Regional Office Mobility: the Case of Corporate Control in Singapore and Hong Kong

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Abstract: This paper examines regional office mobility through a case study of Hong Kong and Singapore. The analysis is based on a database combining government-collected statistics in the case of Hong Kong and original survey data in the case of Singapore. These data provide a profile of the regional office population in both centres including parent company nationality, business sector affiliation, geographical responsibility and location evaluation. These indicators and case studies of actual location decisions indicate that Hong Kong remains the dominant location of regional offices for East Asian markets, whereas Singapore is preferred by regional offices focused on Southeast Asia. The paper concludes that the two centres tend to be complementary rather than competing regional office locations for the Pacific Asian region. The low level of mobility exhibited by regional offices is related to the specific characteristics of the region and the changing organisational context of regional offices. © 1998 Elsevier Science Ltd. All rights reserved

Key words: regional offices, location, services, Singapore, Hong Kong, incentives.

Introduction

Amongst business service activities regional offices have been judged the most locationally mobile (Dunning and Norman, 1987; Dunning, 1988). Regional offices, according to this perspective, are linked to geographically dispersed affiliates, none of which may exert a dominant pull on the office’s location. While financial and other producer services are typically embedded within geographically localised linkages (Ley and Hutton, 1987), regional offices may exist without a dense local network of transactions because of their primary status as an intermediate between head office and regional affiliates. Moreover the location considerations important to regional offices tend to be subject to market cycles that can change the relative attractiveness of competing centres. Office rents, support staff availability, housing conditions and prices, attitudes to foreigners, the taxation of expatriates, the pattern of market growth, the technology of telecommunications and changes in key executives being amongst the influences shaping regional office locations (Dunning, 1988, p. 279).
The distribution of regional offices between Singapore and the Hong Kong Special Administrative Region (henceforth Hong Kong) provides an opportunity to investigate the location flexibility of corporate control. Singapore and Hong Kong, along with Japan, accommodate the major concentrations of regional offices located across the Asian Pacific rim. Whereas the size of Japan’s economy and its cultural and regulatory distinctiveness tend to demand separate regional management, there is flexibility within organisations as to their use of Singapore or Hong Kong as the main region office location for East Asia (Business International, 1990). In addition, relocation between Singapore and Hong Kong may have increased because of changes in their relative attractiveness to regional offices.

Political uncertainty arising from Hong Kong’s reversion to China in July 1997 provides a potential reason for regional offices to reconsider their location between Singapore and Hong Kong (Shirreff, 1995; Yeung, 1998). In practice, rivalry in the attraction of regional offices intensified in the wake of Singapore’s economic recession in the mid 1980s. One of the state’s responses to this setback was the introduction of a tax incentive for regional offices, known as the Operational Headquarters (OHQ) scheme (Dicken, 1987). This incentive was designed to provide regional offices in Singapore with a tax and operating regime comparable to Hong Kong’s (Economic Committee, 1986; Dicken and Kirkpatrick, 1991; Perry, 1992). Under this scheme 33 OHQs had been designated by February 1991, over 45 in 1992 and over 80 in 1995. The Business Headquarters (BHQ) scheme was launched in February 1994 to make similar concessions available to offices not eligible for OHQ status but engaged in some degree of business, technical and professional service support to affiliates outside Singapore (The Business Times, 1994).

As well as competing with Hong Kong, regional office incentives are intended to compensate for the increasing cost of operations in Singapore. Singapore’s central city office rentals in the mid 1990s, for example, exceeded those prevailing in New York, Paris, Geneva and Frankfurt (Perry et al., 1997, p. 21). However, regional office incentives have been replicated by other centres in the region leaving open the possibility of greater locational choice for regional offices. In particular, Singapore’s northern neighbour Malaysia may be seen as an increasingly viable location for regional offices. Starting in the late 1980s, Malaysia has been attracting levels of foreign direct investment not far behind those of Singapore (UNCTAD, 1994, p. 71) and has been investing in the renewal of urban infrastructure in line with its vision for 2020 to achieve developed country status (Taylor and Ward, 1994). As part of the strategy for promoting the country’s attractiveness to business services, an equivalent incentive to Singapore’s OHQ scheme was introduced. In addition, to the south of the Malaysian capital Kuala Lumpur, a ‘multimedia super corridor’ is under development with intentions to attract the regional centres of high technology companies (Jacques, 1997).

As well as relocation encouraged by the changing attractiveness of places, the growth and redistribution of foreign investment may affect the geography of regional control. The Asian Pacific rim continues to be a region of high economic growth and is now an important component of the global economy (Dixon and Drakakis-Smith, 1993; de Bettignies, 1996). Much of this growth is being generated by transnational corporations (TNCs) and amongst longer established investors there is a trend to locally integrate investment, partly through the coordination provided by a regional office (Fujita and Hill, 1995; van Grunsven et al., 1995). The deepening of foreign investment across East Asia may also encourage the multiplication of regional offices linked to geographically separate clusters of affiliated investment. As well as the quantum of investment, the changing source and destination of foreign direct investment adds to the possibility of locational shift amongst regional offices. The recent growth in popularity of China for foreign investment may, for example, be encouraging organisations to give greater priority to Hong Kong over Singapore.

Finally, as well as regionally specific processes, changing organisation strategies amongst international business may be affecting the geography of regional offices. The reorganisation of production chains and shift in many industries to greater use of external contractors and joint venture partners (Gereffi and Korzeniewicz, 1994; Dunning, 1997) suggests that the role of regional offices is increasingly to arrange and coordinate networks of business partners. To the extent that externalised business networks tend to emphasise geographical
localisation, this may be reflected in greater rigidity in regional office locations. In addition, as regional offices take on responsibilities for logistics and distribution, investment in information systems and physical infrastructure managed by the regional office can add to the barriers to office mobility (Perry, 1992) reflecting the impact of sunk costs (Clark and Wrigley, 1995).

Against the context of this dynamic environment for regional offices, this paper examines the extent to which Singapore and Hong Kong are competing or complementary regional offices centres. As well as addressing an issue of immediate public policy and development interest in the wake of Hong Kong’s change in political control, the case study investigates regional office mobility. A low level of exchange between the two localities and little willingness to consider any other location is discovered. Rather than any weakening in Hong Kong’s attractiveness to regional offices its regional management function tends to be strengthening from the changing geography of foreign direct investment in favour of China to the loss of Southeast Asia. Reviewing these findings, the article draws attention to the need for new perspectives that update the traditional depiction of regional offices as mainly a coordinator of regional affiliates without recognition of their often more active and variable roles within complex corporate structures.

