

Global Connections

a study of multinational companies in Sydney

A project undertaken for the Australian Business Foundation by Enright, Scott & Associates Limited. The principals for this report were Professor Michael Enright of Enright, Scott & Associates and the University of Hong Kong, Professor Richard Petty of Enright, Scott & Associates and the Macquarie Graduate School of Management and Professor Suresh Cuganesan of the Swinburne University of Technology.

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Preface

The Australian Business Foundation and Professor Michael Enright and colleagues at Enright, Scott & Associates have collaborated to undertake this research study, *Global Connections: a study of multinational companies in Sydney*. This study investigates the business activities and connections of multinationals in Sydney and provides a greater understanding of how Sydney operates and competes as a global city.

The idea for this research project evolved from discussions between Michael Enright and Australian Business Foundation Chief Executive, Narelle Kennedy, in 2007. It was motivated by a shared interest in:

- the important contribution of multinational companies to Australia's economic development;
- the realities and shifting patterns of global competitiveness, especially affecting major cities in the Asia Pacific region; and
- the implications for Sydney as a location for global investment and business activities.

This research project offers several distinctive features. It provides an up to date reality check on the actual behaviour of multinationals and where they locate specific activities and functions. This is a study of the 'revealed preferences' of multinational companies, not their attitudes or opinions, and it examines how Sydney fares against other Asia Pacific cities. The *Global Connections* study also benefits from prior studies of multinational firms by Enright, Scott & Associates in the late 1990s, allowing comparisons over the last decade about the character of multinational business activity in Sydney and the region.

The results of this research project aim to advance knowledge about the place and potential of Sydney in the activities of foreign-owned multinationals, and the implications for Australia's public policymakers and business leaders.

For Australian public policy, the study's findings raise questions about how best to promote international investment and to capture value for the local economy from shifts in regional competitiveness and business functions. For local Australian business enterprises, the study illuminates the challenges and opportunities to participate in the increasingly distributed global value chains and cross-border economic connections provided by the operations and networks of multinational companies.

ABOUT THE AUSTRALIAN BUSINESS FOUNDATION

The Australian Business Foundation is an independent business organisation undertaking evidence-based research to deliver fresh insights and practical intelligence to boost Australia's capabilities and global competitiveness.

The Foundation is an active and informed community of common interest, bringing together forward-looking business executives, policymakers, academics and opinion leaders to share knowledge, shape debate and incite practical action.

For the past decade, the Foundation's research has focused on business innovation and sustainability, new models of competitiveness and opportunities arising from a knowledge-based economy.

The Foundation undertakes its research in partnership with expert scholars and practitioners both nationally and internationally. This has established the Australian Business Foundation as a leader in bridging rigorous academic scholarship with the realities and challenges of everyday business experience.

ABOUT ENRIGHT, SCOTT & ASSOCIATES

Enright, Scott & Associates Limited is a research and strategy firm, headquartered in Hong Kong, and also based in Singapore. It provides economic and strategic consulting services to governments, multilateral organisations and to leading firms with a specific focus on the Asia Pacific region and China.

Professor Michael Enright of Enright, Scott & Associates and the University of Hong Kong

Called "*one of the world's reigning strategy gurus*" by the Academy of International Business, Michael Enright is a leading expert on competitiveness, regional economic development and international business strategy. Michael Enright joined the University of Hong Kong as Sun Hung Kai Professor of Business Administration in 1996 after six years as a professor at the Harvard Business School. He directs the Asia-Pacific Competitiveness Program at the Hong Kong Institute of Economics and Business Strategy and was a Founding Director and is a current Advisory Board member of The Competitiveness Institute, a global professional body with members in more than 60 countries.



Professor Enright has directed or co-directed major reviews of the competitiveness of more than 20 different economies on five continents and has co-authored eleven books or monographs on related topics. He has consulted extensively to companies, governments and multilateral organisations and is a sought after advisor and executive educator.

Professor Enright received his A.B. in Chemistry (with Honours), his M.B.A. (with Distinction), and his Ph.D. (in Business Economics, Dean's Doctoral Fellow) from Harvard University. He spent several years in corporate research and development before obtaining his M.B.A. and Ph.D. degrees. Professor Enright is a non-executive director of Johnson Electric Holdings Limited and Shui On Construction and Materials Limited, and has been a member of Hong Kong's Commission on Strategic Development.

Professor Richard Petty of Enright, Scott & Associates and the Macquarie Graduate School of Management

Professor Richard Petty commenced his career as an analyst in the late 1980s. Since then he has advised a broad range of multinational firms and a number of governments on financial, economic and strategic issues. After spending some time at Ernst & Young (Sydney), Professor Petty started and then sold several profitable companies before taking on his current roles. Originally from Sydney, he has been based in Hong Kong for more than 10 years.

Richard Petty is a Senior Advisor to Enright, Scott & Associates Ltd and Associate Dean and Professor in Management (Accounting & Finance) at the Macquarie Graduate School of Management, Sydney, Australia. He is Deputy President and a Fellow of CPA Australia, and serves on that organisation's Board of Directors, as well as on several other Boards. He is Chairman of an investment company headquartered in Hong Kong, and Chairman of the Hong Kong Annual Reporting Awards.

Professor Richard Petty is a University Medalist. He holds a Bachelor's Degree with First Class Honours in Accounting and Finance, a Masters Degree (with Honours) in Commerce, and a Ph.D.



Professor Suresh Cuganesan of the Swinburne University of Technology.

Suresh Cuganesan is a Professor in Accounting at Swinburne University of Technology, Melbourne, Australia and also holds an appointment as Visiting Professor at the Macquarie Graduate School of Management. At Swinburne, Professor Cuganesan is the Director for the Centre of Enterprise Performance, which focuses on examining and identifying ways for organisations to enhance their efficiency, effectiveness and management of risk. He has worked in the areas of management consulting and institutional banking in addition to his academic career. He currently occupies a position on CPA Australia's Business Management Centre of Excellence and Education Advisory Committee, and is a member of the Asian Board of the American Academy of Financial Management.



Professor Cuganesan's research interests are in the areas of strategic costing, business performance and intellectual capital measurement and management, and the design of management control systems. He has published three books and over 50 journal articles, conference papers and book chapters. He is also on the editorial boards of a number of leading national and international academic journals and has been awarded Australian Research Council funding for his research projects. In addition to his research, Suresh Cuganesan also advises and trains organisations in the fields of finance and business performance.

Executive Summary

This document contains the final report for a project undertaken for the Australian Business Foundation on how Sydney is positioned in the strategies of foreign multinational corporations. The project investigated the activities performed by foreign multinationals in the Asia-Pacific region as well as those performed by the company's Sydney operation. The project also examined Sydney's competitiveness in different corporate activities and the strength of the local and global networks of the Sydney offices of foreign multinationals. Taken as a whole, the document presents an overview of Sydney's competitiveness, the position of the Sydney office within the strategies of foreign multinationals, and the forces that support and hinder Sydney's competitiveness as a global city.

RESULTS

The results of the study reflect the 85 usable survey responses obtained from a senior officer working for foreign multinational companies with an office in Sydney. The dataset contains a reasonable cross-section of foreign multinational companies active in Sydney which can be used to assess the city's activity-level competitiveness and its attractiveness to multinational companies. Most respondent companies are in the service sector, but respondents also include a relatively wide dispersion of manufacturing companies, and most have extensive international experience and therefore can be expected to make specific, comparative choices when it comes to location decisions in the Asia-Pacific.

The respondent base shows a healthy mix of firm sizes and age of Sydney offices. Sydney appears to attract large, medium, and small companies, indicating the city is a "user-friendly" base for a wide range of companies and potentially obtaining different types of spillovers from different types of companies.

Analysis of the activity locations of the multinational companies in the dataset in the Asia-Pacific shows that patterns of investment vary by activity and by nation, indicating the value of an activity-by-activity approach to understanding the operations of foreign multinationals.

Most foreign multinational companies active in Sydney have significant sales, service provision and internal management and support functions in Australia, but not significant production or research and development functions. This can be due in part to the fact that most multinationals only have a limited number of production and research and development activities in the region. Australia ranks first in terms of the presence of all functions except production where it ranks second when compared to other nations or regions in the Asia-Pacific or South Asia. However, the sample bias should be noted – given that the Sydney offices of foreign multinationals were the respondents to the survey, they will have some activities in Australia.

For foreign multinational companies active in Sydney, regional headquarters and offices are typically located in Sydney or Singapore, with Hong Kong and Shanghai also being favourable locations for these offices. While a large number of the Sydney offices of foreign multinationals are reported as either regional headquarters or regional offices, the geographical coverage of these offices extends primarily to Australia and New Zealand. In contrast, the broadest geographical coverage is assigned to regional headquarters and offices of foreign multinational companies that are located in Singapore. Greater China tends to be managed by offices of foreign multinational companies that are located in Shanghai or Hong Kong.

Sales and service, not production or research

A detailed assessment of narrowly defined individual activities shows that the Sydney-based offices of foreign multinational companies are primarily important to them with respect to sales, marketing and customer service management. Sydney is regarded as relatively unimportant as a location for production and research and development activities. Overall, it would appear that Sydney should seek to extend its position as a centre for high-value managerial activities.

Self-sufficient and largely standalone

Sydney offices tend to be knowledge makers in that the knowledge utilised by the Sydney-based operations of foreign multinational companies is primarily generated out of its local operations rather than being imported from elsewhere in the company or region.

The Sydney-based offices of foreign multinational companies are seen as contributing at some level to overall corporate management through capabilities developed in Sydney. However, they are not seen as major independent contributors to the design or development of products, or to the development of processes for use internationally. Instead, they tend to develop products and services for the local market as well as implementing designs, specifications and processes developed overseas.

The decision making results suggest a somewhat peripheral and standalone posture for the Sydney office, capable of standing on its own for the local market, capable of contributing somewhat to management of the corporation more widely, but not a truly strong contributor to the international network of the multinational company, nor well plugged into knowledge sources elsewhere.

Local implementer, not global or regional leader

The Sydney-based offices of foreign multinational companies tend to offer a broad range of products and services and tend to have a regional scope in terms of their influence. A small but interesting group of companies has actually assigned a global role to the Sydney office, perhaps indicating Sydney-based skills and capabilities that could be leveraged more widely by other multinationals in the future.

Local links and challenges

The Sydney-based offices of foreign multinational companies tend to work most closely with customers and local industry organisations and associations and less so with other Sydney-based entities, such as local partners, suppliers, competitors and government. The least collaboration was reported with public research institutes and universities, indicating that the multinationals generally do not see these as significantly useful partners.

The results support the notion that Sydney operations have local links to serve the local markets, but have significantly less extensive international linkages that would reflect wider knowledge application and generation, and management roles.

Sydney companies will have to enhance their capabilities across the board if they are to be successfully introduced into the international networks of the multinationals that have offices in Sydney. The biggest gaps are seen in strategy formulation and customer service and awareness, but all of the capabilities identified were listed as needing work before Sydney companies could be introduced into the global networks. This is a particular cause for concern, since Sydney-based companies need to outperform their counterparts in other cities if they are to leverage the presence of foreign multinationals in Sydney to internationalise. This, together with the need to overcome predefined notions within foreign multinational companies about the role of Sydney as being merely a sales centre for Australia and New Zealand, is the major challenge for Sydney-based companies if they are to grow internationally.

More important in 2008 than 1998

Sydney in 2008 is viewed as being more important to the parent company of the surveyed foreign multinational as a location for regional headquarters and regional offices than it was in 1998. The ten-year trend is positive for Sydney and suggests that Sydney is more relevant to foreign multinational companies in 2008 than it was in 1998. Sydney in 2008 is also viewed as being more important to the parent company of the surveyed foreign multinational as a location for the performance of 36 of the 39 identified activities than it was in 1998. This implies that Sydney has a base that it can build from in generating the maximum benefit from the multinational presence in the city.

IMPLICATIONS

The revealed preferences of major multinationals show where Sydney is competitive, where it is not competitive, where it may choose to try to improve, and where the obstacles may be big enough to indicate that efforts should be turned elsewhere. Such knowledge should be extremely useful to those who might wish to help Sydney build on its strengths and overcome its weaknesses.

Understanding the nature of the multinational companies and their activities in Sydney also should provide input to investment promotion activities that might be carried out for Sydney. Approaches that start with a clear understanding of how multinationals view Sydney and how Sydney fits into their strategies should allow investment promotion agencies to identify how the activities of multinationals already present in Sydney might be expanded and which activities new entrants are likely to wish to place in Sydney.

Build on known strengths

The activities that the foreign multinationals have placed in Sydney, and the ones they consider the most important, are those related to Sales, Marketing and Customer Service; Corporate Coordination; and Central Management. This was true across industries, nationalities and company sizes. These activities are relatively high-value in terms of the skill levels of the people employed in such activities. One implication is that these are the types of activities that Sydney is most likely to attract and therefore would seem to be the sorts of activities that Sydney should promote. Another implication is that if Sydney is seeking to develop skills and capabilities that would make the city more attractive to foreign multinationals, then marketing, sales, management and coordination skills and capabilities should be major areas of emphasis.

Global Sydney – more aspiration than reality

Another implication of the present work is that the notion of a “Global Sydney” should be thought of as more of an aspiration than a reality, at least when it comes to the strategies of multinational companies. Only a small percentage of leading multinationals have assigned

global roles to Sydney. However, this small percentage means that while “Global Sydney” is not a reality today, there is a basis from which to work in this direction.

One reason, perhaps, that Sydney is not viewed as a global centre is that the Sydney operations appear to be relatively standalone operations, linked to the multinational firm networks and to local companies, but not as strongly as we might hope. The Sydney operations appear to be split roughly down the middle between “knowledge makers” and “knowledge takers,” but in both cases the deployment of knowledge is on a local or sub regional scale. A clear implication is that the Sydney operations of the foreign multinationals will have to become more embedded into both local networks and the multinational firm networks if they are to make a greater contribution to the knowledge deployed in the multinationals, and presumably generate more value for Sydney in the process.

Opportunities for better linkages and high value skills

From a Sydney standpoint, it may be difficult to do anything about how Sydney is viewed in the networks of the multinational companies. On the other hand, a clear implication of the present work is that there is room to enhance the interactions of the foreign multinationals with local partners, suppliers and public research institutes and universities. Presumably improving such linkages, as well as the skills and capabilities available in Sydney, would be important steps in Sydney obtaining larger roles in the strategies of the multinational companies.

Wake up call for local firms

The results of the present study should provide a wake-up call for Sydney companies that wish to enter into the global networks of foreign multinationals with operations in Sydney. The clear implication is that, on average, Sydney companies will have to up their game across the board if they wish to enter these networks in a significant way. Of particular importance will be improvements in customer service and support and strategic thinking. The presence of foreign multinationals provides a unique opportunity to piggy-back into global markets. Impressing the Sydney operations of multinationals may be a much easier way to internationalise than having to set up foreign marketing and distribution. However, it appears that Sydney companies in general do not have the capabilities and links with the foreign multinationals present in Sydney to do so.

A base for the future

The fact that Sydney has become more important to multinational companies in almost all activities in the last ten years is an indication that the Asia-Pacific as a whole is more important to these companies and that Sydney has been improving as a location for these companies. The implication is that Sydney has a more significant place in the strategies of multinational companies. This is a positive trend for Sydney that reflects well on the city and provides a base from which to expand the benefits that Sydney receives from the presence of the operations of foreign multinationals.

Introduction

This document contains the final report for a project undertaken for the Australian Business Foundation on how Sydney is positioned in the strategies of foreign multinational corporations. The project investigated the activities performed by foreign multinationals in the Asia-Pacific region as well as those performed by the company's Sydney operation. The project also examined Sydney's competitiveness in different corporate activities and the strength of the local and global networks of the Sydney offices of foreign multinationals. Taken as a whole, the document presents an overview of Sydney's competitiveness, the position of the Sydney office within the strategies of foreign multinationals, and the forces that support and hinder Sydney's competitiveness as a global city.

