying	3.8	2.7	1.5	0.4
Manufacturing	16.6	23.2	29.4	27.6
Construction and utilities	7.0	10.7	9.1	8.9
Commerce	24.6	22.9	19.4	18.2
Transport and communications	8.8	7.2	11.6	14.7
Financial and business services	14.0	16.5	18.9	26.1
Other services	19.6	15.7	12.2	10.2

Source: Huff (1995, Tables 1–2 and 6).

1960s to an offshore manufacturing production site sustained by imported labour by the late 1970s. The 'Second Industrial Revolution' through upward wage adjustments during the late 1970s resulted in a shift in Singapore's industrialisation strategy from an offshore production location to a centre for the spatial agglomeration of high-value-added and high-tech investments in leading industries. Since the mid 1980s, Singapore has also been actively seeking the location of the control and co-ordination functions of leading global corporations in order to develop the city into a truly international business hub, serving countries within and beyond the south-east Asia region. Regional headquarters of major global corporations have been sought after and promoted. It is hoped that these RHQs bring in high-value-added jobs and skills to the aspiring white-collar workforce in Singapore. The state has again taken the initiative to attract these RHQs through a clearly defined set of strategies.

Given this development strategy, the Singapore economy was, and still is, heavily dependent on foreign investment. In 1966, foreign investment represented some 45 per cent of total gross fixed assets in manufacturing (Rodan, 1989, p. 99). By 1978, this figure

had grown rapidly to 79 per cent. Majority-foreign-owned companies also accounted for 87 per cent of all manufactured exports for 1976–88 (Rodan, 1989, p. 130). The Department of Statistics (1992b, Table 7) estimates that, by 1989, foreign interests controlled some 73 per cent of total assets in all sectors of Singapore's economy, amounting to S\$685 billion. As an assessment of the importance of foreign capital in Singapore's economy, Huff (1995) estimates that foreign investment contributed some 22 per cent and 26 per cent of the gross domestic fixed capital formation during the 1970–79 and 1980–92 periods respectively (see Table 2). This ratio of foreign investment to GFCF is certainly one of the highest among the Asian NIEs. Today, Singapore is hosting some 3000 foreign TNCs, 700 of which are in the manufacturing sector (Tan, 1995, p. 5). Some 80 per cent of Singapore's exports, 40 per cent of employment and 26 per cent of gross domestic capital formation are directly or indirectly accounted for by foreign TNCs. A large number of RHQs, controlled by these foreign TNCs, exist to control and manage their diverse operations and production networks in south-east Asia and, sometimes, in the Asia-Pacific region. How then do we analyse their strategic

Table 3. Net investment commitments in manufacturing in Singapore by country of origin, 1963–96 (\$million)

Country	1963	1973	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
USA	18.3	8.8	505.8	427.3	443.4	543.5	586.6	520.2	1054.8	969.2	1201.4	1452.2	2451.7	2075.8	2262.0
Japan	27.2	151.4	139.7	244.1	493.8	601.1	691.3	541.2	708.2	713.2	858.0	779.4	913.8	1152.5	1960.4
<i>Europe</i>		43.9	360.4	201.0	218.8	285.8	358.1	544.2	435.3	684.2	618.7	881.8	907.0	1526.3	1389.1
France	—	—	18.8	15.1	27.8	15.2	86.0	106.0	60.4	75.2	34.1	124.9	54.0	140.5	59.1
Germany	—	18.4	69.2	20.1	16.7	90.3	46.7	26.4	165.7	60.2	106.4	204.6	91.8	183.9	246.4
Italy	0.4	—	45.4	—	5.1	22.0	68.0	32.8	—	70.1	26.7	43.3	38.9	12.8	53.9
Netherlands	2.5	0.6	1.0	75.2	57.1	70.9	82.9	174.0	72.6	216.2	43.1	7.7	175.6	391.4	517.8
Sweden	3.2	21.0	53.6	14.9	5.4	8.7	—	—	7.1	1.2	19.3	5.0	—	—	—
Switzerland	5.3	—	35.8	4.7	7.7	27.8	10.1	0.9	32.7	12.6	63.1	66.3	11.4	13.2	60.1
United Kingdom	3.7	1.9	129.5	69.4	93.4	42.4	56.6	174.6	89.9	186.5	305.5	357.8	525.1	771.6	397.6
Other	—	2.0	7.1	1.6	5.6	8.5	26.5	29.6	6.9	62.2	20.6	72.3	10.2	12.9	54.2
Hong Kong	8.0	—	23.0	1.2	5.3	0.9	4.0	—	5.2	30.3	6.2	16.0	—	—	—
Other or unknown	20.0	20.0	170.1	14.4	29.3	16.7	17.7	19.8	14.4	64.2	48.8	47.5	54.9	97.8	104.8
Total	88.6	224.1	1199.0	888.0	1190.6	1448.0	1657.8	1625.4	2217.9	2461.1	2733.0	3177.0	4327.4	4852.4	5716.2

Source: Department of Statistics (various years).

role and the reasons behind their establishment in Singapore?

The Role of Regional Headquarters in the Global Strategies of TNCs: Towards an Analytical Framework

Since the late 1970s, the global economy has become more competitive and regionalised with the emergence of the triad regions centred around North America, western Europe and the Asia-Pacific (Ohmae, 1985; Lévy, 1995; Poon, 1997). In particular, the strategic role of regional HQs is increasingly important as TNCs seek 'regional embeddedness'—a process of regionalisation in which a TNC operates and manages its subsidiaries on a regional basis to capture economies of regionalisation. This regional strategy can be defined as "the cross-subsidisation of market-share battles in pursuit of regional production, branding and distribution advantages" (Morrison and Roth, 1992, p. 45; see also Morrison *et al.*, 1991). A US firm with a regional strategy will locate its strategic decision-making within the host region (for example, Asia), while maintaining the same regional structures for all other regions in which it operates. The TNC thus becomes an international firm with regional operations. Its RHQs are strategic mid-way houses to implement global strategies at a regional level. They are the "strategic windows" and "windows of influence" for global firms (Kriger and Rich, 1987, p. 45). As "strategic windows", RHQs attempt to understand local host region changes as soon as possible and, in the process, not overlook channels for learning of those changes quickly. As "windows of influence", RHQs serve as two-way conduits of influence between various stakeholder groups in the host region and key decision-makers in parent firms at home. RHQs can encourage these stakeholders to think or to act in ways that advance the interests of the firm and influence decision-makers in home countries in ways that advance the interests of local stakeholder groups.