Collectively the data assembled for the investigation comprise the most comprehensive information base utilised to examine regional offices in Singapore and Hong Kong. In the case of Singapore-based regional offices, the data for the study are derived from two original surveys completed by the authors. In the case of Hong Kong, evidence is presented from an annual survey of regional offices undertaken by the Government Industry Department (HKGID, 1996). The use of multiple data sources provides an opportunity to cross check individual survey findings and to set location decisions within the organisational characteristics of the two regional office populations. The paper continues with a discussion of the regional office function and a short review of previous surveys that have examined regional office location decisions in Hong Kong and Singapore. This is followed by examination of the database assembled for the present study including a descriptive overview of regional offices in the two centres and their comparative location evaluation. Case studies of regional office transfers are then presented to illustrate how the decision to move is linked to multiple business reasons. The final section interprets the limited mobility observed and suggests ways that the conceptualisation of regional offices should change.

**Regional offices**

The use of regional offices to manage overseas investment is well established. The first multinational companies from Britain and North American generally adopted multi-domestic structures for international production including regional offices to coordinate their activity overseas (see Dunning, 1993). Despite this long existence, the regional office has attracted significantly less research interest than other components of the corporate hierarchy. One reason for the ‘Cinderella’ status may be that regional offices are of little direct importance. In Singapore and Hong Kong, however, regional offices are of investment and employment significance.

In Singapore, it has been estimated by the Economic Development Board (EDB) that there were 2000 regional offices in existence in 1996 (The Straits Times, 1996). While many of these are small, perhaps only a representative office without linked affiliates, a major regional office in Singapore, such as that established by Sony, employs over 300 staff providing financial management, sales, marketing and logistical support (warehousing, inventory control and distribution) to regional affiliates. In total, annual investment commitments by regional offices varied from around S$250 million to S$350 million during the first half of the 1990s (Economic Development Board, 1995). This typically represented around three quarters of all service sector investment monitored by the EDB.

In Hong Kong, government survey data have identified 2307 regional offices, over a third comprising ‘regional headquarters’ that have ‘control over the operation of one or more other offices or subsidiaries in the region’ (HKGID, 1996). Based on the reported date of opening, the rate of new office establishment has accelerated since the early 1980s. From 1990 to 1995 an average of 57 new regional headquarters were set up annually, compared with 22 per annum from 1980 to 1984.
A possible justification for the limited attention paid to regional offices is that the diversity of establishments that may function as regional offices questions the coherence of this component of the corporate hierarchy. At one end of the spectrum, the regional office may have a regional product mandate (D'Cruz, 1986) giving it control of the timing and direction of product development, investment decisions relating to production facilities, marketing and distribution and the technological thrusts that will sustain development. At the other end of the spectrum, regional offices without strategic influence or administrative authority may be established to provide service support to affiliates or to procure information or materials for the head office (Perry, 1992). These variations in regional office influence have been explained by the volume of affiliate activity it controls or coordinates, its technological and market context, and its organisational strategies (Hedlund, 1980). Affiliate autonomy increases (and regional office authority decreases) where the subsidiary activity is: (i) acquired rather than developed through internal expansion; (ii) serves external markets limited to the host economy; (iii) is based on non-core technologies and (iv) is large enough to support internal management and services (Hedlund, 1980).

As well as variation in affiliate autonomy, regional offices differ in the roles they perform. A previous survey of 27 regional offices in Singapore (Perry, 1992), for example, identified four types of office:

1. A **bridgehead** established as the first stage of a company's expansion into the region, often functioning with a high degree of autonomy to search and establish affiliate operations.

2. A **profit collector** whose primary role is to act as a financial management and profit collection centre for linked affiliates. This type of regional office may contribute to the strategic planning of regional investment but might have little direct control over individual affiliates.

3. The **technical support centre** existing mainly to provide engineering, testing or design skills and other service support to affiliates, possibly including the maintenance of communication networks. Economies through the centralisation of specialised expertise provides the rationale for this type of office.

4. The **regional integrator** is the traditional image of a regional office being responsible for co-ordinating regional operations, disseminating policies and decisions from the parent headquarters, monitoring the performance of branches and providing periodic reporting of that performance to the corporate head office.

Such variety underscores other research that has concluded that growing complexity in corporate structures demands greater recognition of the diversity of individual sites within corporate hierarchies (Aksoy and Marshall, 1992, p. 161).

The implementation of increasingly ambitious globalisation strategies by TNCs is one influence driving the heterogeneity of regional offices. New administrative structures are needed to support the integration of greater volumes of affiliate activity and to accommodate the greater range of business relationships (joint ventures, strategic alliances, relational contracting) now being employed by international business (Dunning, 1997). This is seen in the replacement of product or geographical divisions by decision-making based on matrix grids (Dicken, 1992). Matrix structures are complex and varied but in essence they involve multiple reporting lines to corporate, functional and product line management. Strict tiers of authority are eschewed in favour of overlapping responsibilities and consultative decision-making processes (White and Poynter, 1990). The pure matrix gives equal weight to each reporting line but in practice structures typically become skewed to emphasise the management line most crucial to the particular context or to accommodate inherited practices. Recent research suggests that in the largest multinational organisations 'heterarchical' (Hedlund, 1986; Hedlund and Rolander, 1990) or that 'horizontal' structures (White and Poynter, 1990) are now superseding simple matrices. In these new structures headquarters functions are geographically diffused and no dimension (product, country, function) is uniformly subordinate. Any particular region, for example, will contain a range of activities with different levels of status and geographical responsibility. Corporate strategy is formulated and implemented in a spatially scattered network that may give strategic influence to individual subsidiaries as well as the regional office.

It is important to be aware of diversity in the regional office role and influence. By focusing only on certain types of office it is possible that other shifts in the regional role of Hong Kong and
Singapore may be missed. The present study limits the investigation to regional offices with 'specific responsibilities to control or monitor existing affiliate activity' (as per the definition of regional headquarters in the Hong Kong survey). Given this core function some commonality may be expected, centred around responsibility to:

1. Coordinate and control the activities of a specific number of corporate affiliates in a defined geographical region. As a minimum, large corporations might be expected to divide operations between three regions of the 'triad economy', comprising North America, Western Europe and Pacific Asia, which collectively receive over 90% of all foreign direct investment (UNCTAD, 1994).