The principals for the present report were Professor Michael Enright of Enright, Scott & Associates and the University of Hong Kong; Professor Richard Petty of Enright, Scott & Associates and the Macquarie Graduate School of Management; and Professor Suresh Cuganesan of the Swinburne University of Technology. We would like to thank the Australian Business Foundation for their support throughout the project.

ACTIVITY LEVEL COMPETITIVENESS

Traditionally, studies of competitiveness of nations and regions have tended to focus on measures of overall competitiveness or on the competitiveness of the nation or region in individual industries. However, as globalisation and improved information and management systems allow companies to fragment their business systems, increasingly nations and regions compete to attract and retain specific activities. The result is that different nations and regions can be competitive or not competitive in different activities within the same industry. For example, China, the assembly location for roughly 50 percent of the world's consumer electronics products, is considered "competitive" in electronics. However, this competitiveness, which for the most part is focused on assembly alone, is far different from the "competitiveness" of the Japanese consumer electronics industry, which is world class in basic research, applied research, development, branding, marketing, distribution and supply chain management in the industry.

A focus on the activity level is particularly important for city economies. Cities, due to their size and nature, do not have fully diversified economies. Major cities around the world are predominantly service, financial, and managerial centres. The more advanced city economies in the world prosper by providing favourable locations for high value-added corporate activities while leaving lower value-added activities, such as manufacturing, warehousing, and even research and development in many instances, to other locations. Cities that reach the top of the urban hierarchy, such as New York and London, are those that provide the highest level activities for the widest range of economies.

Our approach to activity-level analysis includes an understanding of the nature of the individual activities, the nature of the companies that carry out those activities, how competition to attract and retain the activities plays out, and what influences the competitiveness of a location for particular activities. We have found that the best way to examine the activity-level competitiveness of an economy is to focus on the activities that foreign multinational companies place into a nation or region. The reasoning is that local companies will tend to place most of their activities in their home location almost automatically, but that foreign multinationals will tend to make specific decisions about the optimal location of each activity. Since foreign multinationals will usually make these decisions by carefully comparing alternative locations, their revealed preferences provide an excellent measure of the competitiveness of a location in attracting and retaining specific activities in the face of competition from other locations.

There is nothing particularly new to the idea of focusing on the activities that companies perform. Analyses of functional organisations, strategic analysis of activities, and activity-based costing have been around for decades. A focus on individual activities that multinational companies perform in foreign host economies has also been common for decades, most notably when governments try to attract specific activities like manufacturing, research and development, or headquarters activities.

Despite the fact that activity analysis has been around for a long time, most analyses of multinational companies fail to identify the patterns of investment across economies and across activities to determine what exactly is done where. The activity approach gets down to the details of what a company does in a particular location. At the same time, it shows the competitiveness of locations may vary significantly across different activities. Thus, an activity-based approach allows for a much finer grained analysis of the competitiveness of a location than more aggregate approaches.

In addition, activity-based analysis allows policy makers and investment promotion agencies to obtain a clear picture of how local operations of the multinational companies fit into the strategies of the multinational and exactly what roles existing offices actually play for the multinational. In the absence of such knowledge, many promotional programs and efforts focus on what “the seller wants to sell” rather than what “the buyer wants to buy.” The finer grained understanding of a location’s competitiveness can be used to develop investment promotion programs that are tailored to precisely the activities that multinationals are most likely to put into a location and more finely targeted programs and policies to improve the location’s competitiveness.

One aim of this project is thus to provide insights into Sydney’s overall competitiveness by examining the city’s competitiveness at the activity level and by providing an up-to-date understanding of how Sydney features in the strategies, organisational structure and location decisions of multinational companies. This will be used to draw conclusions about Sydney’s economic present and its economic future.

More specifically, the main goals of the project are to:

1. Assess the activities in which Sydney succeeds and in which it fails

This meant obtaining an understanding of which activities are performed by multinational companies in Sydney and which are not. This provides direct insights into Sydney’s ability to attract and retain different business activities. In addition, it meant assessing the importance of Sydney as a centre for performing different business activities. Finally, it meant carrying out a direct comparison of the importance of Sydney versus other major cities in the Asia-Pacific in a specific set of business activities.

Together, the different assessments provide strong indications on the activities that Sydney is best suited to house. This in turn provides insights into the sorts of skills, capabilities, infrastructure and other support functions that provide the most leverage for Sydney's economy in the future.

2. Assess the geographic span of Sydney's influence

As indicated above, the world's most prosperous cities have become wealthy by being locations in which companies carry out high value-added activities for large economic areas. New York and London have become wealthy by being prime locations for the management, coordination, finance and related activities of multinational companies for the North American and European markets respectively. The wider the geographic span of influence of activities carried out in Sydney, the more embedded Sydney will be in the strategies of multinational companies and the greater the potential for Sydney in the future.

The geographic span of Sydney's influence was assessed in several ways. The first was to identify whether Sydney is a favoured location for the regional headquarters of multinational companies. The regional headquarters often is the location of the most senior managers in the region, the locus of many important decisions, and a source of demand for a wide range of professional and other business services. We also assessed the geographic span of control of regional headquarters in Sydney and in other cities in the Asia-Pacific region. Finally, we acquired information directly from companies on the nature of the geographic influence of their Sydney activities.

3. Assess Sydney's role as a source of knowledge

Most advanced economies in the world are moving toward knowledge management as a major source of economic dynamism and many in Sydney believe that moving toward a more knowledge-intensive or 'innovation' economy is crucial to Sydney's economic future. In order to get a sense of Sydney's competitiveness in this arena, we carried out an assessment of Sydney's role as a centre for knowledge for multinational companies present in the region. This involved identifying the sources of knowledge the companies use in Sydney, and the roles of Sydney offices in the knowledge management, application and generation activities of the multinational firm as a whole. The more Sydney is viewed as a city in which knowledge is generated and used, the more high level jobs are likely to be placed in Sydney and the more securely positioned are the Sydney offices in the strategies of multinational companies.

THE RESEARCH APPROACH

The research approach involved surveying foreign multinational companies with operations in Sydney to assess:

- the activities they perform in Australia as compared to other economies in the Asia-Pacific;
- the relative importance to the firm of the different activities carried out in Sydney;
- the relative importance of Sydney versus other cities in the region in performing selected activities;
- the locations and geographic influence of the multinational companies' regional headquarters and offices; and
- Sydney's role as a source of knowledge.

Other important elements of having foreign multinationals operate in Sydney are the economic and knowledge flows between these companies and the Sydney-based companies that

they engage with. Foreign multinationals can stimulate economic growth through supporting the internationalisation of local companies. To assess these dynamics, information was obtained on the nature and extent of collaboration between the foreign companies surveyed and Sydney-based companies. Finally, respondents were asked to evaluate current initiatives to internationalise Sydney-based companies and the role of foreign multinationals in this process.

The survey instrument was based on prior work carried out by Enright, Scott & Associates (ESA) directors, who have been investigating multinational firm activities in the region for over a decade. Several questions were designed to be consistent with work carried out by ESA directors in the late 1990s in order to facilitate longitudinal comparisons. Others, most notably questions concerning the role of Sydney operations in the international activities of the multinationals, were developed for this project.

The survey was administered during the second half of 2008. The mailing list was developed from commercial sources, such as the Dun & Bradstreet databases of foreign companies in Sydney, and from the directories of various chambers of commerce in Sydney. The targets were generally the most senior managers the companies have in Sydney. Over 2,000 companies were surveyed and 90 surveys were returned. Of these, 85 responses were regarded as usable. The total Sydney employment reported by responding companies was in excess of 15,000. The data from each returned survey was entered into a database and independently cross-checked. The types of analysis employed and the results are reported in the following sections.

Profile of Respondent Companies

Respondents were asked a series of questions designed to obtain demographic data that would provide an understanding of the background, context and general circumstances of respondent companies.

NATIONALITY

As can be seen in Exhibit 1, the largest number of respondents had parent companies based in Europe (46 percent), with the United Kingdom (17 percent), Germany (8 percent), France (7 percent), and Switzerland (5 percent) accounting for the largest number of respondents within this group. North America (41 percent) was next, with the United States accounting for all North American respondents. Asia (9 percent) was the next leading region with Singapore (4 percent) and Japan (4 percent) the leading sources of companies.

EXHIBIT 1. Nationality of Parent Company

Nationality	% of Respondents (n=85)
North America	41
– United States	41
Europe	46
– United Kingdom	17
– Germany	8
– France	7
– Switzerland	5
– Italy	4
– Netherlands	2
– Belgium	1
– Luxembourg	1
– Sweden	1
Asia	9
– Singapore	4
– Japan	4
– India	1
Africa	2
– South Africa	2
Oceania	2
– New Zealand	2
Total	100

It should be noted that the mailing list was intentionally skewed toward companies from outside the Asia-Pacific region in order to get the cleanest comparisons for the activities the companies perform outside their home economies.

MAIN LINE OF BUSINESS

As can be seen in Exhibit 2, over half of the responding companies are in the service sector. This is not surprising given that the countries that are the dominant sources of foreign investment globally have economies dominated by the service sector and that services represent a large and increasing portion of foreign investment world-wide. In addition, Sydney's own economy is dominated by the service sector, so it makes sense that the service sector will dominate inbound investment into Sydney.

Among the service sectors, general business services accounted for the most respondents (17 percent), followed by finance and banking (11 percent), wholesale and retail (7 percent), transportation and related services (7 percent), and insurance (6 percent). Given the importance of these different sectors to Sydney's economy, and in city economies generally, this mix is not surprising. Among the manufacturing companies, there was a relatively wide dispersion with notable concentrations in the industrial equipment (32 percent), medical equipment (16 percent), chemical processing (13 percent), household products (13 percent), and food and beverages (6 percent) industries. Industry membership for manufacturing companies was not reported on by 10 percent of respondents. The fairly broad dispersion suggests that while Sydney may choose to focus on some particular sectors, that it should not limit its investment promotion horizon to just a limited number of sectors.

EXHIBIT 2. Main Line of Business of Parent Company

Activity	% of Respondents (n=85)
Manufacturing	36
Services	55
– Other business services	17
– Finance and banking	11
– Wholesale, retail	7
– Transport and related services	7
– Insurance	6
– Telecommunications services	3
– Import, export	1
– Restaurants and hotels	1
– Real estate	1
– Construction, architectural, civil engineering	1
Others	9
Total	100

COMPANY SIZE AND LEVEL OF INTERNATIONALNESS

The database shows a diverse mix of foreign multinationals in terms of company size. Forty-one percent of companies had global annual sales below US\$1 billion; 25 percent had sales between US\$1 billion and 5 billion; and 34 percent had sales in excess of US\$5 billion (see Exhibit 3). The results show that Sydney is almost equally attractive to small and medium, large, and very large multinational companies. This is beneficial in that while the largest companies tend to have larger offices and provide significant demand for high level business services, smaller companies are often more dynamic, more entrepreneurial, and more dependent on the local economy for sources of knowledge and management capabilities.

The fact that Sydney appears to have a reasonable spread of different sized multinationals indicates that it can gain vitality in different ways from the multinational companies that are present in the city. It also indicates that Sydney is a “user-friendly” location for large and small companies alike. It further suggests that Sydney should cast a relatively wide net in terms of its investment promotion activities, ensuring that it has ways of reaching small as well as large companies and implying a diversity of investment promotion channels.

EXHIBIT 3. Global Annual Sales Turnover of Parent Company in US\$

Category	% of Respondents (n=81)
Less than US\$100 million	11
US\$100 to 250 million	9
US\$250 million to 1 billion	21
US\$1 to 5 billion	25
US\$5 to 10 billion	6
More than US\$10 billion	28
Total	100

Respondent company size was also considered in terms of asset base (see Exhibit 4). Again, there is an interesting mix of company sizes, with 45 percent registering less than US\$1 billion in assets; 12 percent registering between US\$1 billion and 5 billion; and 43 percent registering assets of more than US\$5 billion. Again, the results show that Sydney has attracted and retained significant numbers of small and medium, large, and very large companies in a reasonably balanced mix.

EXHIBIT 4. Total World-wide Asset Base of Parent Company in US\$

Category	% of Respondents (n=75)
Less than US\$100 million	19
US\$100 to 250 million	7
US\$250 million to 1 billion	19
US\$1 to 5 billion	12
US\$5 to 10 billion	13
More than US\$10 billion	30
Total	100

In terms of the international experience of the respondent companies, 29 percent of respondents have parent companies that operate in 10 or fewer countries; 44 percent have parents operating in 11 to 50 countries; and 27 percent have parents that operate in more than 50 countries (see Exhibit 5). 85 percent of respondent companies have operations in more than five economies.

The vast majority of the foreign multinationals in the dataset have extensive international experience. It is sensible to conclude that they have experience in making location decisions and are likely to be careful and comparative when they place specific activities into specific economies. Thus, we should conclude that they have good reasons to place specific activities into Sydney and good reasons not to place other activities into Sydney. This indicates that analysis of the decisions of these companies should provide important insights into Sydney’s competitiveness in different activities. In addition, companies that are active in many countries will tend to have managers who have perspectives that go beyond their country of residence and into other countries in the region.

EXHIBIT 5. Number of Countries in Which the Parent Company Has Operations

Category	% of Respondents (n=85)
Two to 5 countries	15
6-10 countries	14
11-30 countries	17
31-50 countries	27
More than 50 countries	27
Total	100

Again, the mix of international experience of the companies represented in the respondent base indicates that while the easiest targets to identify in terms of investment promotion are the large, extremely international companies, Sydney can also be an attractive base for companies with less international experience. For many Western companies, this corresponds to Australia in general and Sydney in particular being a “user friendly” entry point or first foray into the Asia-Pacific region. This suggests that particular efforts should be placed on investment promotion activities in locations around the world that are hotbeds of new company startups in order to attract newly internationalising companies before they get on the “radar screen” of other cities in the region.

AGE OF SYDNEY OPERATIONS

Respondents were asked how long their office had been established in Sydney (see Exhibit 6). Fifteen percent of the companies had been in Sydney for 5 years or less and 37 percent had been in Sydney for 10 years or less. Thirty-six percent had been in Sydney between 11 and 25 years, and 27 percent had been in Sydney for more than 25 years.

Again, this is an interesting mix of new entries into Australia and companies with long experience. While the portion of companies that has set up recently (in the last five years as opposed to the last ten years) appears to have declined, the reality is that some newer entries may not yet figure in the lists from which the present sample was drawn. This, plus the small numbers involved, makes it difficult to conclude whether there has been any slowing of entry from this sample. Other sources of information, such as inward foreign investment statistics, company registrations, or chamber of commerce membership information, would be needed to determine whether there has been any slowing of new entry that might be a sign of diminishing competitiveness in a dynamic region that has seen significant new entry of foreign multinational companies over the last several years.

The relatively large portion of companies that have been in Sydney for a long time indicates that most of the companies in the sample have extensive experience in Sydney (and presumably know the advantages and disadvantages of operating in Sydney extremely well), and have activities in Sydney that are “steady state” rather than transitional. We should note that “steady state” does not mean stagnant or that Sydney can be complacent that the companies will retain present activities in Sydney regardless of the development of markets and conditions in Sydney, but rather that some activities are likely to remain in Sydney for quite some time.

EXHIBIT 6. Length of Office Presence in Sydney

Category	% of Respondents (n=84)
Less than two years	2
2 to 5 years	13
6 to 10 years	22
11 to 15 years	18
16 to 25 years	18
More than 25 years	27
Total	100

Comparative Analysis of the Activities of Multinationals

In earlier sections of this report we described the profile of multinational companies that have operations in Sydney. In this section, we will focus on *what* they do in Sydney, first by providing a comparison of the relative importance of Australia versus other economies in the region in different business activities, then by providing a finer analysis of specific activities performed in Sydney, and finally by reporting the locations and geographic span of control of the regional headquarters found in the region.

Together, the three sets of results provide insights into how Sydney fits into the strategies of major multinational companies. They also provide strong indications of the types of activities performed in Sydney that are important to multinational companies, and what multinational companies perceive to be Sydney's relative strengths and weaknesses as a possible location for the performance of these activities. This in turn provides insights into the areas Sydney should focus on in order to retain and enhance its competitive advantages.