Our conceptualisation of the role of

RHQs in global TNCs challenges certain well-ingrained beliefs concerning parent–subsidiary relationships. More than a decade ago, Bartlett and Ghoshal (1986) examined the "UN model assumption" and "headquarters hierarchy syndrome". To them, the "UN model assumption" was that the corporate headquarters perceive uniform subsidiary roles and functions. A related belief in corporate governance was the "headquarters hierarchy syndrome" through which subsidiaries were seen as implementers of global strategies. We argue, however, that the strategic and functional necessity of RHQs has become more evident with the emergence of what Hedlund (1986, 1993) labels as the "heterarchical" TNC. This type of TNC depends much less on the hierarchical control and co-ordination mechanisms employed by the HQ over its subsidiaries (see also Birkinshaw, 1994; Nohria and Ghoshal, 1997; Yeung, 1998). Instead, a heterarchical TNC has many centres with a matrix of organising principles. The sum total of a heterarchy is

to create a situation where 'management' is as much a horizontal as a vertical affair, and becomes part of *every* unit's and individual's task (Hedlund, 1993, p. 231; original italics).

The strategic role of regional HQs in a heterarchical TNC is to promote lateral relationships and normative integration within a wider regional framework. In these new heterarchical structures, corporate HQs functions are geographically diffused and no dimension (by product, country or function) is uniformly subordinate. Operations in any particular region, for example, contain a range of activities with different levels of status and geographical responsibility. Corporate strategy is formulated and implemented in a spatially scattered network, giving strategic influence to the regional HQs and, sometimes, to individual subsidiaries. This organising principle towards a regional strategy enables a global corporation to sustain its competitive advantage in the triadised global economy and, yet, allows it to be highly

responsive to local market conditions. Instead of organising transnational operations on a product or area structure, the network structure contains elements of both and involves a whole set of dual reporting links between product and area segments of the TNC. Some of the changes in the role of RHQs are:

- (1) *More flexibility in organisational choice*: varying organisational forms between intrafirm integration (for example, wholly-owned subsidiaries) and interfirm co-operation (see, for example, strategic alliances) allow a strategic combination of organisational forms to maximise the opportunities of the operation.
- (2) *Overlapping functions and responsibilities*: the locus of decision-making depends on the location of particular chief executives, rather than a strict hierarchy of authority.
- (3) *More footloose in location*: as the chain of command and hierarchy of authority are getting increasingly blurred, TNCs may be willing to accommodate their regional operations in accordance with the preferences of key members of the corporate network. Top executives in charge of particular functions or products may choose to reside in world cities (such as Hong Kong or Singapore) and to co-ordinate the global operations from that city.

With respect to location preferences, these recent developments tend to favour the location of RHQs in world cities that are geographical 'controlling points' of the global economy. These world cities offer a strategic location on the global transport and communication network, high-quality external services (such as financial and business services), a particular range of labour market skills (such as skilled labour in information processing) and rich social and cultural amenities (Friedmann and Wolff, 1982; Friedmann, 1986; Sassen, 1991; Knox and Taylor, 1995; Graham, 1999). In this regard, Singapore and Hong Kong stand out as the top choices for RHQs in the Asian region.

The Role of Regional Strategy and Structure

What then do we know about regional HQs in the internationalisation strategies of TNCs? Not much indeed. Heenan's (1979) early study of different dimensions affecting the choice of regional HQs by 60 US TNCs and 47 Japanese TNCs shows that there were noticeable similarities and differences in their preferences for locational variables. US TNCs tended to locate regional HQs on the basis of a city's political stability, its supporting infrastructure, costs of maintaining an expatriate staff and availability of air transport and communications. Geographical proximity to corporate HQs was of least concern to these US TNCs. To Japanese TNCs, the economic importance of the local market to the host region, its supporting services, government attitudes towards the parent TNCs, educational and medical facilities, political stability and a city's international and multicultural orientation were the critical factors. Other studies of regional HQs in the Asia-Pacific tend to concentrate on such specific empirical issues as host government incentives (see, for example, Dicken and Kirkpatrick, 1991; Kumarapathy, 1994; Perry, 1995), regional production networks (see, for example, Aoki and Tachiki, 1992) and the role of producer services (see, for example, Ho, 1998).

In another recent study by Lasserre (1996), the functional roles of regional HQs have been further developed and conceptualised into a life-cycle model (see Figure 2). He notes that there are two primary roles of regional HQs: integrative and entrepreneurial. For integrative regional HQs, their specific functions within the overall corporate organisation are:

- co-ordination*: to ensure that the businesses exploit synergy and follow consistent policies across the region; and
- pooling resources*: to manage certain key functional activities across the region.

For entrepreneurial regional HQs, they serve certain enhancing functions:

- scouting*: to serve as a base from which to

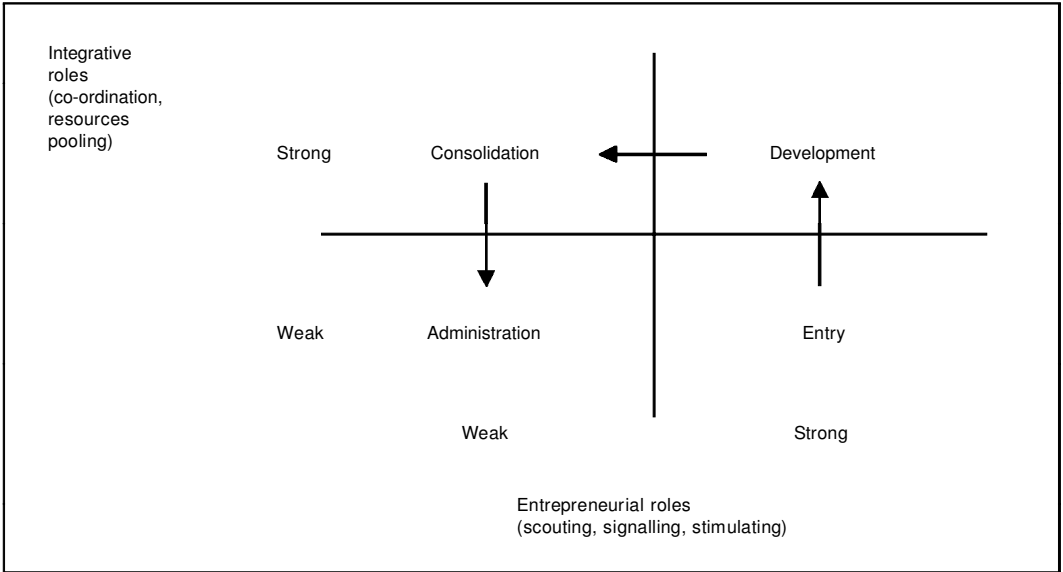


Figure 2. The life cycle of a regional headquarters. *Source:* Lasserre (1996, Figure 3).