2. Act as an intermediary between corporate headquarters and dispersed affiliates, directing information both upwards and downwards in the corporate hierarchy, balancing the tension of global integration and local responsiveness (Bartlett and Ghoshal, 1989; Hamel and Prahalad, 1994).

3. Provide services to the parent company and affiliates such as manpower recruitment, the search for additional investment opportunities, site selection, public relations and liaison with host governments and other regional and international organisations.

4. Realise advantages of pooled resources, global sourcing, centralised management and company specific technology and so achieve the closer integration of home and overseas affiliate operations.

Another factor that may be taken to indicate some coherence in the regional office function is the dominance of Hong Kong and Singapore as regional office locations in the Asia Pacific. This concentration suggests a reliance on particular locational resources related to the specific functions of a regional office.

Regional offices in Singapore and Hong Kong

Singapore and Hong Kong have followed a similar economic trajectory over the last decade being two of the first wave of Asian newly industrialised economies. Both locations have been beneficiaries of the changing structure of the world economy which provided expanded opportunities for manufacturing export enclaves in East Asia, although their mode of entry into this global structure has varied (Chiu et al., 1997). Singapore has relied, to a greater extent than Hong Kong, on foreign firms and state-owned enterprises to drive its industrialisation and economic progress. Indeed amongst industrialised economies Singapore has the highest reliance on TNC investment (Perry et al., 1997, p. 16). Around 70% of Singapore's exports, 40% of employment and 26% of gross domestic capital formation are directly or indirectly accounted for by foreign TNCs (Yeung, 1994). Hong Kong, in contrast, has built its manufacturing sector primarily through indigenous entrepreneurship (Chen, 1983; Chen et al., 1991; Ho, 1992). With the contribution of Shanghainese emigrant entrepreneurs in machinery, capital, technological, managerial and marketing expertise, Hong Kong's textiles and garment industries have blossomed since the late 1940s (Wong, 1988). Foreign investment, however, has played a pivotal role in the emergence of Hong Kong's semiconductor industry in the context of global economic restructuring and internal economic and technological transformations. By the late 1970s, Hong Kong emerged as the 'core' in a regional division of labour in the global semiconductor industry (Henderson, 1989; Eng, 1997). But overall foreign investment in Hong Kong has been concentrated the financial and business service sector to a greater degree than in Singapore.

Of the two centres, Singapore alone provides incentives to regional offices. Singapore's economic officials argue that these incentives are not designed to compete with Hong Kong as the two centres offer differences in their business environments that complement each other (Hong Kong Standard, 1989). A number of existing studies have investigated the extent of regional office mobility between Singapore and Hong Kong providing somewhat conflicting reflections on this claim. A review in 1990 of the relative attractiveness of Asia Pacific business capitals for regional offices found that there was little expressed interest amongst regional headquarters in Hong Kong to consider relocation, but Singapore was the most likely alternative to be under review (Business International, 1990). At this time, the exodus of professional workers in the wake of the agreement to cede British sovereignty over the territory was the main impetus to consider relocation. The expected annu-
al emigration of over 55,000 Hong Kong people was inflating salaries and accentuating labour recruitment and retention problems, leading regional managers to question the viability of retaining their base in Hong Kong. The influence of immediate business pressures, rather than political uncertainty, was underscored by the reasons that were given for considering Singapore as the main alternative to Hong Kong, namely: (i) a shift in business interests from East Asia to the ASEAN countries; (ii) the diversification of business funding sources through a separate listing on the Stock Exchange of Singapore; (iii) participation in bilateral investment agreements established by the Singapore government. An agreement of particular significance was a Singapore–China investment accord which provided Taiwanese firms with an entry point into China via a Singapore-registered entity. In 1992, for example, Acer Inc. of Taiwan established a regional headquarters in Singapore (Acer Computer International) with responsibility for sales, marketing, service and assembly of the company’s computers in China and throughout the Asia Pacific region, as well as its other territories outside Europe and North America (Far Eastern Economic Review, 1995). The protection afforded by Singapore’s investment agreements was cited as an influence in this reorganisation. In 1993 the office was awarded OHQ status and subsequently became a listed company on the Singapore stock exchange.

A survey in 1992, based on a sample of 45 Hong Kong-based regional headquarters, also found that Singapore remained the main alternative location if considering relocation out of Hong Kong (42% of the respondents identifying an alternative chose Singapore) but again most companies (84%) did not perceive a need to consider relocation (The Straits Times, 1992). The impression from Hong Kong was therefore of considerable rigidity in regional offices with most organisations tending to view Hong Kong and Singapore as complementary rather than alternative locations. A survey of 27 offices designated under Singapore’s OHQ scheme nonetheless identified five recent relocations from Hong Kong (Perry, 1992). These transfers indicated that the perceived uncertainty associated with Hong Kong’s political future had been a prime influence prompting their relocation, as well as the immediate operating problems arising from this. In respect of the latter both the tight labour market for professional and managerial expertise and the caution of head offices towards new investment commitments in Hong Kong were noted as particular problems. Thus a significant factor in the relocation decision was the wish to progress capital investment in support of the regional management function. Three of the five transfers mentioned this influence noting that capital investment, which involved property and information technology facilities, would add considerable inertia to the office location.

Previous research provides an inconclusive review of regional office mobility between Hong Kong and Singapore. The present study brings together data from several sources to offer a comprehensive investigation of this issue based on experiences and preferences recorded closer to the time of actual political change and further removed from the Tiananmen Square incident in June 1989 which accentuated pessimism and unease about Hong Kong’s future. At one stage, for example, large numbers of organisations reportedly had intentions to move their regional operations to Singapore (Hong Kong Standard, 1989) but, as the evidence reported above suggests, the impetus to relocate faded.