CROSS-ECONOMY COMPARISON OF ACTIVITIES IN THE ASIA-PACIFIC

Respondents were asked to identify in which Asia-Pacific economies their firm currently has significant sales, production, service provision (for service industries), internal corporate support (management) activities, and/or research and development activities. Internal support activities were defined as corporate management, regional management, coordination of activities, and administrative support for other activities in the region.

In addition to Australia, the respondents were asked about their activities in Japan, Korea, Mainland China, Taiwan, Hong Kong, the Philippines, Thailand, Malaysia, Singapore, Indonesia, New Zealand, India, and Pakistan. These represent the largest economies of what is generally considered the Asia-Pacific (East Asia plus Australia and New Zealand) and South Asia. They also include economies that are most likely to be either competing with Sydney, or complementary to Sydney. In order to simplify the survey instrument, simple dichotomous (yes/no) questions were asked about the presence or absence of significant operations across the defined activities in the different economies.

The database was divided into manufacturing companies and service companies since manufacturing companies are assumed not to be in the business of service provision, as defined in the question put to respondents, and service companies are not in the business of production or manufacturing. The results for the service companies (55 percent of all companies in the data set) are shown in Exhibit 7 and the results for the manufacturing companies (36 percent of all companies in the data set) are shown in Exhibit 8.

EXHIBIT 7. Asia-Pacific Economies in Which the Parent Company Has Significant Activities, Service Companies Only, Percent of Respondents

Country / Function	Sales	Service Provision	Internal Support	R&D
Japan	74	74	34	11
Korea	45	42	15	9
Mainland China	72	74	38	15
Taiwan	51	47	11	6
Hong Kong	62	66	30	11
Philippines	26	22	11	2
Thailand	45	41	17	6
Malaysia	45	44	17	9
Singapore	17	72	43	13
Indonesia	38	40	15	4
Australia	85	85	62	23
New Zealand	51	57	23	6
India	60	62	36	21
Pakistan	15	19	9	4

EXHIBIT 8. Asia-Pacific Economies in Which the Parent Company Has Significant Activities, Manufacturing Companies Only, Percent of Respondents

Country / Function	Sales	Production	Internal Support	R&D
Japan	58	23	39	23
Korea	55	19	39	13
Mainland China	77	55	48	23
Taiwan	61	6	16	3
Hong Kong	61	3	19	3
Philippines	45	0	10	3
Thailand	48	10	19	0
Malaysia	48	13	16	3
Singapore	71	26	35	10
Indonesia	45	3	16	0
Australia	94	42	58	23
New Zealand	55	19	29	13
India	61	35	35	19
Pakistan	29	0	6	0

The first conclusion that can be drawn from Exhibits 7 and 8 is that the patterns of investment locations in the region differ substantially by industry type, activity and by host economy. This by itself shows the importance of understanding how investment tendencies will tend to differ by activity. For service companies, sales is overall the most common activity in the region, followed closely by service provision, and then by internal corporate support, and research and development. For manufacturing companies, sales is followed by internal support, production, and research and development.

The dominance of sales makes sense when one understands that:

- multinational companies have exhibited a pattern to generally go abroad primarily to sell things, not to make things;
- that customer-facing activities are generally therefore the most common;
- that internal support is essential to the multinational's ability to operate abroad; and

-
- that multinational companies generally carry out research and development activities in just a few locations globally.

The exhibits also show that different countries or economies tend to attract different activities, or different mixes of activities. Again, this shows the value of an activity-by-activity approach to understanding the behaviour of multinational companies and the competitive advantages and disadvantages of locations. For both types of industries, sales activities generally are concentrated in the large economies (China, Japan, India, Australia) and in affluent economies (Hong Kong, Japan, Australia, Japan). For service industries, the location of sales and service provision are often the same. This is not surprising given that many services are “produced” at the point of sale. Internal support tends to follow sales and service activities. Research and development tends to be carried out in places with fairly advanced capabilities (Japan, Australia), or places that have reasonable capabilities at relatively low cost (China, India).

The vast majority of companies (85 percent of service companies, 94 of manufacturing companies, and 88 percent of all companies) in the dataset have what they consider as significant sales activities in Australia. This is not surprising given the fact that the responses are from the Sydney offices of the multinationals and therefore by definition the companies have some activities in Sydney. What is perhaps surprising is that a full 12 percent of total respondents either did not answer the question or did not think their sales in Australia were significant. Based on prior experience of foreign multinational company behaviour, it would have made sense for the proportion of companies in the dataset that have significant sales activities in Australia to be even higher. Other leading sales locations for the respondent companies in the region include Mainland China (72 percent of service companies, 77 percent of manufacturing companies, 72 percent of all companies), Singapore (71 percent of both types of companies), Japan (64 percent of service companies, 58 percent of manufacturing companies, 62 percent of all companies), Hong Kong (62 percent of service companies, 61 percent of manufacturing companies, 62 percent of all companies), and India (60 percent of service companies, 61 percent of manufacturing companies, 60 percent of all companies). Again this is not surprising given the size of some of these economies and the affluence of others.

For service companies, Australia is the leading location for service provision among companies in the dataset (85 percent), followed by Mainland China (74 percent), Japan (74 percent) and Singapore (72 percent). In the case of Singapore, this represents the fact that it is a leading service centre for the region. In the cases of China, Japan, and Australia, this can be linked to the size, nature, and/or sophistication of the economies in question.

For manufacturing companies in the database, Mainland China is the dominant location for production, and is identified by 55 percent of manufacturing companies as being the location in which the companies carry on significant production. Australia follows China with 42 percent of manufacturing companies identifying it as a location in which significant production is carried out. Given the importance assigned to retaining a manufacturing industry in Australia, this result is perhaps encouraging to Australia at first glance. However, to fully evaluate the economic implications of this, one needs to examine the product scope and geographical scope of this activity. For example, is this manufacturing activity focused on supporting operations in Australia and New Zealand or does it perform a much broader function in supporting Asia-Pacific operations? These issues are examined later in the report.

Australia is the leading centre for internal support and related management activities among the respondent companies (62 percent of service companies, 58 percent of manufacturing companies, 56 percent of all companies), again followed by Mainland China (38 percent of service companies, 48 percent of manufacturing companies, 42 percent of all companies), and

then Singapore (43 percent of service companies, 35 percent of manufacturing companies, 39 percent of all companies), Japan (34 percent of service companies, 39 percent of manufacturing companies, 35 percent of all companies), and India (36 percent of service companies, 35 percent of manufacturing companies, 35 percent of all companies). While again encouraging at first glance, this needs to be tempered by the realisation that Australia's relatively remote location makes it more difficult to support from other centres than some other locations in the region. Thus, the need to provide internal support to geographically remote operations could be driving the observed results for Australia. This will be further examined below.

Singapore has attracted such activities in its role as a regional management centre. The economic size and managerial challenges of the Chinese Mainland require a significant management presence there for many companies. This is also true for Japan. India's position in relation to internal support reflects the efforts of that country in attracting and performing the back-office activities of a number of foreign multinationals, as well as its growing importance as a market.

Among the companies in the dataset Australia leads as a location for research and development (23 percent of service companies, 23 percent of manufacturing companies, 22 percent of all companies). The percentage of companies reporting significant research and development activities may look low at first glance, but it must be placed in the context of the fact that most multinational companies have relatively few locations for research and development world-wide. Given the home countries of the respondent companies, most of the research and development is probably done outside the Asia-Pacific. Thus, the percentage of companies reporting significant research and development in Australia is actually rather high, as is seen in the comparisons with the rest of the region.

The demographics of the companies reporting significant research and development activities in Australia are mixed. For these 19 companies, eight identified as companies from the United States, four from the United Kingdom, two from Germany, and one each from New Zealand, South Africa, Japan, Singapore and Luxembourg. The industry profile of the companies was varied with six of the companies belonging to the financial services and insurance industry, three in the software and technology sector, two in manufacturing, and one each in semiconductors, building products, design and architecture, industrial equipment. Four companies did not specify the industry to which they belong.

The companies reporting significant research and development activities in Australia varied greatly in terms of size with three of them claiming to have annual revenues of less than US\$100 million, three claiming to earn revenues of US\$100 to US\$250 million a year, five claiming to earn revenues of US\$250 million to US\$1 billion a year, two claiming to earn revenues of US\$1 billion to US\$5 billion a year, one claiming to earn revenues of US\$5 billion to US\$10 billion a year, four companies claiming to earn revenues exceeding US\$10 billion a year, and one company not specifying its annual revenues. The companies also varied greatly in the number of countries that their parent company has operations in globally with five companies claiming that their parent company operates in 2 to 5 countries, two companies claiming that their parent company operates in 6 to 10 countries, four companies claiming that their parent company operates in 11 to 30 countries, three companies claiming that their parent company operates in 31 to 50 countries and five companies claimed to be active in more than 50 countries.

Other than the concentration of financial service companies, there are no obvious patterns in the demographics of companies that report significant research and development activities in Australia. Thus, it would be difficult to target specific companies or types of companies to attract research and development activities to the country other than financial service companies.

Australia's strong position in research and development is most likely due to the general strength of Australia's education, training and research systems. However, the presence of research and development does not by itself indicate whether the efforts in Australia are vital to the companies involved or not, or whether they are of local, regional, or global importance. This will be further investigated below.

Other countries achieving double digit percentages for the performance of research and development activities are India (21 percent of service companies, 19 percent of manufacturing companies, 20 percent of all companies), Mainland China (15 percent of service companies, 23 percent of manufacturing companies, 19 percent of all companies), and Japan (11 percent of service companies, 23 percent of manufacturing companies, 16 percent of all companies). It appears to be the most advanced economies in the region and the two large emerging economies with large numbers of scientists and engineers that attract research and development activities.

For all of the activities, again we note that the relative numbers for Australia will be biased by the fact that the respondents were all from the Sydney offices of their respective companies. By definition these companies have located at least some activities in Sydney and in Australia. This will induce bias even though the majority of the responding companies have operations in 10 or more economies and therefore are fairly well spread around the region. In any case, the comparative activity responses indicate that Sydney has a relatively strong position compared to the other leading economies in the Asia-Pacific and South Asia, at least for the companies in the dataset.

REGIONAL HEADQUARTERS AND REGIONAL OFFICES

Respondents were asked to identify the city locations of their Regional Headquarters (RHQ), Regional Office (RO), and Local Offices (LO) in the major cities of the Asia-Pacific (see Exhibit 9).

A RHQ was specifically defined as an office that has control over the operation of one or more other offices or subsidiaries in other countries or economies (stated as country or economy so as to take into account Hong Kong and Taiwan) in the region and which does not need to make frequent referrals to, or consultations with, the overseas parent headquarters.

A RO was specifically defined as an office responsible for general business activities in its own and other countries or economies in the region, but which would be expected to refer back to a RHQ, or to some other higher authority, before making major decisions. Thus, the main distinction between a RHQ and a RO is that the RHQ is more autonomous than the RO.

A LO was defined as an office responsible for general business activities solely in its particular country or local economy.

RHQ and RO investments are of particular interest to the major cities of the Asia-Pacific for several reasons. Investments in different activities represent different types and levels of benefits to a host economy. Investments that establish RHQs or ROs generally provide considerable benefit to the host economy, particularly if it is an advanced, service-oriented one such as Sydney's. This is because establishing a major regional centre brings in many of the firm's highest value adding activities. The headquarters is a focal point for innovation and growth in productivity. Further, a RHQ or RO links a host economy into the international business network of the multinational company and creates a nexus between the host economy and the outside world.

Headquarters investment also creates demand for advanced managerial skills and sophisticated support services. This stimulates the local economy and creates a spillover effect. The array of benefits is well understood by most governments which is why many countries, and individual cities, in the Asia-Pacific have created active programs to attract multinational company regional headquarters and offices.

It should be noted that a company may have more than one RHQ. On average, companies will tend to have more than one RHQ and RO to cover different parts of the region. For example, some companies might have an Asia-Pacific Regional Headquarters, a North Asia-Pacific headquarters, and a South Asia-Pacific Headquarters. It is also possible for companies to report a RHQ or RO and a LO in a given city, since some have different offices that serve different functions in a city. As indicated above, the cities examined in this section are Beijing, Hong Kong, Shanghai, Singapore, Sydney, Taipei, and Tokyo.

EXHIBIT 9. City Location of Regional Headquarters (RHQ), Regional Office (RO), or Local Office (LO), Percent of Companies reporting RHQs, ROs, and LOs in the Different Cities

City	RHQ	RO	LO
Beijing	1	2	39
Hong Kong	13	4	32
Shanghai	12	5	39
Singapore	22	8	27
Sydney	25	18	57
Taipei	1	0	35
Tokyo	2	1	36

Exhibit 9 shows that 25 percent of all the companies in the dataset report having a RHQ in Sydney; 18 percent report having a RO in Sydney; and 57 percent report having a LO in Sydney. All the companies in the dataset had an office in Sydney. The relatively high proportion of RHQs and ROs in Sydney is significant because it suggests that Sydney's position extends beyond the Australian market and that it is a centre for multinationals and a player in the global economy. Being a centre for companies with wide regional roles means that Sydney could benefit from growth in other parts of the Asia-Pacific region, which of course has been the world's most dynamic economic region for many years.

The other main city to attract RHQs is Singapore with 22 percent of respondents reporting a RHQ in Singapore, 8 percent reporting a RO, and 27 percent reporting a LO. This is indicative of Singapore's status as a regional centre for the Asia-Pacific. Both Hong Kong (13 percent) and Shanghai (12 percent) also had double digit percentages of respondents reporting RHQs.

In summary, for the multinational companies surveyed, four cities tended to be locations of substantial numbers of RHQs and ROs. The leading locations were Sydney, Singapore, Hong Kong, and Shanghai. For the companies in the dataset, the profile of their operations in cities outside of these four is mostly weighted towards a local office presence.

Again, the results for Sydney will be somewhat biased in that the survey responses came from Sydney offices. In any case, it would seem that companies in the dataset are focusing their locus of control in Sydney, Singapore, Hong Kong, and Shanghai and are using those locations to manage operations in the other cities included in the survey. Again, this is important in that increasing the extent to which a city is involved in managing other parts of the region increases its potential to benefit from growth in the region. To evaluate the extent of this effect, the geographical coverage of company RHQs and ROs is examined next.

GEOGRAPHIC COVERAGE OF RHQS AND ROs

Respondents were asked to identify the geographical areas over which the RHQs/ROs identified in Exhibit 9 exercise significant coordination and/or control functions (see Exhibit 10). The idea is to compare the geographic spans of control of the regional headquarters and regional offices found in the different cities. This again provides information on how offices in the different cities compare in terms of their roles in the strategies of the multinational companies. In general, the wider the geographic span of control, the more important the regional headquarters or regional offices are to the company in question.

The results indicate the geographic coverage of RHQs and ROs. Recall from Exhibit 9 that 25 percent and 18 percent of respondents had a Sydney RHQ or RO respectively. These RHQs and ROs have jurisdiction primarily over Australia and New Zealand, with quite limited coverage of other economies in the region.

The RHQs and ROs in Singapore and Hong Kong tended to have a much broader span of control than those in Sydney, with large percentages of the RHQs and ROs that exist covering significant parts of Northeast and Southeast Asia. This reflects these cities' positions as the leading centres for Asia-Pacific headquarters reported in other studies more generally. A similar profile appears to be emerging for Shanghai. Singapore offices had a significant amount of control over Australian operations (20 percent of respondents had a Singapore RHQ/RO with jurisdiction over Australia) while several Shanghai offices also covered Japan and Korea (21 percent of respondents had Shanghai RHQs/ROs that covered these countries). On the other hand, the RHQs/ROs in Beijing appear to be predominantly focused on controlling parts of Greater China, specifically Mainland China and Hong Kong operations. Tokyo RHQs/ROs appeared to have coverage focused on Japan and Korea.