search opportunities and initiate new ventures across the region;

- strategic stimulation:* to assist the businesses in understanding the changing nature of the regional environment and to help them to integrate these changes into their business strategies. In the regional matrix, regional HQs serve as a central ‘switchboard’ between product divisions and country managers; and
- signalling commitment:* to demonstrate internally to the product division and externally to local governments, the general public, shareholders and the financial community that the company is committed to the region.

Over time, Lasserre (1996) argues, regional HQs roles are changing in response to the different stages in the evolution of a company’s presence in Asia. At the entry stage, it is likely that a regional HQ takes on more an entrepreneurial role. As the company becomes more established in the region during the development phase, the regional HQs will augment the facilitator profile and add the integrative role to its primary functions. When the regional operation reaches the consolidation stage when local subsidiaries are

sufficiently mature, the regional HQs will play a much more integrative role to exploit the synergy between different local subsidiaries. In the final administration stage, the full responsibilities for carrying out various tasks by the regional HQs will be taken over by local subsidiaries, leaving only an administrative role for the regional HQs. According to this life-cycle model, regional HQs are eventually eliminated and replaced by direct control and co-ordination by parent companies. While useful in drawing our attention to the strategic variation in RHQ functions, such a depiction of the evolution of RHQs suffers from the limitation of all product-cycle conceptualisations (see, for example, Storper, 1985; Taylor, 1986). When applied to individual organisations, the scope for deviation is so wide that most RHQs are unlikely to evolve in the same ideal sequence.

Towards a Regional Strategic Framework for Analysing RHQs

Our analytical framework starts with two key features of today’s global economy and a global corporation (see Figure 3). Triadisation refers to the emergence of a regional

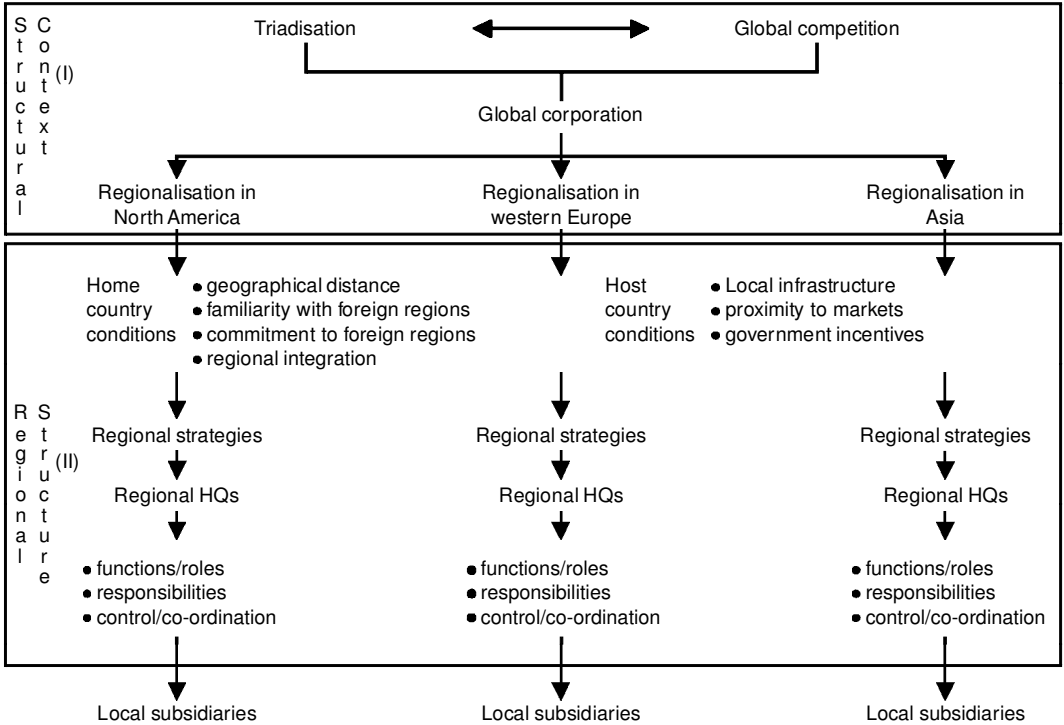


Figure 3. A framework for understanding regional strategy and regionalisation.

structure in the organisation of the global economy in which regions have become the strategic sites of economic activities and market growth. Global competition refers to a global trend in which competition is no longer contained within national boundaries, but is rather conducted on a global scale. Faced with these two key features of the structural context, the organisational challenge to a global corporation is how to tap into emerging regional markets and contain competition at a regional level (rather than a global scale). Regionalisation reflects the strategic predisposition for leading global corporations to embed themselves in regional markets. Figure 3 (panel I) shows this interaction between the regionalisation of global corporations and the structural context of triadisation and global competition.

To devise a practical regional solution to global competitive pressures, a global corporation needs to build a regional structure (panel II in Figure 3). Within this regional structure, a RHQ is established to perform

strategic roles as suggested in recent studies (see above). This RHQ is often given power and autonomy to exercise control over its local subsidiaries. This can be achieved through sending a top executive (usually at the board director level) to head the RHQ. Localisation of top management may also occur in the RHQ when it has become fully established. A RHQ also performs certain functions to enable the success of these local subsidiaries. It is thus necessary for us to examine the relationships between home and host country conditions and the strategies and functions of RHQs. Derived from previous studies of RHQs, we postulate that certain home country conditions influence the strategic choice of establishing RHQs. Our proposition is that foreign firms from different home countries have different propensities to set up RHQs in the same host region. These different propensities can be explained by their firm-specific attributes that are embedded in the specific business and institutional environments of their home

countries. In Figure 3, we propose several conditions related to the role of home country attributes in shaping the strategies and functions of RHQs.