Data sources

Estimates of the number, origins and operational characteristics of regional offices are more comprehensive in the case of Hong Kong than Singapore. In the former, the Industry Department has completed an annual survey of regional representation by foreign firms in Hong Kong since 1990. These surveys collect information on the number of offices (distinguished between regional headquarters and regional offices that do not oversee linked subsidiaries), year of establishment, parent country nationality, sector affiliation, region of control and various indicators of their satisfaction with Hong Kong as their office base. To collect similar data in the case of Singapore an original survey, completed over two stages, was necessary.

The remainder of this section provides a profile of the respective regional office populations to evaluate the extent to which the respective centres are complementary or competing locations. This discussion is divided into four sections: (i) a profile of the number, origins, and sector affiliation; (ii) the geographical region under control; (iii) evaluation
Regional office mobility: the case of corporate control in Singapore and Hong Kong

of their existing location; (iv) location decision making.

Office populations

The number of regional headquarters reported in Hong Kong increased from 572 in 1990 to 816 in 1996. This growth is heavily concentrated in the period 1993–5 when an additional 158 offices were reported but even in the latest reporting period (1995–6) a net growth of 34 offices was reported. Comparable data for Singapore are not available although one indicator is given by the number of designations made under the OHQ scheme which collectively comprised around 70 in 1996. Based on media reports of these awards (the EDB does not release an official tally), the peak period of growth was 1989–91 when around 10 awards were made each year; more recently the designations have fallen to around half this level. Given the limits of both datasets, too much cannot be read into these growth rates but they do suggest that both centres are following similar trends and that neither centre is growing at the expense of the other.

With respect to the nationality of regional office parent companies, a significant difference between the two centres is Hong Kong’s role as a base for organisations from the People’s Republic of China and Taiwan. These Chinese firms have particular motives for being in Hong Kong, linked to the particular role that Hong Kong has served as a link between the economy of mainland China and the international economy for Chinese TNCs (Gang, 1992; Low et al., 1996; Ng and Tuan, 1996). Excluding this rather special set of offices, there is no marked nationality affiliation distinguishing the two centres (Table 1).

The sector affiliation of regional offices provides some contrast between the respective centres (Table 2). From our sample, Singapore’s specialisation is as a regional control centre for the manufacturing sector, particularly electronics and petrochemicals which are the principal activities of two thirds of the offices linked to the industrial sector.
Kong, service sector affiliation dominates particularly international trading organisations. There is therefore a strong association between the locality's overall economic structure and the development of its regional office function. In the case of the electronics sector in Singapore, for example, the emergence of its regional office role has been linked to the dispersion of low value manufacturing activity out of the city state and a consequent need for the control and coordination of this extended division of labour (Scott, 1987; van Grunsven et al., 1995). Similarly the predominance of trading organisations in Hong Kong reinforces the national economy specialism (Ho, 1992) which has experienced a significant reduction in its manufacturing sector (Tuan and Ng, 1995a, 1995b). By 1994, the share of services in the GDP had increased to 83%, including ownership of premises (12%). In the same year, manufacturing's share in the GDP had declined to a mere 9.2% (Census and Statistics Department, 1997)

Region of control

The regional responsibility of the respective office populations is an indicator of potential locational flexibility. Whereas overlapping territories suggest the possibility of movement between Hong Kong and Singapore, distinctive administrative areas would suggest that there is less opportunity to switch the location of the regional office unless there is a corresponding change in affiliate geography. In practice, the available evidence shows that there is both specialisation and overlap in the regional office territories.

Around two thirds of the offices in Hong Kong and Singapore potentially oversee territory including the other regional centre and the core region managed from that centre (Figures 1 and 2). In the case of Singapore, for example, Hong Kong is included amongst the five most frequent locations in which the regional office has affiliate organisations under its oversight (the other four locations being Malaysia, Thailand, Indonesia and Singapore). The specialisation of each centre is reflected in the proportion of Hong Kong offices whose sole responsibility is Hong Kong and China. Singapore's niche is as a control centre for the ASEAN territories of Southeast Asia and, to a lesser degree, South Asia.

Managing operations in Hong Kong and China has become the focus of an increasing proportion of the regional offices in Hong Kong. According to the Industry Department survey, the share of offices solely responsible for these territories has risen from 8% in 1990 to 38.5% in 1996. Indeed this group of offices accounts for all of the net growth in the number of offices recorded since 1990. This significant expansion in Hong Kong's regional office population is associated with the recent emergence of China as the dominant recipient of foreign direct investment amongst East Asia countries. As shown in Figure 3, foreign direct invest-

![Pie chart](https://example.com/pie_chart.png)

**Figure 1.** Geographical area of control of regional headquarters in Singapore 1996.

Definitions:
- Southeast Asia - ASEAN and others;
- Southeast & East Asia - Southeast Asia plus China, Hong Kong, Taiwan, Japan and Korea;
- Southeast, East & South Asia - Southeast Asia, East Asia plus India, Bangladesh, Pakistan and so on;
- Asia & Australasia - Southeast, East & South Asia plus Australia and New Zealand;
- Other - Southeast, East, South Asia, Australasia plus Middle East.
ment flows into China have grown from US$2282 million during the 1984–9 period to US$37,500 million in 1995. In 1995, China also received some 60.4% of total foreign direct investment into selected Asian countries and 11.9% of total global foreign direct investment inflows, placing it second, just after the United States (US$60,236 million).

The growth in Hong Kong’s role as a regional management base for China reduces the ability of Singapore to act as an alternative location. It has to overcome both the greater physical and cultural proximity of Hong Kong to China as well as the perceived political advantage in siting regional management within China. At the same time, however, there has been little change in the proportion of regional offices in Hong Kong that include Southeast Asia as well as China within their territory. This share has remained at slightly over a fifth throughout the 1990s. Depending on the priority China assumes within these larger geographical portfolios, relocation between Hong Kong and Singapore still remains a possibility for a large number of offices.

A drop in the share of regional offices with territorial responsibilities extending across the entire Asia Pacific region, possibly including New Zealand, is a second trend amongst Hong Kong’s regional offices. In 1990, almost half of the regional offices in Hong Kong managed such a wide territory compared with a quarter in 1996. Given the continued growth of foreign investment in the Asia Pacific, this shrinkage in the typical regional mandate may be explained through the multiplication of offices with narrower territorial responsibility, including offices set up solely to manage operations in China. Such a trend would strengthen the case for regarding Hong Kong and Singapore as ‘twin capitals’ for corporate control, rather than as competing centres. Some evidence that this may be the case is obtained from the Singapore survey data.