Exhibit 10. Geographical Areas over which RHQs/ROs Identified in Exhibit 9 Exercise Significant Coordination and/or Control Functions, Percent of Respondents

RHQ or RO Location	Beijing	Shanghai	Hong Kong	Singapore	Sydney	Taipei	Tokyo
Geographical Area							
Japan	1	9	8	11	7	0	9
Korea	1	12	7	12	4	0	5
Mainland China	5	16	13	13	5	4	2
Taiwan	2	13	9	12	5	4	2
Hong Kong	4	12	15	14	7	1	4
Philippines	0	8	8	21	5	0	2
Thailand	0	7	9	25	6	0	2
Malaysia	0	5	11	26	6	0	2
Singapore	0	6	9	31	7	0	2
Indonesia	0	6	7	25	6	0	2
Australia	0	5	8	20	38	0	0
New Zealand	0	4	5	15	34	0	0
India	0	5	6	9	6	0	0
Pakistan	0	4	4	5	4	0	0

The geographic span of control results suggest that foreign multinationals with a presence in Sydney conceive of the Asia-Pacific as comprising four subregions. The first subregion consists of Australia and New Zealand, with operations governed by regional headquarters and offices located in Sydney. The second subregion takes in Southeast Asian operations that are governed by regional headquarters and offices located in Singapore. The third subregion is Greater China (encompassing Mainland China, Hong Kong, and Taiwan) and is managed by

regional offices located in either Hong Kong, Shanghai, or, to a lesser extent, in Beijing. The fourth subregion is Japan and Korea, or Japan alone.

This observation places the results of the previous analyses in context. Offices with “regional” status in Sydney are primarily focused on a narrow area, with the only “regional” aspect being New Zealand, a small economy by regional standards, and with Asia-Pacific regional control being located elsewhere. It is reasonable to conclude that the multinational offices located in Sydney have a narrower reach and likely a lower economic and managerial significance than those in Singapore, Hong Kong, and Shanghai, especially when the growth, population size and economic factors of the countries under the jurisdiction of the respective RHQs/ROs are taken into account. This means that while the Sydney offices “escape” the limits of the domestic market by being “regional,” they generally do so only to a limited extent.

Detailed Analysis of Sydney Activities

The previous section compared the importance to multinational companies of Sydney as a regional management centre to other cities in the region. By the nature of the comparisons, it was possible to examine only a relatively small range of relatively broad activities. In order to examine Sydney's roles in the strategies of multinationals, and its competitiveness in different activities, we examined the importance of Sydney in a much wider range of detailed activities, this time compared with each other. The idea was to understand in detail which activities multinationals carry out in Sydney that they consider important to their companies on the whole, and which they do not.

In order to carry out this analysis, the managers were asked to rate Sydney's importance to the company as a whole in performing 39 separate activities. These activities were divided into sets representing:

- Corporate Coordination
- Central Management Functions
- Finance and Accounting
- Sales, Marketing and Customer Service
- Distributional Activities
- Production Activities; and
- Research and Development.

The results are reported in Exhibit 11. As can be seen, Sydney rates as being important for some activities (sales planning and execution, customer servicing and support, marketing planning and execution, competitor intelligence, and regional strategy formulation, all with scores of 4.0 or above on a one to five scale with 3 being neutral) and unimportant for other activities (non-raw materials procurement, capital investment finance, coordinating global distribution, raw materials sourcing, manufacturing, raw materials sourcing, and process technology development, all with scores of 2.5 or below).

Sydney rated as somewhat important (mean ratings of 3.3 to 3.9) for all Corporate Coordination activities. These activities included: coordination of other operations within region, supporting regional operations, monitoring of other regional operations, reporting regional activities to parent company, and acting as a regional liaison centre for parent company. All of these Corporate Coordination activities depend on good infrastructure, ease of travel around the region and from the region back to corporate headquarters, skilled personnel, and the availability of advanced support services. It is noteworthy that, within this category of activities, Sydney was most important in supporting regional operations (ranking

3.9 on this activity) and least important in monitoring other regional operations (ranking 3.3 on this activity). While Sydney is regarded as relevant in corporate coordination, and shared corporate support services, it is not seen as leading other regional operations.

In terms of Central Management Functions, Sydney is important in competitor intelligence and regional strategy formulation. This is consistent with the earlier finding that Sydney offices are either regional offices, focused on Australia and New Zealand, or local offices with national coverage. Sydney is also rated as being of some importance in relation to business process development, senior personnel management, product/service development and design, and regional information technology management. Sydney is seen as being relatively unimportant as a location for procurement. These results suggest that Sydney offices are actively involved in the Central Management Functions and in shared service-related activities, in particular in information technology. The latter would build off Sydney's well-known capabilities in software and data services.

The Corporate Coordination and Central Management functions that are held to be of some importance are significant to Sydney in part because they require senior managers and decision makers on the ground, or in the case of regional information technology management, relatively advanced technical skills. This requires that Sydney remain an attractive place for senior managers and technically trained personnel to be located and to carry out their jobs, meaning that Sydney must have excellent communication and transportation infrastructure, good information flows, skilled individuals, advanced supporting services, and a reasonable quality of life for managers, technical personnel, and their families.

In relation to Finance and Accounting, Sydney is largely unimportant for the multinational companies in the dataset. With the exception of accounting and auditing, Sydney rates below neutral as a location for conducting activities related to trade finance, insurance, and capital investment finance. While this in one sense is understandable, major financing and financial decisions tend to be done at corporate headquarters, it also appears that Sydney is not used as a regional financial centre for operations in the Asia-Pacific either. The low importance of the Sydney office on these activities is of concern given that Sydney is considered to be the financial services hub of Australia despite efforts by Melbourne to compete in this area. What this indicates is that Sydney does not outperform other cities in the region as a financial service centre for foreign multinationals. Instead, it appears that the finance and accounting functions carried out in Sydney are mostly for local operations.

EXHIBIT 11. The Importance of Sydney to the Parent Company as a Centre for the Performance of Various Activities (1=Very Unimportant; 2=Unimportant; 3=Neutral; 4=Important; 5=Very Important)

Activity	Mean Response
Corporate Coordination	
Supporting regional operations (n=82)	3.9
Coordination of other operations within region (n=82)	3.8
Reporting regional activities to parent company (n=80)	3.7
Regional liaison centre for parent company (n=81)	3.7
Monitoring of other regional operations (n=81)	3.3
Central Management Functions	
Competitor intelligence (n=83)	4.0
Regional strategy formulation (n=83)	4.0
Business process development (n=81)	3.5
Senior personnel management (n=79)	3.5

(Continued)

Activity	Mean Response
Product/service development and design (n=80)	3.3
Regional information technology management (n=80)	3.2
Non-raw materials procurement (n=66)	2.5
Finance and Accounting	
Accounting/auditing (n=77)	3.3
Trade finance (n=73)	2.8
Insurance (n=73)	2.6
Capital-investment finance (n=72)	2.5
Sales, Marketing, and Customer Service	
Sales planning and execution (n=79)	4.2
Customer servicing and support (n=78)	4.2
Marketing planning and execution (n=79)	4.1
Sales and marketing related procurement (n=76)	3.8
Market research (n=77)	3.6
Distributional Activities	
Order processing (n=59)	3.7
Warehousing finished goods (n=50)	3.5
Trade documentation (n=58)	3.5
Land distribution (n=54)	3.5
Coordinating regional distribution (n=58)	3.3
Air distribution (n=50)	3.2
Packaging (n=50)	3.1
Sea distribution (n=46)	3.0
Coordinating global distribution (n=54)	2.4
Production Activities	
Quality control (n=44)	3.2
Testing/certification (n=42)	3.0
Assembly/processing (n=40)	2.8
Manufacturing (n=40)	2.5
Raw materials sourcing (n=40)	2.4
Research and Development	
New product development (n=60)	2.9
Basic research (n=58)	2.8
Applied research (n=57)	2.7
Process technology development (n=54)	2.5

Sales, Marketing and Customer Service activities are where Sydney achieves its highest importance ratings. Sydney is rated as important for sales planning and execution, customer servicing and support, and marketing planning and execution. Sydney rates as above neutral and is close to being rated as important in the activities of sales and marketing related procurement, and market research. This is consistent with the significance of sales activities in Australia (refer to Exhibit 7) and confirms that Sydney is considered key to multinational companies' ability to market and sell in a subregion of the Asia-Pacific. Interestingly, market research was the activity where the Sydney office was rated as being of lowest importance to the parent company within this category, indicating that while the Sydney office is important in terms of selling, it is less important in influencing what should be sold, which presumably will be the results of research undertaken elsewhere.

Sydney is seen as being mostly moderate in importance in Distribution Activities. Order processing, warehousing finished goods, trade documentation, and land distribution was where

Sydney rated most important within this category. Coordinating global distribution was where Sydney rated lowest in terms of importance in this category, while coordinating regional distribution was slightly better than being of neutral importance. Coupled with the sales findings, these suggest that distributional activities for Sydney are mainly focused on managing in-bound logistics, and are of some relevance to regional operations but of low relevance when it comes to global operations.

Sydney is of relatively low importance when it comes to production-related activities, such as manufacturing, assembly/processing, and raw materials sourcing, while it is regarded as generally of neutral importance in relation to quality control and testing/certification. This is not surprising given that Sydney is more of a service-oriented economy than is the case for other cities in Australia. The low number of responses indicates that in the overall dataset, the actual importance of manufacturing is actually less than the already low average response would indicate. This is in line with the understanding that most of the leading economic cities around the world are essentially service centres, not production centres. The most affluent cities in the world have economies that are dominated by the service sector with manufacturing activities taking place in the hinterland or in less affluent cities. When we separate out the manufacturing companies, we find that the means of the responses are 3.4 for quality control, 3.5 for testing/certification, 3.1 for assembly/processing, 2.5 for manufacturing, and 2.7 for raw materials sourcing, not so different from the entire dataset, indicating, not surprisingly that it was the manufacturing companies that tended to answer the manufacturing-related questions.

Sydney is also not considered important to the multinational company as a location for Research and Development. The average responses for new product development, basic and applied research, and process technology development are all less than neutral. There are three potential reasons for this. One is that few companies in the dataset do research and development in the Asia-Pacific in the first place. The second is that the research and development that is done in Australia is not considered important to the company as a whole. The third is that important research may be done in Australia, but not in Sydney.

In order to ascertain the explanation, the importance of Sydney as a centre for research and development was examined for the companies that reported doing significant research and development in Australia. The mean response for the importance of Sydney for these companies in the relevant activities were 3.2 for new product development, 3.2 for basic research, 3.1 for applied research, and 2.9 for process technology development. This indicates that even in the case of companies that report doing significant research and development in Australia, the research activities undertaken in Sydney are only of marginal importance. This is consistent with the second and third explanations above. That is, the research and development that is done in Australia is not considered important to the company as a whole, or the important research and development is done outside of Sydney.

To determine whether differences exist in the importance of Sydney to the performance of activities done by service companies versus manufacturing companies, the data on detailed activities for service and manufacturing companies were separately analysed. The results are shown in Exhibit 12. Not surprisingly, the largest differences were reported for Distribution Activities, with the physical distribution required for manufactured goods providing a ready explanation for the greater importance of these activities to manufacturing companies active in Sydney. On average, the manufacturing companies reported higher importance ratings for Corporate Coordination, while the service companies reported higher values for Central Management Functions. The two types of companies rated the importance of Sydney operations in other activities similarly for the most part, except some clear differences for assembly/processing and raw materials sourcing. The "production" activities reported by service companies generally involved the service generation process.

EXHIBIT 12. The Importance of Sydney to the Parent Company as a Centre for the Performance of Various Activities (1=Very Unimportant; 2=Unimportant; 3=Neutral; 4=Important; 5=Very Important).

Activity	Service Mean	Manuf. Mean	Difference
Corporate Coordination			
Supporting regional operations	3.8	4.2	(0.4)
Coordination of other operations within region	3.9	3.8	0.1
Reporting regional activities to parent company	3.5	4.0	(0.5)
Regional liaison centre for parent company	3.7	3.9	(0.2)
Monitoring of other regional operations	3.3	3.4	(0.1)
Central Management Functions			
Competitor intelligence	3.9	4.0	(0.1)
Regional strategy formulation	3.9	4.0	(0.1)
Business process development	3.5	3.5	0.0
Senior personnel management	3.7	3.3	0.4
Product/service development and design	3.5	3.2	0.3
Regional information technology management	3.3	3.0	0.3
Non-raw materials procurement	2.4	2.7	(0.3)
Finance and Accounting			
Accounting/auditing	3.4	3.2	0.2
Trade finance	2.7	2.9	(0.2)
Insurance	2.5	2.6	(0.1)
Capital-investment finance	2.4	2.6	(0.2)
Sales, Marketing, and Customer Service			
Sales planning and execution	4.1	4.2	(0.1)
Customer servicing and support	4.1	4.1	0.0
Marketing planning and execution	4.0	4.1	(0.1)
Sales and marketing related procurement	3.7	3.7	0.0
Market research	3.5	3.5	0.0
Distributional Activities			
Order processing	3.1	4.3	(1.2)
Warehousing finished goods	2.5	4.2	(1.7)
Trade documentation	3.2	3.9	(0.7)
Land distribution	2.8	3.9	(1.1)
Coordinating regional distribution	2.8	3.7	(0.9)
Air distribution	2.6	3.4	(0.8)
Packaging	2.8	3.6	(0.8)
Sea distribution	2.1	3.5	(1.4)
Coordinating global distribution	2.3	2.6	(0.3)
Production Activities			
Quality control	3.2	3.4	(0.2)
Testing/certification	2.5	3.5	(1.0)
Assembly/processing	2.7	3.1	(0.4)
Manufacturing	2.6	2.5	0.1
Raw materials sourcing	2.1	2.7	(0.6)
Research and Development			
New product development	3.0	2.7	0.3
Basic research	3.0	2.6	0.4
Applied research	2.8	2.7	0.1
Process technology development	2.6	2.5	0.1

The activities that multinational companies perform in Sydney and view as being important to that location are clear. Sydney is viewed as a centre for competitor intelligence and regional strategy formulation as well as the management of marketing, sales, and customer service. The picture is a mixed one. The activities that are carried out in Sydney that are viewed as most important tend to be among the highest value activities that the multinationals carry out in the region on a per square meter and per person basis (this can be readily seen in the rents that companies are willing to pay for such activities and the salaries of the people who carry out these activities), the overall importance of Sydney in these activities is moderate.

One question for Sydney is whether it is possible to increase Sydney's importance as a centre for high-value managerial, coordination, financial, and marketing functions, for example by fostering the extension of the geographic scope of the high-end activities performed in Sydney, and if so how to do so. At a minimum, the results would suggest that steps to enhance Sydney's skill base in these areas, to enhance Sydney's physical connectivity with the rest of the region, and to enhance Sydney's role as a potential test market for the region are in order and would have a potentially significant payoff.

A second question involves the extent to which Sydney has the potential to expand its position as a centre that supports regional operations and provides information technology and other shared service functions to the entire Asia-Pacific region. These are activities in which Sydney already has had success. These are also activities at least some of which are not as location sensitive as other high-value activities that will tend to go to cities like Hong Kong, Singapore and Shanghai that are viewed as being "closer to the action" in the region. These activities provide a means of leveraging Sydney's skills and resources into wider markets.

Another question is what to do about activities in which Sydney is not considered important today. For some activities, attempts to make Sydney into an important centre for multinational companies might well be like trying to push large rocks up steep hills. For other activities it may be possible to identify specific sets of companies that could eventually make Sydney an important centre for their companies. In either case, careful deliberations and analysis will be required before decisions are made. Otherwise, there is a chance that scarce land, human resources, budgets, and efforts will be taken away from developing managerial, coordination, financial and marketing functions to devote them to functions that Sydney has a much lower chance of attracting and retaining.

In any case, efforts to market Sydney as a location for foreign multinationals should clearly focus on high-value managerial activities and corporate support activities. Actual location decisions by the multinational companies that were surveyed show that Sydney is considered to be more important for support, coordination, competitor intelligence, regional strategy formulation, sales, marketing, customer service and shared services than for other activities. Thus, there is a foundation on which to build in extending Sydney's position as a location for high-value management activity in these areas.