Geographical distance from host countries. When the parent firm is far away from the host region, it is more likely for the firm to establish a RHQ to exercise control over its local subsidiaries and to explore more markets through increased geographical responsibilities.

Psychic distance and familiarity with host regions. There is much less strategic necessity for a parent firm, which is culturally or psychologically familiar with the host region, to establish a RHQ. This is because the parent firm can directly exercise control over and can co-ordinate local subsidiaries without a RHQ. Devoting resources to establish a RHQ is also not required to accumulate learning or to understand regional differentiation. This social dimension of internationalisation strategies by TNCs has been well explored and documented in the Scandinavian business literature (see Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Forsgren *et al.*, 1995).

Commitment or responsiveness to host regions. Parent firms committed to the host regions tend to be more willing to establish RHQs as a sign of regional commitment. RHQs serve both as a means of showing commitment to the public and as an organisational solution to a regionalisation strategy. In practice, a parent firm may have a substantial portion of its business and market share located in the host region. Establishing a RHQ in the host region offers a clear signal to its customers, suppliers and even employees that the company is committed to making a long-term contribution to the host region. It is also able to be highly responsive to variations in business opportunities and environment in the host region (see Prahalad and Doz, 1987; Johnson, 1995).

Extent of regional integration. This is the last home country variable, but it is perhaps the most important variable (see the parent-sub-sidiary literature above). The extent of regional integration refers to the propensity of parent firms to adopt a regionalisation strategy to control and co-ordinate their diverse operations in the same host region as an integrated matrix rather than as stand-alone subsidiaries. Such a propensity is likely to impact significantly on the strategies and organisation of their RHQs so that parent firms with a greater extent of regional integration in their transnational operations tend to have a higher strategic necessity to establish RHQs and to exercise stricter control over these RHQs.

On the other hand, host country conditions may also influence the strategies and organisation of RHQs. They are:

Local infrastructure. Local infrastructure may play an important role in the locational decision of RHQs by parent TNCs. Many RHQs require easy access to advanced producer services in order to execute their strategic management functions. These producer services include banking and finance, transport and telecommunications, legal and consulting services and so on. The role of local infrastructure, however, may diminish when the strategic necessity of establishing the RHQ becomes paramount. Local infrastructure therefore becomes secondary to the role of regional strategy in making a choice about the establishment of RHQs.

Proximity to market. The importance of market access underscores the fundamental strategic rationale for establishing RHQs. Proximity to markets therefore provides a clear locational advantage to a place (normally a city) where RHQs are located. This is particularly the case when a RHQ is established as part of a wider regionalisation strategy by the parent TNCs.

Government incentives. Several studies have postulated that host government incentives may have an impact on the establishment of

RHQs by certain types of TNC (Dicken and Kirkpatrick, 1991; Perry, 1992, 1995). The specific impact of these incentives on the locational decisions of TNCs, however, remains mostly secondary. For example, Perry (1995) concludes that the Operational Headquarters (OHQ) scheme offered by the Economic Development Board of Singapore did not seem to have a major impact on the choice of Singapore by RHQs. This lack of significant influence of government incentives on the locational choice of OHQs can be explained by the fact that many TNCs choose to establish RHQs in host regions for strategic reasons (such as market access and/or intelligence gathering). Once this strategic importance of the region is established, host government incentives become secondary to locational considerations. Another reason is that these government incentives are not well designed to cater for the specific needs of different types of RHQ.

In summary, we have examined pertinent home and host country conditions that are responsible for TNCs' decisions to set up RHQs in different host regions. We expect that home considerations such as geographical distance, unfamiliarity with host regions, the desire to become more entrenched in the host region and the necessity for locational positioning in order to exert governance control or to facilitate co-ordination are all important explanatory variables. Similarly, though to a lesser degree, we expect that host country attributes could enhance or attenuate a city's attractiveness over other competing cities for RHQ establishment. Before we proceed to report the findings from our empirical investigation, we need to explain the processes of data collection and analysis.

Data: Survey Process and Responses

The data on the RHQs of foreign firms in Singapore (and other world cities) are very limited. There is no comprehensive survey of RHQs in Singapore. All published studies on this subject must rely upon information supplied by the Economic Development Board (EDB) of the Singapore government and me-

dia reports. Small-scale surveys have been conducted to obtain additional firm-level data (see, for example, Dicken and Kirkpatrick, 1991; Perry, 1992, 1995; Kumarapathy, 1994). Although the EDB does not keep track of RHQs of foreign firms in Singapore, it does occasionally publish information pertinent to the recipients of its various incentive programmes (including the Operational Headquarters (OHQ) scheme). This information can be used as the basis to ascertain the nature and extent of OHQs in Singapore.

We collected the data for this study through a survey of RHQs in Singapore in 1996. To date, there is no comprehensive directory or published listing of RHQs in Singapore. We compiled a survey population frame from three sources: Singapore newspaper reports post-1990 identifying new RHQ openings, changes in the existing status or announcing investment linked to the RHQs; the Singapore *Kompass* Business Directory listing of RHQs; and, annual reports of the EDB (administrators of the OHQ and other incentives). A survey population of 350 RHQs was compiled. After a preliminary screening to check that the RHQs fell within the scope of the study and to obtain a contact name and address, the population of RHQs in our database was reduced to 257. This survey population of RHQs was about 13 per cent of a total of 2000 regional offices in Singapore then estimated by the EDB (*The Straits Times*, 31 January 1996). The EDB's estimate, however, included a large number (possibly about 1500) of representative offices, head offices of Singapore-based and foreign organisations whose sole regional operations were in Singapore. We estimated that there were about 500 RHQs of foreign firms in Singapore. Our database ($N = 257$) therefore covered about 50 per cent the total population of RHQs according to our stricter definition. It comprised almost equal numbers of European and US TNCs, with fewer Asian TNCs (see Table 4). This profile underrepresented Asian TNCs, particularly Japanese and to a lesser extent Taiwanese and South Korean. When compared with the overall profile of foreign investment in Sin-

Table 4. Comparison of original and survey population, by sector and nationality

Region	Original sample ^a		Survey response ^b		Interview response ^c	
	Number	Percentage	Number	Percentage	Number	Percentage
<i>Manufacturing</i>						
America	59	16.9	26	20.2	1	6.3
Asia	44	12.6	19	14.7	5	31.3
Europe	73	20.9	45	34.9	7	43.8
<i>Services</i>						
America	37	10.6	17	13.2	2	12.5
Asia	20	5.7	6	4.7	1	6.3
Europe	24	6.9	16	12.4	0	0.0
Total	257	100	129	100	16	100

^a Based on 257 cases out of the total survey population of 350.