Amongst the Singapore sample, almost half had at least one other regional office in the Asia Pacific: the most frequently cited other locations being, in order of their frequency, Hong Kong (33 cases), Australia (22), China (19), Japan (18) and India (11). These locations suggest the division of the Asia Pacific into zones separated by culture and business challenges, as well as according to historic patterns of overseas investment. Japan, for example, is sometimes managed as a separate geographical region because of the particular issues arising in this market and its potential economic importance. Australia, on the other hand, has historically been an important location for American and British investment, as reflected in its separate regional management.

The tendency to multiply rather than relocate offices was evident amongst the offices in the Singapore survey that had relocated from Hong Kong. Amongst the eleven transfers from Hong Kong five
organisations have retained a regional office there while another has an office elsewhere in China. A financial services organisation, for example, noted that it had split its control functions between Hong Kong and Singapore according to the specialisation of their financial markets; a reinsurance company cited better growth prospects in Southeast Asia as its reason for moving location while an apparel marketing organisation wished to be closer to its South Asia suppliers. Further reinforcing the

**Figure 3.** Geographical destinations of foreign direct investment in Asia, 1984–95 (US$ millions).
stability in the relative status of Singapore and Hong Kong, there is no change amongst newly established offices in Singapore in the propensity to include East Asia within their regional mandate: two thirds of new offices have this responsibility which is no change from offices opened pre 1990.

**Location evaluation**

What regional office managers say are the key advantages of their current location is of interest in two ways. If the perceived advantages differ it suggests that each centre is attracting offices for particular locational attributes. If these attributes are less well represented in the other location it suggests that there is limited transferability between the two centres. Alternatively if the location advantages are perceived to be similar, direct competition may arise. The data indicate that, as with the geographical regions covered, there is both specialisation and overlap. While the prime location influence differs, there is much similarity in the broad range of attractions reported by regional managers (Tables 3 and 4).

Banking and financial facilities are the most important reason regional offices give for being in Hong Kong. Amongst the 16 locational attributes scored

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<th>Table 3. Location evaluation Hong Kong 1996</th>
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<td>Location attribute</td>
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<tr>
<td>Banking and financial facilities</td>
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<td>Infrastructure</td>
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<td>Government economic policy</td>
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<td>Rule of law</td>
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<td>Tax regime</td>
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<td>Cleanliness of government</td>
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<td>Political climate</td>
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<td>Availability of professional/technical skill</td>
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<td>Office/factory space cost</td>
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<td>Availability of managerial skill</td>
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<td>Labour cost</td>
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<td>Geographical location</td>
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<td>Labour productivity</td>
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<td>Local market potential</td>
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<td>Office/factory availability</td>
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<td>Support of linkage industries</td>
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Source: Report on the Survey of Regional Representation by Overseas Companies in Hong Kong, (various years), Hong Kong Industry Department, Hong Kong Government (HKGID, 1996).

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<th>Table 4. Location evaluation Singapore 1996</th>
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<td>Location attribute</td>
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<td>Political stability</td>
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<td>Centrality to region</td>
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<td>General business and legal environment</td>
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<td>Telecommunications infrastructure</td>
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<td>Access to customers</td>
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<td>Quality of business and financial services</td>
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<td>Living environment</td>
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<td>Government incentives</td>
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<td>Proximity to affiliates</td>
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<td>Work permit availability</td>
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<td>Lower comparative cost</td>
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n.a. = not assessed.

Source: Authors’ survey.
in the Hong Kong survey, an overwhelming majority (97%) of respondents consider these services to be a favourable aspect of Hong Kong. The second most highly rated attribute is infrastructure, with the next highest being taxation and the 'rule of law'. In Singapore, political stability is the localional attribute that attracts the highest level of satisfaction followed by telecommunication facilities and the general living environment. The quality of business and financial services ranks fourth. In both cases, geographical location is also highly rated. Some indication is therefore given that those regional offices whose roles emphasise financial management are more likely to be drawn to Hong Kong. Whilst Singapore is also an important financial centre it is generally assessed as the weaker of the two centres, especially for corporate banking and fund management (Wu and Duk, 1995). With this exception there is a common emphasis on the confidence in the reliability of the legal system and the consistency of host government action and the physical infrastructure to support international business.

The importance of political stability amongst offices in Singapore suggests that this provides an opportunity to attract offices from Hong Kong. The most recent evaluative data in Hong Kong indicate that the political climate was rated as favourable by less than half of the offices surveyed. The same survey showed that almost half of the offices questioned judged that the political climate had become less favourable compared with the previous year. On the other hand there was little reported perception that the 'rule of law' had deteriorated which may indicate that overall confidence in the locality remained high. Indeed of nine offices opened in Singapore post 1990 by organisations previously with a regional office in Hong Kong, only one mentioned security and stability as a factor in the selection of Singapore and this was an organisation that retained a subsidiary regional office in Hong Kong.

A further constraint on Singapore's ability to attract offices on the basis of its more favourably assessed political climate is indicated by the low status given to government assistance in making the location selection. As noted in the introduction, government incentives introduced by the Singapore government are intended to make the city state more attractive to the establishment of regional offices. Along with the original incentive awarded since 1987 (offering taxation rebates to 'Operational Headquarters'), a second scheme (the 'Business Headquarters' programme) was introduced in 1994 with less demanding eligibility criteria than the earlier incentive in an attempt to widen interest in the programmes (Perry, 1995). Even so, respondents suggest they are having little influence in encouraging a greater preference for Singapore, a finding that is confirmed in several studies that have specifically evaluated the impact of the incentives (Business International, 1990; Dicken and Kirkpatrick, 1991; Perry, 1992; Aoki and Tachiki, 1992). On the other hand the large number of awards made under the schemes, with over 100 offices having been given preferential tax treatment under the programmes by 1996, suggests that their influence should not be discounted entirely. They provide a financial inducement that may partly offset the high operating costs of maintaining the regional office. As in Hong Kong, high costs are the most widespread source of dissatisfaction expressed by office managers in Singapore and it may be that the tax incentives in Singapore are helping to retain regional offices.