In addition, one focal point of efforts to improve Sydney's overall competitiveness should be to develop ways that Sydney can be a better host for these activities. These activities are already the clear target of other cities in the region, such as Hong Kong, Singapore, Shanghai and Beijing. Sydney's ability to improve its position as a location for high-value managerial and shared service activities is likely to prove far more important than its ability to close gaps in lower value activities in which Sydney is not viewed as important.

Sydney's Roles in the Multinational Network

To extend the analysis of the relative importance of the Sydney office in different activities, we also examined how Sydney offices fit into the networks of the multinational companies in the dataset. In particular, we investigated the roles of the Sydney offices in decision making, knowledge application and generation, management and product and service development. In addition, we also examined the product scope and geographic scope over which the Sydney offices tended to operate.

The idea is that, in general, the more important the role of the Sydney office in decision making, knowledge generation and application, developing management capabilities and product and service development, the more important will be the executives on the ground in Sydney, the more important will be their demand for support services, the more embedded will the Sydney operation be in the corporate strategy of the multinational, and the higher the value of the activities performed in Sydney. In addition, the broader the product or geographic scope of the influence of the Sydney activities, the more important will the Sydney office be to the company and the higher the value the office is likely to generate for Sydney.

SYDNEY'S ROLE IN DECISION MAKING

Respondents were asked to identify which entity plays the greatest role in determining the specifications of the products/services produced and/or sold in Sydney (see Exhibit 13).

EXHIBIT 13. Entity that Mostly Determines the Specifications of the Products/Services Produced or Sold in Sydney

Category	% of Respondents (n=85)
Corporate HQ	48
Regional HQ	12
Regional Office	11
Local Office	29
Total	100

Corporate headquarters was found to control product and service specifications for 48 percent of respondents. Thus, even though Sydney contained a large proportion of regional headquarters and offices, albeit focused on Australia and New Zealand, ultimate decision-making on product/service range and mix were determined at a corporate level in almost half the cases. Again there is confirmation of previous findings; specifically that the Sydney office is less important in influencing what should be sold compared to the actual task of selling. It also suggests that Sydney plays the role of managing the distribution channel and market conduit for these companies rather than one of product and service innovator or originator.

Twelve and 11 percent of respondents identified the regional headquarters or regional office respectively as being the entity that holds the greatest influence over the specifications of products and services that Sydney sells and produces. Twenty-nine percent of respondents had local offices with responsibilities for determining product/service specifications. Given that a significant proportion of respondents reported regional headquarters and offices in Sydney, the Sydney office is important in determining the specifications of products and services sold in Sydney in roughly half the cases. In many of these cases, the Sydney office would also influence what was sold elsewhere in Australia and in New Zealand, but in the vast majority of cases no further afield.

Thus, the story of Sydney offices is one of two opposites. On the one hand, Sydney is an execution arm for selling activities with corporate headquarters determining what Sydney should offer. On the other hand, there is a story of significant autonomy, with the Sydney office (either a local or regional office) possessing a substantial level of decision making for its local operations in approximately half the cases reported.

KNOWLEDGE SOURCES FOR SYDNEY OPERATIONS

Respondents were asked to identify the source of the knowledge held by the Sydney operation (see Exhibit 14). The ability of economies to compete on the basis of knowledge is becoming more important in today's fast moving global economy. Many observers have pointed to the need for Sydney to play an active role in the knowledge economy. While many people tend to equate the knowledge economy with particular high tech industries or with research and development activity, all industries and all activities are potential sources of knowledge-based competition and value added.

The results in Exhibit 14 show that the main source of knowledge in the Sydney office of major multinational companies comprises learning through operating in Sydney. Working with local companies was the second leading response, though on average the respondents were neutral on local companies as a source of knowledge. The mean responses were neutral for working with overseas units within the multinational itself and for knowledge obtained from other sources. The Sydney-based operations of foreign multinationals did not rate themselves as learning from working with other multinational companies in Sydney, nor did they believe that they learned from companies located elsewhere in Asia-Pacific.

EXHIBIT 14. Source of Knowledge Held by the Sydney Operation (1=Strongly Disagree to 7=Strongly Agree)

Category	Mean Response
Learned in Sydney in the course of day to day operations (n=83)	5.3
Learned in Sydney by working together with local companies (n=80)	4.1
Imported from overseas units of your corporation (n=82)	4.0
Other sources (please specify) (n=12)	4.0
Learned in Sydney by working with other multinational companies (n=80)	3.4
Learned from companies located elsewhere in Asia-Pacific (n=80)	2.9

The results indicate that Sydney operations are more a "knowledge makers" than "knowledge takers." The knowledge deployed in Sydney is predominantly obtained through local experience rather than from the corporate network. Interestingly, this knowledge is generated more by the foreign multinational itself through its Sydney office rather than through exchanges and collaborations with local companies, other multinationals active in Sydney, or from elsewhere.

The results suggest that the Sydney offices are standalone in terms of their knowledge sources, are plugged into the local environment and corporate network only moderately, and do not search farther afield for external sources of knowledge. The results have two main interpretations. One would be that the Sydney offices are relatively self-sufficient outposts set up by the multinational company that can fend for themselves in terms of knowledge sources. The other is that the offices are isolated, not plugged in, and not particularly relevant in terms of the multinational's network, or the local business networks in Australia. In either case the results suggest that the choice to locate in Sydney as a means of understanding the nuances of the Australian and New Zealand marketplace, as distinct from the rest of the Asia-Pacific.

The data were further analysed by compiling a frequency distribution of responses. This was done to ensure that the means are representative in terms of the spread of the data and to evaluate possible polarisation of data, or particularly interesting subgroups that are obscured by just reporting mean results. The frequency distribution is shown in Exhibit 15.

EXHIBIT 15. Source of Knowledge Held by the Sydney Operation (1=Strongly Disagree to 7=Strongly Agree), Frequency Distribution of Responses

Category	Strongly Disagree			Strongly Agree				NA	Total
	1	2	3	4	5	6	7		
Learned in Sydney in the course of day to day operations (n=83)	3	1	4	7	24	30	14	2	85
Learned in Sydney by working together with local companies (n=80)	7	12	9	13	21	14	4	5	85
Imported from overseas units of your corporation (n=82)	11	14	6	14	15	14	8	3	85
Other sources (please specify) (n=12)	4	1	0	1	1	2	3	73	85
Learned in Sydney by working with other multinational companies (n=80)	10	20	12	17	10	6	5	5	85
Learned from companies located elsewhere in Asia-Pacific (n=80)	19	20	16	9	11	3	2	5	85

From Exhibit 15 it is clear that there is a fairly even spread of responses for the items "learned in Sydney by working together with local companies," "imported from overseas units of your corporation," and "other sources". For the other items, the responses are somewhat skewed to either the upper or lower end of the range and this is worth noting merely as a background issue. For instance, for the item "learned in Sydney in the course of day to day operations", the "strongly agree" responses exceed the "strongly disagree" responses by a substantial margin. The opposite is true in the case of the items "learned in Sydney by working with other multinational companies" and "learned from companies located elsewhere in the Asia-Pacific", where the "strongly disagree" responses exceeded the "strongly agree" responses by a substantial margin.

SYDNEY'S ROLE IN MANAGEMENT AND DEVELOPMENT

The above sections show that Sydney offices are of moderate importance as locations for decision makers and as sources of knowledge for the activities carried out in the Sydney offices. This leads to further questions about the role of the Sydney operations in the management, product development and process development of the multinational companies active in Sydney. Respondents were asked to define the role that Sydney plays in the management and development processes of their companies along several dimensions (see Exhibit 16).

EXHIBIT 16. The Role Played by Sydney in Management Capabilities and Product/Service Development (1=Strongly Disagree to 7=Strongly Agree)

Category	Mean Response
Implement designs, specifications, and processes developed overseas (n=85)	4.2
Design and develop new products/services and processes for use in Sydney (n=83)	4.2
Contribute to the corporation's management as a result of capabilities developed in Sydney (n=83)	4.2
Contribute strongly to the corporation's international product/service development process as a result of its unique experience in Sydney (n=84)	4.0
Contribute to the corporation's management as a result of capabilities developed overseas (n=84)	3.7
Design and develop new products/services and processes for use internationally (n=83)	3.3

Equal and mild support was found for the statements that the Sydney office “implements designs, specifications and processes developed overseas,” “designs and develops new products/services and processes for use in Sydney,” and “contributes to the corporation’s management as a result of capabilities developed in Sydney.” Sydney-based managers were neutral on their contributions to international product/service development based on unique Sydney experiences. They mildly disagreed with the notion that they made contributions to the global corporation based on capabilities developed overseas and disagreed more strongly with the notion that the Sydney office developed new products or services for use by the multinational in international markets.

The results indicate roughly equal support for the notion that the Sydney office is simply an implementer of designs, specifications and processes developed overseas and that the Sydney office is involved in designing products and services for the local market. The notion of a wider role in the corporation for developing new products and services for the global operations of the multinationals was, on average, rejected. Sydney was viewed neutrally as a contributor to the multinationals’ corporate management as a result of capabilities developed in Sydney.

The data were further analysed by compiling a frequency distribution of responses. This was done to ensure that the means are representative in terms of the spread of the data and to evaluate possible polarisation of data, or particularly interesting subgroups that are obscured by just reporting mean results. The frequency distribution is shown in Exhibit 17.

EXHIBIT 17. The Role Played by Sydney in Management Capabilities and Product/Service Development (1=Strongly Disagree to 7=Strongly Agree), Frequency Distribution of Responses

Category	Strongly Disagree			Strongly Agree				NA	Total
	1	2	3	4	5	6	7		
Implement designs, specifications, and processes developed overseas (n=85)	11	9	5	15	20	18	7	0	85
Design and develop new products/services and processes for use in Sydney (n=83)	10	13	5	12	17	17	9	2	85
Contribute to the corporation's management as a result of capabilities developed in Sydney (n=83)	10	12	11	15	12	17	7	1	85

(Continued)

Category	Strongly Disagree			Strongly Agree				NA	Total
	1	2	3	4	5	6	7		
Contribute strongly to the corporation's international product/service development process as a result of its unique experience in Sydney (n=84)	3	17	8	15	18	14	8	2	85
Contribute to the corporation's management as a result of capabilities developed overseas (n=84)	9	15	9	20	19	11	1	1	85
Design and develop new products/services and processes for use internationally (n=83)	17	15	12	16	13	7	3	2	85

From Exhibit 17 it is clear that there is a fairly even spread of responses for each item. It is worth noting, however, that for the item "implement designs, specifications and processes developed overseas", the "strongly agree" responses exceeded the "strongly disagree" responses by a substantial margin. The opposite is true for the item "design and develop new products/services and processes for use internationally". Even so, roughly one in eight companies reported that their Sydney operation has an international reach in terms of product/service and process design.

The overall results suggest, on average, a somewhat peripheral and standalone posture for the Sydney office, capable of standing on its own for the local market, capable of contributing somewhat to management of the corporation more widely, but not a truly strong contributor to the international network of the multinational company, nor well plugged into knowledge sources elsewhere. However, there is a small, but interesting "tail" of companies with broader responsibilities.

SCOPE OF THE SYDNEY OPERATIONS

In addition to understanding the roles that Sydney plays in the strategies and organisation of multinational companies, it is useful to understand the product and geographic scope of these roles. It is a very different thing for Sydney to play a role for a narrow portion of a company's product lines as opposed to a role for most or all of the company's product lines. In addition, it is a very different thing for the Sydney office to influence only local decisions as opposed to decisions on a regional or global basis.

Two-thirds of the companies reported that their Sydney offices performed their roles for the full or a broad product range (see Exhibit 18). This suggests that the Sydney offices are likely to engage in more activities, and in more significant and strategically relevant activities, than would be the case if they offered only a narrow range of products or services. The Sydney offices of multinational companies are not niche offices involved in only a limited number of the products or services of a company. Rather, they are offices that represent their parent companies across a broader range of products and services.

EXHIBIT 18. Product/Service Scope of Sydney Operation in Performing its Major Roles

Category	% of Respondents (n=83)
Full or broad range	67
Narrow range	33
Total	100

Exhibit 19 shows the responses on the geographic scope of the activities of the Sydney offices. As is the case for product and service scope, a wider geographic reach of the Sydney operation would make it more likely that activities performed by the Sydney entity will be broader, deeper and more strategically significant than if the Sydney entity was limited to performing its major roles only in the local economy. The first conclusion that comes out of the exhibit is that 59 percent of the companies indicated a regional role. Twenty-nine percent indicated that the role of the Sydney office was essentially a local Australian role.

EXHIBIT 19. Geographic Scope of Sydney Operation in Performing its Major Roles

Category	% of Respondents (n=84)
Globally	12
Regionally (i.e. Asia-Pacific)	59
Locally (Australia only)	29
Total	100

For these companies, and for the companies that have true Asia-Pacific (as opposed to Australia-New Zealand) activities in Sydney, Sydney's roles are likely to be fairly well embedded and not particularly likely to migrate to other locations. On the other hand, Sydney offices with roles that are Australia-New Zealand rather than global or Asia-Pacific, may also have roles that are firmly embedded in Sydney, but may return less in the way of spillovers on a per person or per dollar of revenue basis. Thus, while the global and regional roles are encouraging, this encouragement should be tempered by the realisation that most of the "regional" roles have a geographic scope does not cover the entire Asia-Pacific, and thus the Sydney offices may not be able to take full advantage of the dynamism in the region.

The 12 percent of companies performing global roles from Sydney is a small, but significant group, since this group is likely to place their highest value activities in Sydney, require the most advanced support services and have significant multiplier effects in the local economy. We note that the 12 percent number was similar to the percentage of companies that reported performing product/service and process development for international markets.

The demographic profile of the companies that indicated the Sydney office plays a global role is mixed. For these 10 companies, three were from the United States, two from the United Kingdom, and one each from Germany, France, Holland, Switzerland, and Singapore. Each company belonged to a different industry. These included mining, shipping, tourism, semiconductors, freight handling, medical services, airline, software, as well as a company that identified itself simply as a holding company and one other that did not specify the industry to which it belonged. The companies varied greatly in terms of size with three of them claiming to have annual revenues of less than US\$100 million, three claiming to earn revenues of US\$1 to 5 billion a year, three claiming to earn revenues exceeding US\$10 billion a year, and one company not specifying its annual revenues. The companies also varied greatly in the number of countries that their parent company has operations in globally, with two companies claiming that their parent company operates in each of the categories of 2 to 5 countries, 6 to 10 countries, and 11 to 30 countries. Three companies reported that their parent company has operations in 31 to 50 countries and one company claimed to be active in more than 50 countries.

Unfortunately, it is difficult to discern any specific types of companies that have assigned a global role to Sydney. This would make it difficult to identify and target specific companies or types of companies to attract global activities to Sydney.

To determine whether any meaningful conclusions can be drawn regarding the importance of Sydney in terms of activities done by companies with global reach, the data on detailed activities for these companies were separately analysed. The results are shown in Exhibit 20.

The irony is that this group of companies actually reported lower average importance of virtually all of the activities that they carry out in Sydney than the entire 85 company dataset. Even so, we should note that the most important activities that companies that claim a global role for Sydney perform in their Sydney operations are the Sales, Marketing, and Customer Service activities as well as Corporate Coordination and Central Management Functions. Again, this indicates that the Sydney operations are focused on relatively high value managerial activities.