^b Based on 129 of 130 respondents.

^c Based on 16 of 20 respondents.

Source: Survey data.

gapore (Department of Statistics, 1992a; see also Table 3), service-sector investments monitored by the EDB (which were dominated by RHQ expenditure) were consistent with the nationality mix in the survey population (Economic Development Board, 1995).

The RHQs in our sampling-frame were surveyed through a postal questionnaire. We obtained 130 useable returns, representing a response rate of 52 per cent ($N=257$). Responses were broadly in line with the survey population (Tables 4 and 5). A number of countries dominated the regional groupings: in respect of the respondent sample, the main countries of origin were the US (39), Germany (17), Japan (16), the UK (10), France (7), the Netherlands (5), Sweden (5) and Switzerland (5). Compared with the original population, the Asian sample was dominated by RHQs linked to parent Japanese TNCs. With respect to employment size, the respondent profile might be weighted in favour of larger offices, but this is difficult to judge given the incomplete information covering the survey population (Table 5). By nationality, the US sample contained the highest share of RHQs with over 25 staff (60 per cent), the European the lowest (20 per cent)

and the Asian in the middle (52 per cent).

A cross-section sample of 20 respondents was then included in follow-up personal interviews through which we obtained further detail on their location decisions, regional organisation and operational strategies. These 20 respondents were selected on the basis of their country of origin, industrial sector, and willingness to participate in the follow-up study. The aim of these personal interviews was to acquire richer material on the strategic processes and organisational mechanisms of establishing RHQs in Singapore. This material could not be obtained through the postal survey (see Yin, 1994; Numagami, 1998). As shown in Table 4, compared with the main survey, this sub-sample tends to underrepresent RHQs controlled by US manufacturing TNCs and European service TNCs. We conducted most interviews with the directors or managing directors of the RHQs in Singapore. This ensured the accuracy and reliability of the qualitative information obtained. This material formed the basis of the qualitative case studies. Because of space constraints in this paper, we have chosen specifically to report two case studies—British Gas Asia Pacific and Ricola Asia Pacific (see next section)—

Table 5. Comparison of original and survey population, by employment size and period of establishment

Period established	Employment size											
	Original sample ^a						Survey response ^b					
	< 10		10-50		> 50		< 10		10-50		> 50	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Pre1970	0	0	1	2.2	2	8.0	1	1.9	3	6.7	2	6.7
1970-80	4	9.1	6	12.8	0	0	10	19.0	4	8.9	5	16.7
1981-90	13	29.5	16	34.0	14	56.0	15	28.3	12	26.6	8	26.6
1991-95	27	61.4	24	51.0	9	36.0	22	41.5	23	51.1	12	40.0
Post-1995	0	0	0	0	0	0	5	9.4	3	6.7	3	10.0
Total	44	100	47	100	25	100	53	100	45	100	30	100

^a Based on 225 cases out of the total survey population of 350.

^b Based on 128 of 130 respondents.

Source: Survey data.

on the basis of their theoretical relevance and completeness of information obtained. We use these case studies to contribute to the emerging theoretical perspective on the regional strategy of global corporations. We also secured the consent and verification of these two cases by our interviewees. Through triangulation of evidence recorded in different formats, qualitative information also complements the preliminary quantitative analysis presented in this paper (see also Denzin and Lincoln, 1994, 1998; Fielding, 1999). Personal interviews were conducted after the initial postal survey and, along with a review of company annual reports and preliminary reports, these provided the means to triangulate our information. In the following section, we present some of the quantitative and qualitative analyses of the survey and interview data.

Explaining the Establishment of Regional Headquarters by Foreign Firms in Singapore: An Analysis of the Survey Results

Influence of Geography and Parent TNC Characteristics

As argued earlier, one of the main rationales for establishing a RHQ in Singapore is that it forms part of a broader strategy to integrate operations on a regional basis. In our survey, RHQs were asked the reasons for and influences on their establishment in Singapore. The statistical analysis of these data is presented in Table 6. At the general level, some 88 respondents replied that their RHQs in Singapore were “part of a regionalisation strategy” and 72 respondents said that their establishment was due to “geographical distance from the home country”. When the two factors were cross-tabulated with the nation-

Table 6. Reasons for setting up regional headquarters by foreign firms in Singapore

1	<i>Why was this office established?</i>	
a	<i>Part of regionalisation strategy</i> (responses = 88)	
	<i>Nationality</i> (percentages)	
	Europe	55
	North America	25
	Japan	20
	Test of association (2) = 9.02 ***	
b	<i>Geographical distance from home country</i> (responses = 72)	
	<i>Nationality</i> (percentages)	
	Europe	58.4
	North America	31.9
	Japan	9.7
	Test of association (2) = 12.14 ***	
2a	<i>Why was this office established?</i>	
	A sign of commitment to the region (responses = 73)	
b	<i>What are the special advantages of this office over other forms of regional management?</i>	
	More integrated within the region (responses = 88)	
	Test of association (2) = 7.39 **	

*** indicates significant at the 1 per cent level; ** indicates significant at the 5 per cent level.
 Source: Survey data.

Table 7. British Gas Asia Pacific Pte Ltd

Since privatisation in 1986, London-headquartered British Gas plc has become one of Europe's top 20 corporations, with a worldwide turnover of £8.6 billion in 1995 and rapidly expanding its international operations. In 1996, the group underwent a demerger to separate the British sales operations from its exploration, distribution and international operations, the latter comprising about 80 per cent of its business. The group plans to double its investments in the Asia-Pacific region to US\$2 billion by 2000.