Property and labour costs have been a increasing concern in Hong Kong (Table 5). According to one survey Hong Kong's CBD commercial property costs were the second highest amongst leading business capitals and almost 50% higher than equivalent property in Singapore, although the latter was ranked as the fourth most expensive city (Richard Ellis, cited in Perry et al., 1997, p. 20). With respect to labour costs Hong Kong's professional salaries are also higher than those offered for comparable positions in Singapore, although the difference has reduced with the return to Hong Kong of many former residents (Findlay et al., 1996). Overall the proportion of offices that report intentions to relocate their office out of Hong Kong has fallen during the 1990s. In the 1996 survey, 2.8% of respondents only stated that they intended to shift the location of their regional office. No timescale could be given for the majority of potential relocations which tends to underscore that the impetus to leave Hong Kong is low.

Similarly, Singapore's regional offices maintain a high level of satisfaction with the location and business environment. Larger offices appear to be most sensitive to the high costs of operating in Singapore: 41% of offices with over 50 staff report dissatisfaction with the cost environment compared
Regional office mobility: the case of corporate control in Singapore and Hong Kong

Table 5. Problems encountered by regional offices in Hong Kong, 1991 and 1996

<table>
<thead>
<tr>
<th>Problem</th>
<th>1991</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>High rental cost</td>
<td>90</td>
<td>98</td>
</tr>
<tr>
<td>(70%)</td>
<td></td>
<td>(72.6%)</td>
</tr>
<tr>
<td>High staff cost</td>
<td>70</td>
<td>91</td>
</tr>
<tr>
<td>(55%)</td>
<td></td>
<td>(67.4%)</td>
</tr>
<tr>
<td>Political uncertainty</td>
<td>-</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(48.1%)</td>
</tr>
<tr>
<td>High staff turnover rate</td>
<td>63</td>
<td>36</td>
</tr>
<tr>
<td>(50%)</td>
<td></td>
<td>(26.7%)</td>
</tr>
<tr>
<td>Shortage of qualified personnel</td>
<td>54</td>
<td>35</td>
</tr>
<tr>
<td>(42%)</td>
<td></td>
<td>(25.9%)</td>
</tr>
<tr>
<td>Reducing business in the region</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>(5%)</td>
<td></td>
<td>(29.6%)</td>
</tr>
<tr>
<td>Inadequate supporting services</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>(6%)</td>
<td></td>
<td>(5.9%)</td>
</tr>
<tr>
<td>Total responses</td>
<td>128</td>
<td>135</td>
</tr>
</tbody>
</table>

Source: Hong Kong—Industry Department, Hong Kong Government (various years), Report on the Survey of Regional Representation by Overseas Companies in Hong Kong, Hong Kong Industry Department (HKGID, 1996); Singapore—Authors’ survey.

with 32% of smaller offices. It is also interesting to note that the location attributes scoring the highest rate of satisfaction (political stability, living environment) are not identified as key influences in the location decision, presumably reflecting how these attributes are not judged unique to Singapore. Increasingly it appears that the distinguishing attraction of Singapore is its centrality to the region. Whilst from these data it would be wrong to foresee any immediate decline in Singapore as a regional office centre, it suggests that it will increasingly face competition from neighbouring centres and especially from Malaysia.

Location decisions

Amongst the offices in Singapore over half indicated that they had investigated an alternative location for the regional office prior to selecting Singapore. The alternative locations considered most frequently were Hong Kong (38% of offices) and Malaysia (25%). Thailand is the next most frequently cited location, but considered by only 6% of respondents. There is a strong nationality difference between organisations according to which alternative is most likely to be considered. American and European companies dominate the offices reviewing Hong Kong while Asian organisations, which overall have a lower propensity to consider any alternative, account for most of those reviewing Malaysia. This suggests that for offices from outside the region the selection is linked to a decision about whether proximity to Southeast or East Asia is the priority. For Asian organisations, given that their headquarters is in East Asia, they have greater interest in reviewing local alternatives to Singapore.

Further insight into the influences affecting the choice of Singapore over Hong Kong was obtained from follow up interviews with 20 offices in the Singapore sample. Of these organisations, four indicated that Singapore and Hong Kong could function equally as their regional office base. For the majority, access to the immediate subregion around Singapore was the main reason given for not viewing Hong Kong as a viable alternative location. A secondary constraint was that the Singapore operations would not be easily transferred to Hong Kong because of staff preferences to stay in Singapore and because of perceived language problems in transferring to Hong Kong where it was felt that English proficiency was lower than in Singapore. In addition, two organisations indicated that operations in Singapore had been configured to gain maximum advantage from a tax incentive under one of the regional office schemes, making relocation less viable because of the investment made to achieve this organisational change.

Four organisations in the sample have transferred activity from Hong Kong to Singapore since 1990. These cases illustrate the tendency for relocation to occur only in the context of multiple influences, sometimes linked to changes in corporate strategy or new investment decisions. A European car manufacturer, for example, shifted its regional office
from Hong Kong to Singapore when a decision was taken to open a warehouse and distribution centre for after sales parts. Singapore was chosen as the location for this new installation and various economies made it preferable to place the regional office together with the warehouse, further encouraged by this becoming a condition of the organisation gaining BHQ status from the EDB. A further impetus to the relocation was a change in the membership of the parent company's board of directors resulting in an opportunity to localise regional management based in three locations: (i) Tokyo; (ii) Beijing and (iii) Singapore (including control of a residual office in Hong Kong, retained to accommodate the residential preference of local staff).

In a second transfer in 1990 a North American computer services organisation was involved. This relocation was primarily motivated by the political situation in Hong Kong through its impact on accentuating the difficulties and cost of recruiting computer professionals. The transfer had been made simpler by the organisation having earlier opened a Singapore office, with which the regional office was amalgamated, and by the retention of an office in Hong Kong with some regional responsibilities, including software design and development, that augment those in Singapore. Indeed the company now says that the labour market is more restrictive in Singapore than Hong Kong and that relocation back to Hong Kong is a possibility. A third transfer, in this case a European pharmaceutical company, shifted from Hong Kong after only a few years of having established its office there which was the organisation's first investment in Asia. The shift was said to be influenced by political uncertainty in Hong Kong, important because the company was expanding and wished to add warehousing and stock control to its regional functions. Relocation was also a response to the way Singapore had become geographically more suited to the geography of its new customer base, which includes important markets in India and Australia. In the final case, a ship management company registered in Bermuda had recently relocated its regional headquarters from Hong Kong to Singapore primarily because of Singapore's strategic location on the international shipping routes of its oil tankers. This was associated with an increased dependence on its tanker business compared with other cargoes.