EXHIBIT 20. The Importance of Sydney to the Parent Company as a Centre for the Performance of Various Activities (1=Very Unimportant; 2=Unimportant; 3=Neutral; 4=Important; 5=Very Important), Companies with Global Reach Only, n=10

Activity	Mean Response
Corporate Coordination	
Supporting regional operations	3.6
Coordination of other operations within region	3.4
Reporting regional activities to parent company	3.9
Regional liaison centre for parent company	3.8
Monitoring of other regional operations	3.4
Central Management Functions	
Competitor intelligence	3.9
Regional strategy formulation	3.6
Business process development	3.4
Senior personnel management	3.2
Product/service development and design	3.9
Regional information technology management	2.4
Non-raw materials procurement	2.0
Finance and Accounting	
Accounting/auditing	3.3
Trade finance	3.0
Insurance	2.4
Capital-investment finance	2.3
Sales, Marketing, and Customer Service	
Sales planning and execution	3.9
Customer servicing and support	4.0
Marketing planning and execution	3.8
Sales and marketing related procurement	3.4
Market research	3.8
Distributional Activities	
Order processing	2.5
Warehousing finished goods	2.3
Trade documentation	3.0
Land distribution	3.0
Coordinating regional distribution	2.2
Air distribution	2.2
Packaging	2.5
Sea distribution	2.8
Coordinating global distribution	2.4

(Continued)

Activity	Mean Response
Production Activities	
Quality control	1.5
Testing/certification	2.0
Assembly/processing	2.5
Manufacturing	2.6
Raw materials sourcing	2.0
Research and Development	
New product development	2.5
Basic research	2.8
Applied research	2.0
Process technology development	1.8

SYDNEY'S ROLES IN PERSPECTIVE

The results in this section, as in the other sections of this report, are clear. Sydney offices are partly knowledge makers and partly knowledge takers for multinational companies. The capabilities developed in Sydney are generally more market-oriented than oriented toward production or research and development. The Sydney offices are either self-sufficient or somewhat isolated in their sources of knowledge, not drawing that significantly from the rest of the corporation or the local environment other than through their own operations.

Sydney offices are contributors to the management of the multinational companies present in Sydney. They are not, on average, however, seen as entities that can independently develop new products or services for the multinational companies. On average, Sydney offices carry out their roles for a broad product and moderate geographic scope. All of these results indicate a level of importance of the Sydney offices in the strategies and organisation of the multinational companies. However, again it should be remembered that Sydney is viewed largely as a centre for competitor intelligence and regional strategy formulation as well as the management of marketing, sales and customer service. While Sydney has some relevance for broader corporate coordination and central management functions, this is not strong when compared to other cities in the Asia-Pacific region. Indeed, in terms of regional focus, Sydney predominantly has control over Australia and New Zealand rather than the broader Asia-Pacific.

Even so, there is a small, but interesting group of Sydney offices that are of global importance to their respective companies. This group deserves further investigation to determine what attributes of Sydney have attracted such global operations and the extent to which more companies can be encouraged to assign region-wide or global roles to their Sydney operations.

Internationalising Sydney Companies: A Perspective from Foreign Multinationals

In addition to obtaining an activity-level perspective on Sydney and the role of the Sydney office within the foreign multinational, views were sought on the relationship between the Sydney-based offices of the multinational companies and local Sydney companies. Of particular interest is the extent to which local Australian companies gain access to international markets through their interaction with foreign multinationals with offices in Sydney.

WORKING WITH SYDNEY-BASED ENTITIES

Managers of Sydney offices of foreign multinationals were asked about the extent of work (both formal and informal) with Sydney-based entities (see Exhibit 21). The greatest amount of collaboration was with customers, with the mean response indicating extensive links with customers. The companies also reported significant work with Sydney-based industry organisations and associations, indicating that they are plugged into the local corporate community and showing at least some level of satisfaction with such organisations and associations. The next most extensive interaction is with local partners/complementors and suppliers, representing a potential benefit to Sydney as well as to the multinationals through business relations between foreign multinationals and Sydney-based companies.

Not surprisingly, the multinationals reported less extensive work with government and competitors. Australia is a place in which the legal and regulatory environment lets companies get on with their business without the need for extensive interaction with government. The least amount of work was reported to be with public research institutes and universities. On the one hand, this is consistent with a view that multinationals tend not to do much research and development in the Asia-Pacific in general and Sydney in particular. It is also consistent with the Sydney operations generating what knowledge they deploy internally rather than through interaction with other entities. The results do suggest that at present there are relatively few links between foreign multinationals and research institutes and universities that enhance the Sydney operations of multinationals.

This is an area in which significant improvement would appear to be possible, though the extent to which it will be possible to enhance Sydney's role as a source of knowledge for use throughout the multinational through its universities and research institutes is not certain. It is also recognized that the universities may play a broader role in value creation and engage with the Sydney based office of the foreign multinational in ways other than those that might commonly be expected. So, too narrowly defining the role of a university is one possible reason that the surveyed companies did not rate interaction with local universities as being particularly strong.

EXHIBIT 21. The Extent of Work between Sydney Office and Sydney-based Entities (1=Not at all to 7=To a Great Extent)

Category	Mean Response
Customers (n=84)	6.3
Industry organisations/associations (n=84)	5.1
Local partners/complementors (n=84)	4.6
Suppliers (n=84)	4.5
Competitors (n=84)	3.7
Government (n=84)	3.7
Public research institutes/universities (n=84)	3.4

The data were further analysed by compiling a frequency distribution of responses. This was done to ensure that the means are representative in terms of the spread of the data and to evaluate whether there are any interesting subgroups of companies that might be obscured by just reporting the means. The frequency distribution is shown in Exhibit 22.

EXHIBIT 22. The Extent of Work between Sydney Office and Sydney-based Entities (1=Not at all to 7=To a Great Extent), Frequency Distribution of Responses

Category	Not at all							To a great extent	
	1	2	3	4	5	6	7	NA	Total
Customers (n=84)	0	0	3	5	8	19	49	1	85
Industry organisations/ associations (n=84)	0	3	8	18	19	20	16	1	85
Local partners/ complementors (n=84)	8	8	4	13	16	21	13	2	85
Suppliers (n=84)	10	6	8	15	12	15	18	1	85
Competitors (n=84)	15	12	10	14	14	12	6	2	85
Government (n=84)	21	11	3	18	9	12	10	1	85
Public research institutes/ universities (n=84)	20	17	7	14	10	10	6	1	85

From Exhibit 22 it is clear that the means are fairly representative of the spread of responses for each item across the numerical range, but it is worth noting that in the case of "customers" there is a heavy bias towards the positive end item "to a great extent." Also, for both "customers" and "industry organisations / associations" no respondent claimed that there is a total absence of work between the Sydney office and these entities. All categories had 6 or more respondents claiming that their Sydney office and Sydney-based entities work together "to a great extent." In the order of one-fourth of the respondents indicated no work at all was done with government and public research institutes/universities.

Respondents were also asked a similar question targeting their involvement in Sydney with other foreign-based entities (see Exhibit 23). As might be expected, the most interaction was with the parent company/corporate headquarters as well as other units of the corporation. In relation to entities external to the firm, there were low to moderate levels of involvement, with links to non-local suppliers and non-local customers and distributors being the most extensive. Links with non-local sources of technology were reported to be the least extensive.

The results support the notion that Sydney operations have local links to serve the local markets, but have significantly less extensive international linkages that would reflect wider knowledge generation and application, and management roles. Again, the results indicate that the Sydney operations do not actively interact with independent sources of knowledge

or information outside the company and outside Australia, which in turn reinforces the notion that the Sydney operations tend to be local implementers rather than regional or global innovators for the parent companies.

EXHIBIT 23. The Extent of Work between Sydney Office of the Foreign Based Multinational and Other Foreign-based Entities (1=Not at all to 7=To a Great Extent)

Category	Mean Response
Parent company/HQ	5.7
Other units of your corporation	4.9
Non-local suppliers	3.9
Non-local customers/distributors	3.7
Non-local sources of market knowledge	3.4
Non-local partners	3.4
Global industry organisations/associations	3.2
Non-local sources of technology	3.1

LINKAGES BETWEEN SYDNEY ENTITIES AND THE MULTINATIONAL AS A WHOLE

In addition to linkages between Sydney offices of foreign multinationals and Sydney-based entities, relationships between offices of foreign multinationals in other locations and Sydney-based entities are another potential source of economic and knowledge flows into the Sydney region. To evaluate this, respondents were asked about the cooperation between their firm as a whole and Sydney-based companies across a range of activities (see Exhibit 24).

EXHIBIT 24. The Extent of Cooperation between the Foreign Based Multinational as a Whole and Sydney-based Entities (1=Not at all to 7=To a Great Extent)

Activity	Mean Response
Recruitment of staff	4.3
Australian marketing and sales	4.3
Distribution	3.7
Business development	3.6
Market research	3.4
Logistics management	3.2
Secondment of key staff	3.1
Asia-Pacific marketing and sales	2.9
Strategy setting	2.8
Technology development	2.8
Technology search	2.8
Joint venture	2.6
Project finance	2.6
Research and development	2.5
Production	2.4
Global marketing and sales	2.3

The greatest involvement between the multinational companies as a whole and Sydney-based entities occurred in relation to recruitment of staff and Australian marketing and sales. These were the only activities to rate above the moderate level in the survey. In relation to staff recruitment, this suggests that the Sydney region is somewhat attractive for foreign multinationals as a site for accessing human capital to deploy on a regional or global basis. This is consistent with the observation that there is a substantial presence of Australian

nationals among the senior managerial and professional service ranks in the Asia-Pacific. In relation to Australian marketing and sales, the importance of Sydney in selling products and services is again highlighted, with linkages between the multinational and Sydney companies focused on selling into the Australian market. However, the ability of Sydney companies to offer a broader regional or global marketing and sales perspective is either not recognised or utilised, with low levels of involvement occurring on these dimensions.

In relation to the other activities assessed, there are generally low levels of collaboration between Sydney companies and foreign multinationals. This result indicates that local companies are viewed as being of only limited importance in contributing to most of the major activities that the foreign multinationals carry out in Sydney. It also highlights the challenge for local companies in being seen as offering a value proposition that is not restricted to enhancing sales and marketing in the local market. Unless they can do so, it is unlikely that the foreign multinationals will take them into their own networks, or act in other ways that could enhance the internationalisation of the Sydney-based companies.

USE OF SYDNEY-BASED PROFESSIONAL SERVICES

Another way in which the presence of multinational companies in Sydney could enhance the city's economy is through the use of Sydney-based offices of professional services companies by the foreign multinationals for activities that take place outside of Australia. Results of questions in this area are listed in Exhibit 25. A full 68 percent of companies did not utilise local offices of professional services companies for strategy work. This is consistent with the notion that strategies for the Australian market were determined at a corporate level rather than at a Sydney level, or that the Sydney offices of professional service companies were viewed as not suitable for this type of work. The vast majority that did use Sydney offices of professional services companies for strategy work did so only for their activities in Australia, with very small minorities using these for work across the region or globally.

EXHIBIT 25. The Use by the Foreign Based Multinational of Sydney Offices of Professional Services Companies For Various Services in Australia and Beyond

Activity	% of Respondents			
	No use of Sydney Office of Professional Services Companies	Sydney Office of Professional Services Companies only used for Activities in Australia	Sydney Office of Professional Services Companies used for Activities Across Asia-Pacific	Sydney Office of Professional Services Companies used for Activities Globally
Strategy setting	68	24	4	4
Information technology	48	37	5	10
Legal services	10	79	6	5
Accounting and financial management services	21	64	8	8
Audit services	9	70	10	12
Tax services	7	76	10	7

Roughly half of the respondents indicated that their companies made no use of Sydney offices of professional service companies for information technology services and 37 percent used these offices, but only for work in Australia. Interestingly, respondents claimed greater use of Sydney offices of information technology professional services companies globally rather than regionally, although both of these were small percentages. This would

appear to indicate that Sydney does have some world-class skills and capabilities that are recognised and used by a small percentage of foreign multinational companies with Sydney operations. This would appear to represent a further market opportunity for Australian information technology offices to become more embedded in the global operations of multinational clients.

For accounting, financial management, audit and tax services, Sydney-based offices of professional services companies were used to a large extent, but mostly for Australian operations alone. This reflects the need to access knowledge about local regulations, policies and legislation for the execution of these activities. Thus, relationships with local offices of professional services companies are to be expected. Applying this logic further, the relationship with these offices is unlikely to extend to other countries and the results are consistent with this. Even so, a significant minority of multinationals indicated that they used Sydney offices of professional service companies for global activities in audit services. Again, this perhaps indicates skills and capabilities that could be extended further into the multinational company community.

Overall, the multinational companies appear to develop relationships with professional services companies outside of the Sydney region for strategy setting and information technology work. Where Sydney offices of professional services companies are engaged by foreign multinationals, this is driven mostly by the need to access knowledge of local laws, regulations and policies. There is only limited evidence that the multinationals are involved in using Sydney offices of professional service companies for non-Australian work. Thus, it would appear that Sydney offices of professional service companies have taken advantage of the presence of multinationals in the city to extend their own international activities to only a limited extent.

INTERNATIONALISATION AND SUPPORT FOR INTERNATIONALISATION OF SYDNEY ENTITIES

Exhibits 26 and 27 report respectively on the extent of internationalisation of Sydney-based suppliers, partners, customers and competitors of foreign multinationals, and on the extent of support provided to these entities by the Sydney-based offices of foreign multinationals to help them extend their businesses into the international arena.

All of these entities are regarded as having some level of internationalisation, with the competitors of foreign multinationals being the most international (see Exhibit 26). This is not surprising in that the industries in which the multinationals compete are the ones most likely to be populated by other multinationals. Suppliers, customers and partners are also moderately international in their scope. This makes it somewhat surprising that the Sydney offices report that on average they tend not to have much contact with the overseas operations of these entities. Again, this suggests the Sydney offices are relatively standalone.

The Sydney-based offices of the foreign multinationals provide some support for the internationalisation of all of these entities (see Exhibit 27). The highest level of support is provided to Sydney-based customers, which is consistent with the relatively strong linkages that the multinationals report with their customers. Very likely this is due to the hope that assisting customers to go global will result in increased sales for the multinational firm that helped them to go global.

It is interesting that the multinationals report providing more support for the internationalisation of customers than suppliers. Many programs to attract multinational companies around the world do so in part in the hope that the multinationals will help their local suppliers go international. Relatively few, on the other hand, target the potential internationalisation ben-

efits to customers. The present results indicating greater support to helping local customers go international is an additional benefit of the presence of the multinationals that is not often noted.

The responses that indicate that the Sydney-based suppliers operate internationally suggests that either local Australian suppliers already operate internationally to a certain extent or that the main suppliers are the local operations of other foreign multinationals. A surprising result is that the respondents claim that the Sydney offices of multinational companies actually help their competitors internationalise more than they help their suppliers internationalise. Another surprising result in Exhibit 27 is that the least support is given to partners for internationalisation. While this may be due to partners already being international, it is more likely that Sydney-based partners are viewed as partners for the local market and are not brought into the multinationals' global networks as much as one might expect.

Exhibit 26. The Extent to Which Sydney-Based Suppliers, Partners, Customers, and Competitors of Foreign Multinationals Operate Internationally (1=Not at all to 7=To a Great Extent)

Category	Mean Response
Competitors	5.8
Suppliers	5.2
Customers	5.2
Partners	4.9

Exhibit 27. The Extent of Support Provided by Sydney-Based Offices of Foreign Multinationals to Sydney-Based Suppliers, Partners, Customers, and Competitors to Help Them Extend Their Businesses Into the International Arena (1=Not at all to 7=To a Great Extent)

Category	Mean Response
Customers	4.9
Competitors	4.5
Suppliers	4.4
Partners	4.2

Relatively few foreign multinationals were aware of policies and programs aimed at aiding Sydney companies in their internationalisation efforts (see Exhibit 28). Only 28 percent of companies claimed awareness of any such policies or programs. These companies rated the effectiveness of these programs as moderate. To the extent that Sydney wishes to have multinationals engaged in aiding Australian companies in their internationalisation efforts, it would appear that there is a substantial gap in marketing and executing such programs and policies.

EXHIBIT 28. Awareness and Effectiveness of Policies/Programs Aimed at Internationalising Sydney-Based Companies

	Awareness of Policies and Programs, % of Respondents	For Aware Companies, Evaluation of Effectiveness of the Policies and Programs (1=Not Effective to 7 = Extremely Effective)
Policies/programs aimed at internationalising Sydney-based companies	28	4.0

CAPABILITIES OF SYDNEY COMPANIES TO PARTICIPATE IN GLOBAL NETWORKS

To better understand the existing and potential role for Sydney-based companies in the strategies of multinational companies, the capabilities of Sydney-based companies to operate on a more international scale needs to be assessed. Survey respondents were therefore asked about the extent of improvement required by Sydney-based companies in order to be introduced to the international network of the multinational (see Exhibit 29).