The group's regional headquarters for the Asia-Pacific region, British Gas Asia Pacific (BGAP), is located in Singapore and has invested US\$1 billion in significant joint-venture projects in 7 regional countries: India, Pakistan, Malaysia, Thailand, Indonesia, Vietnam and the Philippines. All these operations have been developed since 1990, reflecting the priority given to building regional operations. BGAP was granted operational headquarters (OHQs) status by the Economic Development Board (EDB) on 4 March 1996 (*The Straits Times*, 5 March 1996, p. 31).

Regional operations

The development of regional operations requires joint-venture partners. They potentially encompass the following activities: exploration, mining, transmission, distribution, power generation. This is partly because of the host government's influence over access to energy markets, but also because of the importance of understanding local laws and customs and providing access to customer links. Obtaining a good partner is critical to determining how rapidly business can be built. Examples of regional operations are:

India: a pipeline network in Mumbai in a joint venture with an Indian gas company; a greenfield project since 1996; a 44 per cent stake in India's largest gas distributor (potentially rising to 66 per cent).

Philippines: a US\$900 million power station construction in partnership with First Philippine Holdings (60 per cent stake).

Indonesia: exploration activities; may start a power station development in Irian Jaya.

Pakistan: exploration activities.

Malaysia: 20 per cent stake in a power station.

Singapore: regional office and a separate British Gas company which owns 2 LNG tankers; a regional base for pipeline inspection work.

Regional headquarters in Singapore

The role

The role of RHQ in Singapore has gone through several changes since opening in 1992.

1993: A regional controller was appointed to Singapore to oversee regional operations. Initial power was limited and regional operations were essentially run from the UK.

Mid 1995: A regional managing director was appointed and was given considerable authority, probably amongst the top 12 staff in the British Gas group. This shift of authority to Singapore was linked to the restructuring of the British Gas main board of directors in the UK which resulted in the introduction of greater international business experience and more willingness to devolve responsibility to the Asia-Pacific RHQ. The general rule now is that projects are run by Singapore in partnership with country management teams, drawing upon the UK expertise when necessary.

1996: The RHQ in Singapore was awarded OHQ status to enjoy tax advantages and to show commitment to the Asia-Pacific region.

1998: In the first quarter of 1998, all financial management and reporting of regional operations were consolidated in Singapore. R&D work was commenced in Singapore, as one of the commitments under the OHQ award. These R&D programmes were also used as a mechanism to induce local staff into the organisation.

The rationale

The main rationale behind the establishment of RHQ in Singapore is:

Distance to the UK: It is much easier to base senior managers in Singapore to run regional operations.

Strategic necessity: These senior managers need to be working in the region to make effective decisions and assess investment opportunities.

Control functions: There are two annual meetings of country managers in Singapore each year, but interaction between these country managers is at their own initiative. Typically, either the country manager or a UK specialist sits on the board of directors of subsidiary companies, along with the Singapore managing director. The managing director in Singapore also visits the UK once a month for a meeting of all regional managing directors and key staff of British Gas.

Source: Authors' interview.

alities of their parent companies, European TNCs apparently placed the highest priority on establishing RHQs as part of their regionalisation strategy (for example, see British Gas in Table 7), followed by US TNCs. On the other hand, Japanese TNCs were the least concerned with the role of geographical distance (see Table 6). In fact, 72 per cent of Japanese RHQs did not think that geographical distance was an important consideration at all. When contingency tests of association were conducted, the chi-squared values in Table 6 were all statistically significant. This indicates that both regionalisation strategy and geographical distance were strongly associated with the nationality of firms. It further suggests that TNCs from outside the Asia-Pacific region tend to have a higher strategic necessity to establish RHQs in Singapore to control and co-ordinate their activities within the region. It also highlights issues related to a firm's familiarity with the region of interest. Compared to their European or US counterparts, Japanese TNCs, while investing rather heavily in the south-east Asian region (see Yoshihara, 1978; Pongpaichit, 1990; Hatch and Yamamura, 1996), are less likely to establish RHQs in Singapore because of their proximity to the region in both physical and psychological terms.

Another broad trend emerging from the survey results shows that the establishment of regional headquarters indicates a desire of global TNCs to become more integrated into the south-east Asian region. In particular, 73 firms noted that their RHQs in Singapore reflect "a sign of commitment to the region". This lends some support to our proposition in

the analytical framework earlier. Parent TNCs, which are strategically committed to and integrated into the host region (in terms of sales, business scope, production activities and market shares), tend to be more likely to establish a RHQ as a result of projected growth in profit and/or market share. In addition, firms that chose this option also tend to tick "more integrated with the region" when asked about the special advantages of their RHQs in Singapore over other forms of management control. This suggests that RHQs reflect parent TNCs' desire to position themselves geographically in order to exercise greater control and to integrate subsidiary activities. Our personal interviews with British Gas and Ricola, summaries of which are presented in Tables 7 and 8, further point to this interpretation. In the British Gas case, senior managers of regional operations are required to make fast and effective decisions in order to tap into business opportunities. Because of the distance from the UK, the top management thought that having a RHQ in Singapore would significantly improve the responsiveness of British Gas to local opportunities in the Asia-Pacific region. This strategic role of RHQs in increasing the local responsiveness of foreign subsidiaries offers a tentative confirmation of our proposition in the analytical framework outlined in the earlier section. Similarly, in the Ricola case, being responsive to local market conditions proves to be a critical strategic advantage. The RHQ in Singapore also performs an important function to co-ordinate its national mandates in respective countries of the east and south-east Asian region.

Table 8. Ricola Asia Pacific Private Ltd

Ricola is a Swiss pharmaceutical and confection manufacturer. All manufacturing activities are located in Switzerland as part of its 'Made in Switzerland' quality image. It is well known in Europe and the US as a manufacturer of pharmaceutical and medicinal products. In Asia, which accounts for 12 per cent of its export business, Ricola is more strongly identified as a manufacturer of refreshing candies.

Before establishing its RHQ in Singapore, Ricola ran its Asia-Pacific marketing operations from the head office in Switzerland. The Swiss operations are divided across three divisions: production, logistics, and marketing and sales (M&S). The marketing and sales department is responsible for brand-creating activity and core marketing functions. Area managers in Switzerland are overseeing M&S activities in particular regions.

Regional headquarters in Singapore

As part of its regionalisation strategy, Ricola established its RHQ in Singapore. The area manager for the Asia-Pacific region was relocated to Singapore to:

- become closer to the market, compared with the 6-hour time difference from Switzerland;
- become closer to the distributors and to identify more quickly new trends in the markets;
- develop better relations with the distributors in order to gain trust and insight; and
- ensure generally speedier action and decision-making.