**Interpreting regional office immobility**

While there has been speculation that the political uncertainty affecting Hong Kong may work to Singapore's advantage, our survey indicates that no such redistribution of regional offices is taking place. Several sources of evidence testify to the rigidity in regional office locations. Territorial specialisation of the two centres, with Hong Kong's role as a base for China and Singapore as a base for Southeast Asia, tends to encourage the multiplication of regional offices rather than relocation in response to the changing geography of subsidiary activity. Further specialisation exists in the sectoral affiliation of regional offices in line with the business specialisation of the national economy. The respective evaluation of each centre by regional offices managers gives limited reason to contemplate relocation as there is much similarity in the strengths and weaknesses of each locality. Hong Kong's political climate is judged less favourably than Singapore, but confidence in the 'rule of law' is high while government incentives provided in Singapore do not appear to be regarded as an important location influence. Moreover, operating costs are a more widespread source of dissatisfaction with office managers in Hong Kong than the political environment and this is also cited as a principal concern amongst offices in Singapore. Reflecting these findings there are low numbers and a declining proportion of offices stating intentions to relocate their office from Hong Kong. Amongst offices that have relocated from Hong Kong to Singapore this is usually linked to changes in business strategy generating new location priorities which shift the relative efficiency of the two centres.

This case study contrasts with previous research in Europe suggesting that a relatively high degree of mobility exists amongst regional offices (Dunning and Norman, 1987). The present study has not generated comparative data with other producer services but the findings indicate a low level of mobility amongst regional offices. The limited geographical flexibility in Asia could be encouraged by the particular regional context. Europe and the Asia Pacific region differ in their regionalisation tendencies and this is reflected in greater fragmentation of trade flows in the Asia region compared with Europe (Poon, 1997). Compared to European business capitals, the range of feasible regional office
locations for foreign organisations is limited as Hong Kong and Singapore are specialised in the geographical subregion to which they are most suited. Beyond these considerations there are reasons to suggest that the evolution of international business structures is constraining regional office mobility and indicating the need for fresh conceptualisation of the regional office.

First, regional offices are strongly associated with the economic base of its immediate locality rather than existing entirely as a sector in their own right. This is reflected in the role of Singapore as regional centre for manufacturing organisations while Hong Kong dominates as the regional centre for trading and other financial and business service organisations. One way that this linkage develops is through the regional office being set up as a diversification of previously existing operations. In Singapore, this mode of establishment accounts for around one fifth of offices in the survey sample, rising to a third in the case of organisations with an Asian parent company. This makes diversification only marginally less important than relocation as a mode of establishment. In addition, whilst the most frequent mode of entry involves new offices unconnected to any previous operations, some of these may have been drawn to Singapore by the organisational awareness and experience associated with previous investment. More generally the existence of industry expertise and information sources is an influence on the regional office, reflecting the way that regional offices have responsibility to expand business as well as to oversee existing affiliates. Amongst Singapore offices, for example, the most frequently cited goals set for the regional office were, first, building market share and second, expanding the network of business partners.

Second, the organisational context of regional offices within matrix decision-making structures may be constraining regional office mobility. The shift to matrix styles of management produces overlapping responsibilities rather than strict hierarchies of control. This shift provides affiliates, for example with direct lines of communication to corporate headquarters as well as through the regional office. One indicator of this occurring is the high level of autonomy allowed affiliates. In the Singapore survey, over 50% of respondents stated that affiliates operated with a high degree of autonomy (points 4 or 5 on a five-point scale in which five corresponds to full autonomy) compared with less than 10% of respondents stating that affiliates had low autonomy. In the absence of the regional office being a centre of administrative control they are often assuming alternative roles linked, as noted above to new business development, and as managers of regional resources (such as the after sales warehouse in the case of the European car manufacturer that was given above). Compared with the 'traditional' regional office, these roles may constrain mobility because of the investment linked to the regional office and its network of business relationships established to promote market growth.

Third, the role of the regional office varies according to the parent objectives in the territory allocated to that office. Regional offices are not simply a product of a certain volume of subsidiary activity, being established once economies in administration and coordination are judged to justify the cost of a regional office. Rather regional offices can be an instrument for developing affiliate investment with their role changing according to current development priorities. Amongst the Singapore sample, this was observed, for example, in the frequency with which regional offices were established prior to the setting up of affiliate activity with the role of developing business opportunities. A further reflection of this being the number of respondents emphasising the need to build a regional presence as a motive for the office's establishment and how a principal function of the office was to guide entry into new territories. Another reflection of the strategic role of the regional office is the evidence of shifting priorities over time, particularly in the increased importance attached to localising management amongst some longer established offices. Compared with the regional office that simply monitors and controls affiliate activity, the strategic importance of regional offices stresses the role of regional offices in establishing business relationships to expand affiliate activity. This may inhibit mobility because of the linkages to financial and business services that are drawn upon to support business growth. In the context of the Asia Pacific region where business organisations are typically pursuing ambitious expansion strategies this consideration is of particular significance.

Fourth, regional office mobility implies an internationalised workforce with a strong commitment to the organisation and adaptable to alternative locations. The absence of a pool of prospective regional managers has been noted as a constraint
on regional offices in Singapore (Aoki and Tachiki, 1992). Regional controllers must be capable of commanding the respect of local staff, in regional subsidiaries and the regional office, as well as having the trust of the head office. Both qualifications usually depend on a long period of service obtained at various company locations. A particular constraint in obtaining these skills may arise in Asia from the high proportion of subsidiary activity in the form of joint ventures with local investors. This mode of direct investment is often demanded by government controls and can weaken the ability of the overseas partner to rotate their own staff or even, in some cases, gather basic operational or financial information from majority joint venture partners.