The results indicate that Sydney companies need significant improvement in essentially all of the capabilities investigated if they are to take part in the global networks of the multinationals with Sydney operations. While none of the capabilities was rated close to the needing “intensive improvement” to participate in global networks, none scored close to the “not needing improvement” end as well. The largest shortcomings were reported to be in customer service and support and strategic thinking, two of the most basic and important functions carried out by companies. Supplier engagement, marketing activities, cultural sensitivity, research and development, corporate coordination activities, management skill, and general attitude and work ethic all scored far enough away from the needing no improvement end of the spectrum to be a cause for concern. Finance and accounting activities were viewed as needing the least improvement, but again even these scored a long way from the not requiring improvement end of the spectrum.

These results must be taken in the context of the fact that multinationals are highly selective in introducing companies into their global networks and that companies from many locations vie to enter such networks. The results provide additional information when added to the observation that most Sydney offices of multinationals do not have global roles for their companies. The results also indicate that Sydney-based companies need to up their game substantially in order to become preferred partners in the global networks of the responding multinational companies. This should be a wake up call for Sydney companies that wish to work with multinationals present in Sydney on a global basis.

EXHIBIT 29. The Extent of Improvement Required by Sydney-Based Companies in Order to be Introduced to the Foreign Multinational Firm’s International Business Network (1=Not at all to 7= Intense Improvement)

Category	Mean Response
Customer service and support	4.3
Strategic thinking	4.2
Supplier engagement	4.0
Marketing activities	4.0
Cultural sensitivity	3.9
Research and development	3.8
Corporate coordination activities	3.8
Management skill	3.8
General attitude and work ethic	3.8
Output and productivity levels	3.7
Risk management	3.6
Distributional activities	3.6
Staff and workplace relations	3.5
Technology	3.5
Finance and accounting activities	3.3

Longitudinal Comparisons

Using data collected by Directors of ESA in an earlier study from 1998 that surveyed Sydney-based managers of foreign multinational companies with offices in Sydney, some longitudinal comparisons can be performed. These comparisons give a ten-year perspective on the importance of Sydney to foreign multinational companies as a centre for the performance of key corporate activities and functions.

Much has happened in the global and regional economies since 1998 and the ten-year comparison is designed to determine what if any shifts have taken place in Sydney's position and roles in the strategies of multinational companies. The portions of the present survey that were the same as the 1998 survey involved timeless questions about the activities performed in the nations and cities of the Asia-Pacific. No matter what changes have taken place in terms of technology, communication and organisations, companies still need to develop, produce, sell and distribute their products or services. They still need to manage their companies, finance their operations and account for their activities.

Thus, the 1998-2008 comparisons allow for a unique view into the evolution of the operations of foreign multinationals in Sydney and the evolution of the roles assigned to Sydney by the multinational companies.

The demographic data for the two samples gives an understanding of the background, context and general circumstances of respondent companies. It shows that the longitudinal comparisons can be meaningfully performed because the data sets are closely representative of each other across significant demographic dimensions.

Both of the surveys targeted the Sydney-based offices of foreign multinational companies. There were 62 respondents to the 1998 survey while the 2008 survey had 85 respondents.

The nationality of respondent companies matched closely with 44 percent of the 1998 respondents identifying as having a parent company in the United States and 53 percent of respondents claiming to have a parent company located in Europe. For the 2008 survey 41 percent claimed a United States parent company and 46 percent claimed to have a parent company located in Europe. The balance of responses for each survey claimed a wide distribution across a range of other countries of parent company ownership.

Overall, the respondents were closely matched across main line of business. There were proportionately fewer manufacturing companies in the 1998 sample (26 percent) than in the 2008 sample (36 percent) but the proportions of finance and banking companies was similar (10 percent in 1998, 11 percent in 2008) and most other line of business categories were

closely matched; insurance being 10 percent in 1998 and 6 percent in 2008, telecommunications services was 5 percent in 1998 and 3 percent in 2008, and other business services was 10 percent in 1998 and 17 percent in 2008.

The respondent groups for 1998 and 2008 also matched closely in terms of the annual sales turnover of their parent companies. Proportionally more companies in the 1998 survey had a low-end turnover of less than US\$100 million than was the case for the 2008 companies (15 percent in 1998 and 11 percent in 2008). Proportionally fewer companies in the 1998 survey had a high-end turnover of more than US\$10 billion than was the case for the 2008 companies (20 percent in 1998 and 28 percent in 2008). The relative skewing toward the low-end in 1998 and toward the high-end in 2008 is partly explained by the 10-year time gap and the general growth in revenues of all successful companies during that gap. Taking this into account, and looking at the entire distribution of company responses, the data sets are fairly evenly matched in terms of size of company revenue so as to make comparison of the results meaningful.

Overall, the respondents were closely matched in terms of the number of countries in which the parent company has operations. For both surveys it is the case that the majority of respondents claimed to operate in more than 30 countries world-wide (62 percent in 1998 and 54 percent in 2008). In the other categories the studies compared closely too with 20 percent of respondents claiming operations in 11-30 countries in 1998 versus 17 percent in 2008, with the remaining companies in each sample operating in fewer than 10 countries or not answering the question.

LOCATION OF REGIONAL HEADQUARTERS AND REGIONAL OFFICES

The data for Sydney 2008 were compared against the data obtained in the 1998 Sydney study on the issue of city location of firm, whether Regional Headquarters (RHQ), Regional Office (RO), or Local Office (LO). See Exhibit 30.

The RHQ percentages reported for Sydney are higher in the 2008 Sydney survey (25 percent) than in the 1998 survey (20 percent). The RO percentages reported for Sydney in the 2008 survey (18 percent) are slightly higher than for the 1998 survey (17 percent). Other significant differences to note are that for Singapore, there has been an increase in the RHQ percentage reported (22 percent in 2008 versus 13 percent in 1998), but a sharp reduction in the percentage reported for ROs (8 percent in 2008 against 22 percent in 1998). For Hong Kong, there was a reduction in both the RHQ and RO percentages reported (RHQ 13 percent in 2008 versus 19 percent in 1998; RO 4 percent in 2008 against 11 percent in 1998), and an increase in the percentage of LOs reported (32 percent in 2008 against 21 percent in 1998). Some of the shift in RHQs and ROs in Hong Kong may be a consequence of companies relocating to Shanghai where percentages reported for RHQ and RO increased from 0 percent (1998) to 12 percent (2008) for RHQ, and from 2 percent (1998) to 5 percent (2008) for RO. Alternatively, it could simply be a function of the small number of companies involved. The number of local offices established in Shanghai also increased significantly during the period (21 percent in 1998 to 39 percent in 2008). Beijing saw no movement in RHQ percentages (1 percent for 1998 and 2008), a reduction in RO percentages (5 percent in 1998 down to 2 percent in 2008) and an increase in the percentage of LOs (31 percent in 1998 up to 39 percent in 2008). Taipei experienced little movement with RHQs reported of 0 percent in 1998 and 1 percent in 2008, ROs reported of 2 percent in 1998 and 0 percent in 2008, and LOs reported of 28 percent in 1998 and 35 percent in 2008. A decrease was reported for Tokyo located RHQs (5 percent in 1998 versus 2 percent in 2008) and ROs (6 percent in 1998 and 1 percent in 2008) along with a small increase in LOs (35 percent in 1998 against 36 percent in 2008).

There is undoubtedly a bias in the samples in that managers are only surveyed if their companies have an office in the survey city. In addition, there may be a greater tendency for companies with a RHQ or RO in a given city to consider this type of research important and therefore to respond to the survey.

Looking across the two sets of responses, it is clear that Singapore and Sydney stand out as management centres in the region, with Hong Kong and Shanghai also attaining interesting positions as management centres.

EXHIBIT 30. City Location of Regional Headquarters (RHQ), Regional Office (RO), or Local Office (LO), Comparing Sydney 2008 and Sydney 1998 (n=85, 2008; n=62, 1998), Percent of Respondents

Year	Sydney 2008	Sydney 1998	Sydney 2008	Sydney 1998	Sydney 2008	Sydney 1998
City	RHQ		RO		LO	
Beijing	1	1	2	5	39	31
Hong Kong	13	19	4	11	32	21
Shanghai	12	0	5	2	39	21
Singapore	22	13	8	22	27	21
Sydney	25	20	18	17	57	30
Taipei	1	0	0	2	35	28
Tokyo	2	5	1	6	36	35
Indicate other	0	2	0	7		
Indicate other	0	0	0	4		

DETAILED ANALYSIS OF SYDNEY ACTIVITIES

The primary conclusion that can be drawn from Exhibit 31 is that Sydney is considered more important to the multinationals by the 2008 respondents compared to the 1998 respondents in virtually every activity. This corresponds to the Asia-Pacific in general being more important to the companies in the dataset, as well as Sydney's roles being of more importance in and of themselves. This overarching conclusion of greater importance in 2008 than 1998 can be taken to be a positive trend for Sydney.

Within individual categories the trends vary. For Corporate Coordination activities, supporting regional operations and regional liaison activities showed an improvement of the order of 10 percent, with the other response means quite similar between the 1998 and 2008 datasets. For Central Management functions there were marginal increases for most of the importance measures, with the exception of competitor intelligence, which showed an increase of more than 10 percent in the mean response. Taken together, these two categories show an improving trend, though not one of large magnitude.

In the Accounting and Finance category, the results show a positive trend across the board for Sydney, with notable gains in importance in trade finance and capital-investment finance. However, we do note that only in accounting/auditing does Sydney crack the "neutral" score in either dataset.

It is in the Sales, Marketing and Customer Service category that Sydney achieved its highest importance ratings in both 2008 and in 1998, with the mean scores being higher in 2008 than in 1998 in all of the activities in the category. Sales planning and execution, customer servicing and support and marketing planning and execution rose to "important" ratings, with the others not far behind. Particularly notable gains were indicated for sales planning and execu-

tion and sales and marketing related procurement. Again, the overall trend is positive for Sydney, particularly given the way multinationals appear to use their Sydney offices.

The largest increase in reported importance for Sydney offices was in Distribution Activities, where the increase in mean response ranged from 0.3 on a 1 to 5 scale for coordinating global distribution to 1.3 on the 1 to 5 scale for land distribution, and several others increased by 0.5 to 0.8. The mean scores are higher in 2008 for all distributional activities than in 1998. Several of the increases can be linked to an increased importance of distribution in Australia (most likely the reason behind the increase in importance in warehousing and land distribution), though others can be linked to expanding roles in regional distribution (coordinating regional distribution, air distribution, sea distribution). Again, the trend is strongly positive for Sydney and all except one of the activities was rated as above neutral in importance, though none of the Distribution Activities received an "important" rating in the survey. This indicates that Sydney is still somewhat peripheral in the distribution networks of the multinational companies.

There were also across the board increases in the reported importance of Sydney-based Production Activities, with the mean scores higher in 2008 for all production activities than in 1998. Quality control, testing/certification, and assembly/processing had the largest increases. In 1998 no production activity achieved a mean score greater than 3, whereas in 2008 two activities, quality control and testing certification, scored 3 or higher. Although Sydney is clearly not rated as being an important site for production activities in either study, it scores as being more relevant in 2008 than in 1998 and the trend is positive for Sydney in all production activities across the ten-year period.

A similar story is found in Research and Development activities, where all the mean scores are higher in 2008 than in 1998, with particularly large increases in reported importance in applied research. However, even in the 2008 results, no activity achieved a mean score of 3 or better, indicating a "below neutral" level importance for the Sydney offices in terms of research and development activities.

EXHIBIT 31. The Importance of Sydney to the Parent Company as a Centre for the Performance of Various Activities (1=Very Unimportant; 2=Unimportant; 3=Neutral; 4=Important; 5=Very Important)

Activity	Sydney 2008 Mean Response	Sydney 1998 Mean Response
Corporate Coordination		
Supporting regional operations (n=82, 2008; n=59, 1998)	3.9	3.6
Coordination of other operations within region (n=82, 2008; n=59, 1998)	3.8	3.6
Reporting regional activities to parent company (n=80, 2008; n=59, 1998)	3.7	3.5
Regional liaison centre for parent company (n=81, 2008; n=59, 1998)	3.7	3.3
Monitoring of other regional operations (n=81, 2008; n=59, 1998)	3.3	3.4
Central Management Functions		
Competitor intelligence (n=83, 2008; n=57, 1998)	4.0	3.6
Regional strategy formulation (n=83, 2008; n=58, 1998)	4.0	3.8
Business process development (n=81, 2008; n=58, 1998)	3.5	3.3
Senior personnel management (n=79, 2008; n=58, 1998)	3.5	3.4
Product/service development and design (n=80, 2008; n=58, 1998)	3.3	3.1
Regional information technology management (n=80, 2008; n=57, 1998)	3.2	3.2
Non-raw materials procurement (n=66, 2008; n=53, 1998)	2.5	2.2

(Continued)

Activity	Sydney 2008 Mean Response	Sydney 1998 Mean Response
Finance and Accounting		
Accounting/auditing (n=77, 2008; n=58, 1998)	3.3	3.2
Trade finance (n=73, 2008; n=54, 1998)	2.8	2.4
Insurance (n=73, 2008; n=56, 1998)	2.6	2.4
Capital-investment finance (n=72, 2008; n=54, 1998)	2.5	2.1
Sales, Marketing, and Customer Service		
Sales planning and execution (n=79, 2008; n=59, 1998)	4.2	3.7
Customer servicing and support (n=78, 2008; n=58, 1998)	4.2	3.9
Marketing planning and execution (n=79, 2008; n=59, 1998)	4.1	3.8
Sales and marketing related procurement (n=76, 2008; n=58, 1998)	3.8	3.4
Market research (n=77, 2008; n=59, 1998)	3.6	3.3
Distributional Activities		
Order processing (n=59, 2008; n=47, 1998)	3.7	2.9
Warehousing finished goods (n=50, 2008; n=47, 1998)	3.5	2.4
Trade documentation (n=58, 2008; n=47, 1998)	3.5	2.7
Land distribution (n=54, 2008; n=47, 1998)	3.5	2.2
Coordinating regional distribution (n=58, 2008; n=47, 1998)	3.3	2.5
Air distribution (n=50, 2008; n=47, 1998)	3.2	2.4
Packaging (n=50, 2008; n=47, 1998)	3.1	2.1
Sea distribution (n=46, 2008; n=47, 1998)	3.0	2.5
Coordinating global distribution (n=54, 2008; n=47, 1998)	2.4	2.1
Production Activities		
Quality control (n=44, 2008; n=45, 1998)	3.2	2.4
Testing/certification (n=42, 2008; n=47, 1998)	3.0	2.3
Assembly/processing (n=40, 2008; n=44, 1998)	2.8	2.0
Manufacturing (n=40, 2008; n=44, 1998)	2.5	2.1
Raw materials sourcing (n=40, 2008; n=43, 1998)	2.4	2.1
Research and Development		
New product development (n=60, 2008; n=51, 1998)	2.9	2.5
Basic research (n=58, 2008; n=51, 1998)	2.8	2.4
Applied research (n=57, 2008; n=49, 1998)	2.7	2.1
Process technology development (n=54, 2008; n=47, 1998)	2.5	2.2

Cross-Sectional Comparisons Between Sydney and Hong Kong

In 2007, ESA administered a similar survey to that used in the present study to managers employed by foreign multinational companies in Hong Kong. Not all items in that survey were the same as those used in the present survey, but the items that are the same allow the results for Hong Kong in 2007 to be compared to those for Sydney in 2008.

Comparing Sydney and Hong Kong across these items is interesting because both cities are identified as leading management centres, both cities have made significant efforts to attract foreign multinational companies to invest in them and both cities are viable as places in which foreign multinational companies could locate high-value activities.

While the companies that participated in the 2007 study in Hong Kong were not necessarily the same as those that participated in the 2008 study in Sydney, and the managers completing the questionnaire were almost certainly different, they had similar spread in terms of nationality, firm size, international experience and other features. Thus, the results of the two studies are comparable in a meaningful way.