The main functions of Ricola Asia Pacific:

Supporting distributors: The management ideal of Ricola is to get the distributor to operate as a 'partner' by providing both day-to-day and market planning support. Individual distributors are given the brand objectives and targets for their territory, including 3–5 year sales targets. Each local distributor is expected to produce their own market strategy. Guidance and support are provided by the regional office to ensure a global/regional brand development. They interact on a daily basis in response to immediate marketing problems and opportunities.

Regional advertising strategy: The RHQ is concerned with the mass communication strategy for brand advertising. It is working with a Singapore-based advertising agency under the guidance of the head office in Switzerland. The advertising agency is pursuing a regional strategy and seeks co-operation of its country-based agencies for national customisation. Although Asian markets remain highly differentiated, some market similarities and marketing synergy can be exploited.

New market entry: The RHQ investigates and plans the entry into new markets (recent examples include Vietnam and New Zealand).

Local confectioning and customisation of products: As part of the regional penetration strategy, the RHQ develops region-specific products designed to build up brand familiarity and interest. For example, the RHQ has designed an 'entry-level' product for the regional market. It needs to oversee the production process based on sweet bulk supplies from Switzerland and packaging made in Malaysia. The RHQ is also involved in collecting regional marketing information on flavours and customer views to feedback into product designs and flavours which eventually become specific products for the region.

Display material: The RHQ investigates and arranges the design of display structures customised to the region, taking into account local climate and store conditions.

Market monitor: The RHQ monitors social and economic trends and competitors' activities.

Source: Authors' interview.

Locational Positioning and Host Country Conditions

The previous section suggests that issues of control and functional integration of activities in the regions help to explain the estab-

lishment of RHQs by foreign TNCs in Singapore. Those TNCs which are strategically committed to host regions and which are more interested in co-ordinating their activities regionally are also more likely to establish RHQs. This implies that the stra-

Table 9. Descriptive statistics of independent variables (1 = very unsatisfactory, 5 = very satisfactory; $N = 125$)

	Mean	Standard deviation
Access to customers	3.96	0.781
Proximity to local establishments	3.99	0.677
Centrality to regional establishments	4.03	0.621
Quality of business services	4.03	0.666
Operating costs	2.32	0.860

Source: Survey data.

tegic necessity behind their decisions to establish RHQs in Singapore may be related to advantages arising from locational and geographical positioning. The need for strategic positioning, however, must be matched by perceived favourable locational attributes in the host country. That Singapore is the preferred choice over several of its neighbouring countries in Asia (see Figure 1) points to its favourable locational content. To ascertain the relative significance of certain host country locational attributes that attracted the strategic establishment of RHQs by foreign firms in Singapore (see analytical framework in Figure 3), we conducted a rudimentary statistical test of our survey findings.

We first specified certain attributes of Singapore as a favourable location for RHQs of foreign firms. We identified the following attributes as independent variables because they were seen as important host country conditions in influencing the decisions of global TNCs to establish RHQs in Singapore:

- (1) access to customers;
- (2) proximity to local establishment;
- (3) centrality to regional establishment;
- (4) quality of business services; and
- (5) operating costs.

These variables are independent of the decisions of foreign firms to establish RHQs in Singapore. Independent variables (1)–(3) reflect the *relative* locational attraction of Singapore to TNCs desiring for strategic positioning in south-east Asia. The geographical position of Singapore and its proximity to

other south-east Asian countries (see Figure 1) offers a strong incentive for market- and intelligence-seeking TNCs to establish their RHQs. In strategic terms, these three variables distinguish Singapore from other south-east Asian cities as the premier location of RHQs in the region. On the other hand, independent variables (4) and (5) demonstrate the *specific* locational attributes of Singapore that may influence the ultimate decisions of foreign TNCs to establish RHQs there. In other words, whereas independent variables (1)–(3) may explain why foreign TNCs *should* strategically establish RHQs in Singapore rather than in other south-east Asian countries, independent variables (4) and (5) can explain why these TNCs *actually* establish their RHQs in Singapore.

All five independent variables were measured on a Likert scale from 1 to 5 in the original survey questionnaire, with 1 representing very unsatisfactory, and 5 very satisfactory. Table 9 shows some descriptive statistics on these independent variables. As evident in Table 9, Singapore fares relatively favourably in terms of its position within the region *vis-à-vis* other major south-east Asian cities, scoring around 4 for accessibility, proximity and centrality. Of these three variables representing locational positioning, centrality to regional establishments has the highest mean value at 4.03 and the lowest standard deviation. This indicates that the variability in responses is also the lowest for this variable. In terms of infrastructural quality, the country also ranks highly at 4.03 for its business services. However, a major com-

Table 10. Results of logistic regression (dependent variable: information gathering for parent office; $N = 116$)

Independent variable	Parameter estimate	Standard error
Intercept	-2.3402	1.8498
Access to customers	-0.1824	0.3400
Proximity to local establishments	-0.6437	0.4330
Centrality to regional establishments	1.1504**	0.4690
Quality of business services	0.6208*	0.3346
Operating costs	-0.3053	0.2570
<i>Model statistics</i>		
Model 2 = 10.801 with 5 degrees of freedom ($p = 0.05$)		
- 2 log likelihood = 135.929		
Somers's $D = 0.336$		

** indicates significant at the 5 per cent level; * indicates significant at the 10 per cent level.

Source: Survey data.

plaint by RHQs in Singapore pertains to high operating costs. The higher cost of operations in Singapore contributes to ongoing industrial restructuring in Singapore and the shaking out of low-cost labour-intensive manufacturing activities (Ho, 1993, 1994; Chiu et al., 1997).

After specifying the independent variables, we then identified an appropriate dependent variable which, in statistical terms, changes according to variations among independent variables specified earlier. One such dependent variable is measured by the RHQs' major function that is to gather information for the parent company. An overwhelming majority of RHQs ($n = 88$) responded positively to this variable when asked for their major function. Our personal interviews also suggest that this dependent variable is important because RHQs are expected to be in close contact with their customers, distributors, suppliers and subsidiaries in order to strengthen market intelligence and surveillance as well as for planning support (see also Ricola's case in Table 8). In particular, this variable describes aptly the role of the RHQs in their early stage of establishment. In Lasserre's (1996) evolutionary typology, this type of RHQ plays a significant entrepreneurial role in scouting information for parent TNCs, signalling commitment to the

host region and stimulating strategically a deeper understanding of the regional business environment. We therefore choose it as a dependent variable to reflect the initial strategic predisposition for TNCs to establish RHQs in Singapore. We expect the extent of variation among those RHQs seeking information and intelligence to depend on a range of host country independent variables (1)-(5).