Conclusion

Hong Kong and Singapore appear to be more complementary rather than competitive locations for the regional offices of international corporations. Without a marked change in business sentiment amongst regional office management in Hong Kong, the relative growth of these two centres is likely to be most affected by the changing geography of foreign direct investment. While Singapore has introduced investment incentives to strengthen its attractiveness to regional offices, and these were introduced specifically to match aspects of Hong Kong's environment, these seem to have little influence on location decisions. In this context, recent shifts in foreign direct investment seem likely to favour the growth of Hong Kong over Singapore. From the early 1990s China emerged as the largest recipient of foreign direct investment among all developing countries and dominated flows into Asia. A further trend in Hong Kong's favour is the slowdown in Japanese foreign direct investment during the 1990s (UNCTAD, 1994, p. 41). Japanese-controlled offices, unlike those of other nationalities, have tended not to view Hong Kong as a possible substitute for Singapore although, as noted above, they have been showing interest in Malaysia as a possible alternative location.

The currency turmoil and changed economic outlook for Southeast Asia that has developed since 1997 has affected the immediate prospects for the continued high rates of growth in regional office activities. Whilst the currency realignments have made Singapore and Hong Kong even more costly locations compared with neighbouring territories it has also drawn attention to the greater stability of these locations, both financially and politically. As our survey indicates that such stability is a key locational consideration for regional offices the current regional turmoil may actually serve to strengthen the two existing centres. As to the impact on the relative attractiveness of Singapore and Hong Kong, to the extent that the crisis is partly a reflection of the loss of economic competitiveness of Southeast Asia compared with China (Rosenberger, 1997), it may reinforce the trends favouring the expansion of Hong Kong.

For other business capitals seeking to attract regional offices in competition with Hong Kong and Singapore an opportunity to break the dominance of these established centres of corporate control appears to be limited. Some guidance on how aspiring localities might most effectively organise their promotional efforts is however suggested from the study. With respect to office nationalities, Asian organisations appear to have most familiarity with the possibility of alternative locations in Southeast Asia. In the case of European and American organisations, their location evaluations are focused to a greater degree on whether to prioritise Southeast Asia or East Asia as their investment target. This suggests that the content of promotional material should vary according to the nationality of the organisation addressed. Similarly the content of promotional strategies might be customised according to whether Singapore or Hong Kong is perceived to be the first choice as there are some differences in their perceived locational strengths. To counter the perceived superiority of Singapore, other centres might stress their own accessibility to a wide regional hinterland and their ability to match Singapore in telecommunications and the general operating environment for business. If they are unable to mount a convincing case on these grounds, the appropriate approach might be to target organisations for whom those attributes might be less important. If Hong Kong is the likely alternative location, competing centres might target organisations with the least dependence on financial services or seek to identify the strengths in their own financial sector.

Based on the experience of Singapore, it would appear that fiscal incentives are less important in attracting regional offices than firm strategies and
other structural forces. This conclusion tends to be
reinforced by the experience of Hong Kong which
has built its role as a regional office location
without resort to fiscal or investment incentives.
Nonetheless there are some grounds for recom-
mending the inclusion of taxation incentives within
a broader promotional strategy. First, Singapore's
economic planners partly justify investment in-
centives from their value in providing a basis for
negotiation with regional office managers and as a
way of maintaining influence over their activity
(Hughes, 1993, p. 19). This claim was partly born
out in the Singapore survey which found that a
larger number of organisations admit to investment
incentives as a benefit of having established their
regional office whilst also claiming that it had not
influenced the original location decision. Second, it
is apparent that a significant number of organisa-
tions do review other places before selecting Singa-
pore. This context provides the opportunity to uti-
lise incentives as a negotiating vehicle with
regional office managers. Third, the effectiveness
of programmes might be increased by changing the
nature of the incentive. Singapore's schemes are
based on taxation incentives that require organisa-
tions to be profit earners before a benefit is
obtained. This advantage is most likely to be real-
ised by organisations that are well established in
the region. Organisations undertaking high expan-
diture on developing affiliate activity gain less
because they can already defray taxation against
affiliate development costs. While this targeting
may be appropriate to capture larger regional offic-
es, it appears to be less successful in influencing
decisions of organisations that are still developing
their affiliate operations.

Finally this examination of regional office mobility
between Hong Kong and Singapore suggests the
need to search for new explanations of regional
office geography. Little location flexibility was
detected which it has been suggested may be linked
to the changing status of the regional office within
corporate strategies. The propensity to establish
regional offices has tended to be viewed as an
outcome of an increase in affiliate activity, the
pursuit of operational integration and the prefer-
ence for regional decision making. The strategic
functions of the regional office are not captured by
these indicators, with the exception of the influence
of decision making structures. While it is not
suggested that these traditional explanations have
become redundant, our evidence indicates that
future studies of the occurrence of regional offices
should include the influence of corporate strategy
to a greater degree than previous studies. As noted,
regional offices may be a tool for developing sub-

Notes

1. In 1985 and 1986 real GDP fell for the first time
since Singapore's political independence in
1965. This arose as a consequence of domestic
economic management and an international
slowdown in foreign investment. It caused a
search for new economic directions amongst
Singapore's economic planners out of which
emerged new policies to promote service indus-
tries including regional offices (Dicken, 1987).
2. This role has been labelled scouting (Lasserre,
1996) or the beachhead (Bosman and de Smidt,
1993) by other researchers.
3. A large scale postal questionnaire survey was
addressed to regional offices identified from one
or more of the following sources: (i) Singapore
newspaper reports post 1990 identifying new
regional office openings, changes in the existing
office status or announcing investment linked to
the office; (ii) the Singapore Kompass Business

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Directory listing of regional offices (iii) annual reports of the Economic Development Board (administrators of the OHQ and other incentives). These sources identified 250 offices thought to be within the intended scope of the survey (offices equivalent to the definition of regional headquarters in the Hong Kong survey) compared with the 2000 regional offices identified by the EDB. The shortfall is partly explained by differences in definition as the EDB estimate includes around 500 representative offices, head offices of Singapore organisations and foreign organisations whose sole regional location is Singapore. The usable response rate of 52% or 130 offices obtained means that the final sample is equivalent to perhaps around one quarter of the full population. A cross section of 20 respondents were then included in a follow up survey. The 20 organisations selected for the follow up interview survey were identified to provide a cross section of offices according to nationality of the parent organisation rather than to provide representation of location decisions which was only one part of the overall objectives of the survey. The parent office nationalities were European (8), North American (6), Asian (5) and Australasian (1). These interviews, undertaken through a face-to-face or telephone interview with the office’s senior manager, were structured around the postal survey returned by the organisation, probing the reasons given for the responses and seeking a description of the regional office role and development.

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