Given the binary nature of the dependent variable (i.e. 'Yes' or 'No' answers), we tested our proposition using a binomial logit model. The results are presented in Table 10. The results suggest that the overall fit of the model as shown by the chi-squared value is significant at the 5 per cent level. Of the three independent variables used to measure locational positioning, only centrality to regional establishment is highly and positively significant ($p < 0.05$), while access to customers and proximity to local establishments are not. That is to say, the efficient and strategic role of RHQs in market intelligence depends on their ability to position themselves centrally within the region. Good and central location within the region allows these RHQs to tap into the information pools embedded in nodes of regional networks (see Ricola's case in Table 8). Usually, these central locations are also well endowed with

geographical advantage and information and transport capabilities. In this regard, Singapore fits the strategic requirements of global TNCs very well. The other significant independent variable is the quality of Singapore's business services ($p < 0.10$). Perhaps because the role of RHQs has much less to do with production than with control and governance issues, high operating costs are offset by good business service quality in Singapore. This would seem logical if the strategic role of RHQs is to gather information for the parent TNCs. An efficient system that facilitates business activities decreases transaction costs for harnessing knowledge related to market conditions. Hence, the insignificance of the operating costs coefficient reveals that good business infrastructure is far more important in explaining RHQs' presence in Singapore. All in all then, our rudimentary regression results tentatively suggest that a regional strategy is the key explanation of the propensity of global corporations to establish RHQs in Singapore.

Conclusion

Despite the economic crisis of 1997/98 and its effects, Asia is expected to continue as a major growth region of the global economy in the present millennium. As they aim to make a significant presence in the region and to penetrate into the huge domestic markets, global corporations may find that managing their subsidiaries and affiliates in the region becomes a major strategic management task. To overcome the tyranny of geographical and cultural distances, these global corporations are increasingly pursuing a regional strategy to organise their regional operations. In particular, they establish regional headquarters to achieve simultaneously global integration and local responsiveness. In this paper, we have presented a framework for analysing the strategic role of RHQs in the globalisation of TNCs. Although it is still preliminary, the framework offers some useful ideas for empirical testing. In particular, we argue that the regionalisation of global TNCs can be conceptualised as a strategic

response to the structural context of triadisation and global competition, and the need for a regional structure to manage operations in different regions. This regionalisation process is influenced by both home country and host region conditions.

To test some of these ideas, we made use of primary data collected from an empirical study of some 130 RHQs in Singapore. Preliminary results from our analysis of the survey data show that three independent variables play a statistically significant role in shaping the strategic decision by global corporations to establish these RHQs. First, geography makes a difference in that TNCs from outside the Asian region (i.e. US and European) tend to be more likely to set up RHQs in Singapore to co-ordinate and control their activities in Asia. This contrasts with an early study by Heenan (1979) who found that geographical proximity to corporate HQs was of least concern to US TNCs. Their cultural differences and familiarity with the host region explain this distance effect. In comparison, Japanese TNCs are less likely to establish RHQs within the south-east Asian region because the headquarters in Japan may be able to exercise direct control and co-ordination of their south-east Asian subsidiaries. Secondly, the strategic dimension of RHQs is paramount in their establishment. Most of our respondents agreed that their RHQs are part of the wider regionalisation strategy. To them, these RHQs serve a dual function of being a sign of commitment to the host region and an integration centre capable of controlling regional operations. As such, RHQs are of strategic importance to the successful regional operations of these global corporations. Thirdly, the main attraction of Singapore to these RHQs is its business services capabilities. This is an important finding because many Asian mega-cities are trying to emulate the success of Hong Kong and Singapore in attracting the location of RHQs. What many of them fail to understand is that the total business environment of the host city matters most to these RHQs. Our finding also implies that interurban compe-

tion for the location of RHQs through government incentives *per se* is unlikely to be highly effective among those cities with very different endowments of infrastructure and service qualities. Of course, government incentives may still be important when TNCs are deciding between locations with comparable business and infrastructure endowments. In addition, it takes some time for individual cities to reach a threshold point of attractive total business environment that is an outcome of a combination of political, social and economic factors. Existing centres of RHQs, such as Hong Kong and Singapore, are thus likely to continue to enjoy their 'first-mover' advantage and to play a major role in the globalisation of TNCs into the Asia-Pacific region.

Because of its exploratory nature, our study has several limitations that can only be resolved by more detailed future studies of RHQs. First, although our sample size ($n = 130$) and survey response rate (52 per cent) are reasonably good, our empirical analysis is still quite shallow as our data do not allow for the use of complex statistical tools. We have tried to overcome some of these data limitations through an analysis and a selective presentation of qualitative data from personal interviews with RHQs in Singapore. Future studies need to operationalise better the dependent variables and measure them systematically through both questionnaire surveys and analysis of corporate data. Secondly, while our findings are generalisable to the case of RHQs in Singapore, they may be less applicable to RHQs in other Asian cities, notably Hong Kong and Tokyo. To make a better case for generalisation, we need to conduct a series of comparative empirical studies of RHQs in multiple host cities (for example, Tokyo vs Hong Kong vs Singapore) and regions (for example, New York vs London vs Singapore). Thirdly, our study is one of the few empirical studies of RHQs recently conducted in urban studies and international business studies. In the context of accelerated globalisation, we still know very little of the strategic role, functions and capabilities of these RHQs.

Although we have attempted to conceptualise the influences over the strategic necessity of establishing RHQs, our framework is far from perfect. We need more empirical testing of the ideas embedded in the framework; we also need more theoretical development in understanding the role of RHQs in fulfilling a key objective of major TNCs in achieving simultaneously global integration and local responsiveness. Only then can we arrive at a better conceptualisation and understanding of the role of regional headquarters in the globalisation strategies of transnational corporations and their implications for designing public policies to attract RHQs and associated business services in specific world cities.

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