LOCATION OF REGIONAL HEADQUARTERS AND REGIONAL OFFICES

The data for Sydney 2008 were compared against the data obtained in the 2007 Hong Kong study on the issue of city location of firm, whether Regional Headquarters (RHQ), Regional Office (RO), or Local Office (LO). See Exhibit 32.

The main difference between the two studies is that the RHQ and RO percentages reported for Sydney are much higher in the Sydney survey than in the Hong Kong survey and the RHQ and RO percentages reported for Hong Kong are much higher in the Hong Kong survey. There is undoubtedly a bias in the samples in that managers are only surveyed if their companies have an office in the survey city. In addition, there may be a greater tendency for companies with a RHQ or RO in a given city to consider this type of research important and therefore to respond to the survey.

Going across the two sets of responses, it is clear that Hong Kong, Singapore and Sydney stand out as management centres in the region, with Shanghai also attaining an interesting position as a management centre.

EXHIBIT 32. City Location of Regional Headquarters (RHQ), Regional Office (RO), or Local Office (LO), Comparing Sydney 2008 and Hong Kong 2007 (n=85, 2008; n=104, 2007), Percent of Respondents

Year Kong	Sydney 2008	Hong Kong 2007	Sydney 2008	Hong Kong 2007	Sydney 2008	Hon 2007
City	RHQ		RO		LO	
Beijing	1	0	2	1	39	53
Hong Kong	13	69	4	24	32	22
Shanghai	12	4	5	6	39	61
Singapore	22	19	8	22	27	30
Sydney	25	4	18	12	57	37
Taipei	1	1	0	1	35	48
Tokyo	2	3	1	7	36	46
Indicate other	0	1	0	8		
Indicate other	0	1	0	3		

GEOGRAPHIC COVERAGE OF REGIONAL HEADQUARTERS AND REGIONAL OFFICES

The data for Sydney for 2008 were compared against the data obtained in the 2007 Hong Kong study to identify the geographical areas over which RHQs and ROs exercise significant coordination and/or control functions (see Exhibit 33).

The responses from both surveys indicate that if a company has a RHQ or RO in Hong Kong, then that RHQ or RO will generally have a wide geographic scope. In both cases, Sydney RHQs and ROs have a largely Australia/New Zealand geographic scope. This reflects the presence of a large number of Asia or Asia-Pacific headquarters in Hong Kong and relatively fewer such headquarters in Sydney.

The other main discrepancies involve the almost complete lack of reported RHQs and ROs for Beijing, Shanghai and Taipei in the Hong Kong survey and the somewhat narrower geographic scope of control for Singapore RHQs and ROs reported in the Hong Kong survey.

DETAILED ACTIVITY COMPARISON SYDNEY 2008 AND HONG KONG 2007

The data for Sydney for 2008 were compared against the data obtained in the Hong Kong 2007 study on rating the importance of Sydney or Hong Kong to the parent company as a centre for the performance of various activities and functions (see Exhibit 34). Again it is difficult to make absolutely clear conclusions because the survey bases in the two cities involved different respondents. However, there are a number of suggestions that come out of the comparison.

Hong Kong is viewed as a much more important location for Corporate Coordination activities, scoring higher than Sydney in all of the categories in the set. Particularly large gaps appeared with respect to coordination of other operations within region, reporting regional activities to parent company, and monitoring of other regional operations. These results suggest that Hong Kong plays a substantially more significant role than Sydney in linking the Asia-Pacific region with corporate headquarters.

Hong Kong was also rated more important than Sydney in Central Management functions, leading in all categories except competitor intelligence, where the two received the same mean score. Hong Kong's lead in regional strategy formulation, business process develop-

EXHIBIT 33. Geographical Areas Over which RHQs/ROs Identified in Exhibit 24 Exercise Significant Coordination and/or Control Functions, Comparing Sydney 2008 and Hong Kong 2007 (n=85, 2008; n=96, 2007), Percent of Respondents

Study	Beijing		Hong Kong		Shanghai		Singapore		Sydney		Taipei		Tokyo	
	Sydney 2008	Hong Kong 2007												
Geographical area														
Japan	1	0	8	46	9	0	11	5	7	0	0	0	9	10
Korea	1	0	7	46	12	0	12	7	4	1	0	0	5	8
Mainland China	5	1	13	79	16	5	13	6	5	2	1	4	2	0
Taiwan	2	1	9	72	13	3	12	7	5	1	1	4	2	1
Hong Kong	4	1	15	86	12	5	14	7	7	1	0	1	4	0
Philippines	0	0	8	45	8	0	21	26	5	1	0	0	2	0
Thailand	0	0	9	45	7	0	25	32	6	2	0	0	2	0
Malaysia	0	0	11	43	5	0	26	37	6	3	0	0	2	0
Singapore	0	0	9	47	6	0	31	40	7	3	0	0	2	0
Indonesia	0	0	7	33	6	0	25	34	6	2	0	0	2	0
Australia	0	0	8	39	5	0	20	14	38	14	0	0	0	0
New Zealand	0	0	5	28	4	0	15	11	34	11	0	0	0	0
India	0	0	6	36	5	0	9	18	6	1	0	0	0	0

ment, senior personnel management, regional information technology management and procurement indicates a stronger role both in generating strategy for the region and for providing shared services for the region.

Hong Kong rates more strongly as a location for Finance and Accounting activities, scoring more highly than Sydney in each of the activities in this set. Of particular note are the fairly large gaps in trade finance, insurance and capital-investment finance. It would appear that Hong Kong is far more central to foreign multinationals as a finance and financial management centre than Sydney.

Hong Kong and Sydney are rated almost equally as centres for Sales, Marketing and Customer Service activities with both Sydney and Hong Kong being seen as important locations for sales planning and execution, customer servicing and support and marketing planning and execution.

Hong Kong and Sydney received comparable ratings for several Distribution Activities. The main differences involved Hong Kong's much higher rating for coordinating regional distribution and coordinating global distribution and Sydney's higher rating for land distribution. These results indicate that Hong Kong is more plugged into international flows of goods and related management activities than Sydney.

Neither city is rated as an important location for Production Activities, or for activities related to Research and Development. Sydney received higher ratings for Production and the two were comparable for Research and Development.

The overall conclusion from the comparison is that both cities play interesting roles for multinational companies, but that Hong Kong's roles appear centred more on regional and global matters, and somewhat more centred on high-value added activities than is the case in Sydney.

EXHIBIT 34. The Importance of Cities to the Parent Company as a Centre for Performing Various Activities, Sydney 2008 and Hong Kong 2007 (1=Very Unimportant; 2=Unimportant; 3=Neutral; 4=Important; 5=Very Important)

Activity	Mean Response Sydney 2008	Mean Response Hong Kong 2007
Corporate Coordination		
Supporting regional operations (n=82, 2008; n=99, 2007)	3.9	4.2
Coordination of other operations within region (n=82, 2008; n=98, 2007)	3.8	4.3
Reporting regional activities to parent company (n=80, 2008; n=99, 2007)	3.7	4.2
Regional liaison centre for parent company (n=81, 2008; n=99, 2007)	3.7	4.1
Monitoring of other regional operations (n=81, 2008; n=95, 2007)	3.3	4.1
Central Management Functions		
Competitor intelligence (n=83, 2008; n=100, 2007)	4.0	4.0
Regional strategy formulation (n=83, 2008; n=98, 2007)	4.0	4.2
Business process development (n=81, 2008; n=95, 2007)	3.5	3.8
Senior personnel management (n=79, 2008; n=96, 2007)	3.5	3.9
Product/service development and design (n=80, 2008; n=95, 2007)	3.3	3.5
Regional information technology management (n=80, 2008; n=92, 2007)	3.2	3.6
Non-raw materials procurement (n=66, 2008; n=71, 2007)	2.5	3.0

(Continued)

Activity	Mean Response Sydney 2008	Mean Response Hong Kong 2007
Finance and Accounting		
Accounting/auditing (n=77, 2008; n=95, 2007)	3.3	3.7
Trade finance (n=73, 2008; n=84, 2007)	2.8	3.6
Insurance (n=73, 2008; n=87, 2007)	2.6	3.3
Capital-investment finance (n=72, 2008; n=85, 2007)	2.5	3.4
Sales, Marketing, and Customer service		
Sales planning and execution (n=79, 2008; n=96, 2007)	4.2	4.2
Customer servicing and support (n=78, 2008; n=97, 2007)	4.2	4.1
Marketing planning and execution (n=79, 2008; n=98, 2007)	4.1	4.2
Sales and marketing related procurement (n=76, 2008; n=93, 2007)	3.8	3.9
Market research (n=77, 2008; n=96, 2007)	3.6	3.8
Distributional Activities		
Order processing (n=59, 2008; n=67, 2007)	3.7	3.8
Warehousing finished goods (n=50, 2008; n=59, 2007)	3.5	3.3
Trade documentation (n=58, 2008; n=66, 2007)	3.5	3.7
Land distribution (n=54, 2008; n=59, 2007)	3.5	3.2
Coordinating regional distribution (n=58, 2008; n=65, 2007)	3.3	3.9
Air distribution (n=50, 2008; n=57, 2007)	3.2	3.3
Packaging (n=50, 2008; n=59, 2007)	3.1	2.9
Sea distribution (n=46, 2008; n=59, 2007)	3.0	3.3
Coordinating global distribution (n=54, 2008; n=69, 2007)	2.4	3.1
Production Activities		
Quality control (n=44, 2008; n=57, 2007)	3.2	2.9
Testing/certification (n=42, 2008; n=55, 2007)	3.0	2.8
Assembly/processing (n=40, 2008; n=50, 2007)	2.8	2.2
Manufacturing (n=40, 2008; n=50, 2007)	2.5	2.2
Raw materials sourcing (n=40, 2008; n=52, 2007)	2.4	2.8
Research and Development		
New product development (n=60, 2008; n=70, 2007)	2.9	3.0
Basic research (n=58, 2008; n=68, 2007)	2.8	2.8
Applied research (n=57, 2008; n=58, 2007)	2.7	2.5
Process technology development (n=54, 2008; n=61, 2007)	2.5	2.6

Conclusions and Implications

Conclusions and implications can be drawn from the results of the current study. Further insight comes from comparing the results obtained in the current study with those obtained from the same questions posed to multinational companies by ESA in Hong Kong in 2007 and in Sydney in 1998. The unique comparative data enables a set of additional/extended conclusions to be formed.

CONCLUSIONS

The overall findings from the present survey and analysis are quite clear.

- The present dataset contains a reasonable cross-section of foreign multinational companies active in Sydney which can be used to assess the city's activity-level competitiveness and its attractiveness to multinational companies. Most respondent companies are in the service sector but a relatively wide dispersion of manufacturing companies are also included, and most have extensive international experience and therefore can be expected to make specific, comparative choices when it comes to location decisions in the Asia-Pacific.
- The respondent base shows a healthy mix of firm sizes and age of Sydney offices. Sydney appears to attract large, medium and small companies, indicating the city is a "user-friendly" base for a wide range of companies and potentially obtaining different types of spillovers from different types of companies. These may include knowledge transfers in from large multinationals and reliance on Sydney-provided services for smaller companies. The age profile of the companies shows a reasonable mix of new and old offices, with a large number of companies having been in Sydney for a long time, presumably providing a stable base of multinational activities in the city, while the newer offices add some vitality.
- Analysis of the activity locations of the multinational companies in the dataset in the Asia-Pacific shows that patterns of investment vary by activity and by nation, indicating the value of an activity-by-activity approach to understanding the operations of foreign multinationals.
- Most foreign multinational companies active in Sydney have significant sales, service provision and internal management and support functions in Australia, but not significant production or research and development functions. This can be due in part to the fact that most multinationals only have a limited number of production and research and development activities in the region. Australia ranks first in terms of the presence of all functions except production where it ranks second when compared to other nations or regions in the Asia-Pacific or South Asia. However, the sample bias should be noted – given that the Sydney offices of foreign multinationals were the respondents to the survey, they will have some activities in Australia. While the percentage of compa-

nies indicating significant research and development activities in Sydney is under one-quarter, the percentage is high by regional standards and may reflect some underlying sources of advantage in Australia for these activities.

- For foreign multinational companies active in Sydney, regional headquarters and offices are typically located in Sydney or Singapore, with Hong Kong and Shanghai also being favourable locations for these offices.
- While a large number of the Sydney offices of foreign multinationals are reported as either regional headquarters or regional offices, the geographical coverage of these offices extends primarily to Australia and New Zealand. In contrast, the broadest geographical coverage is assigned to regional headquarters and offices of foreign multinational companies that are located in Singapore. Greater China tends to be managed by offices of foreign multinational companies that are located in Shanghai or Hong Kong.
- A detailed assessment of narrowly defined individual activities shows that the Sydney-based offices of foreign multinational companies are primarily important to them with respect to sales, marketing and customer service management. There is some level of importance associated with corporate coordination and central management functions. In contrast, Sydney is regarded as relatively unimportant as a location for production and research and development activities. Overall, it would appear that Sydney should seek to extend its position as a centre for high-value managerial activities.
- In at least half of the companies, the specifications of products and services sold in Sydney were mostly determined outside of Sydney indicating an implementation role for the Sydney office rather than a major decision making role. For the other half, Sydney appears to take a more active role.
- Sydney offices tend to be knowledge makers in that the knowledge utilised by the Sydney-based operations of foreign multinational companies is primarily generated out of its local operations rather than being imported from elsewhere in the company or region. However, this knowledge is seen as somewhat specific to the geographic location of the Sydney office and is not used more broadly within the multinational firm. Thus, the rationale in having a Sydney office is reinforced, with foreign multinational companies setting up in the region to better understand and sell into the Australian domestic market as well as into neighboring areas (primarily New Zealand).
- The results suggest that the Sydney offices are isolated in terms of their knowledge sources, are plugged into the local environment and corporate network only moderately, and do not search farther afield for external sources of knowledge. The results have two main interpretations. One would be that the Sydney offices are relatively self-sufficient outposts set up by the multinational company that can fend for themselves in terms of knowledge sources. The other is that the offices are isolated, not plugged in, and not particularly relevant in terms of the multinational's network, or the local business networks in Australia. In either case the results suggest that the choice to locate in Sydney and set up regional offices is as a means of understanding the nuances of the Australian and New Zealand marketplace, as distinct from the rest of the Asia-Pacific.
- The Sydney-based offices of foreign multinational companies are seen as contributing at some level to overall corporate management through capabilities developed in Sydney. However, they are not seen as major independent contributors to the design or development of products, or to the development of processes for use internationally. Instead, they tend to develop products and services for the local market as well as implementing designs, specifications and processes developed overseas.
- The decision-making results suggest a somewhat peripheral and standalone posture for the Sydney office, capable of standing on its own for the local market, capable of contributing somewhat to management of the corporation more widely, but not a truly strong contributor to the international network of the multinational company, nor well plugged into knowledge sources elsewhere.

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- The Sydney-based offices of foreign multinational companies tend to offer a broad range of products and services and tend to have a regional scope in terms of their influence. The latter point needs to be tempered in that the results suggest that this larger “regional” role refers to Australia and New Zealand only in the vast majority of cases. A small but interesting group of companies has actually assigned a global role to the Sydney office, perhaps indicating Sydney-based skills and capabilities that could be leveraged more widely by other multinationals in the future.
 - The Sydney-based offices of foreign multinational companies tend to work most closely with customers and local industry organisations and associations and less so with other Sydney-based entities, such as local partners, suppliers, competitors and government. The least collaboration was reported with public research institutes and universities, indicating that the multinationals generally do not see these as significantly useful partners. The results are consistent with the focus on sales and related marketing activities and with the marketing orientation of Sydney offices.
 - Collaboration between the Sydney-based offices of foreign multinational companies and other foreign-based organisations was much lower, suggesting that knowledge inflows and business relationships through this avenue into the Sydney location are minimal. This is consistent with the finding that most of the knowledge utilised by the Sydney-based offices of foreign multinationals is generated in their normal course of operations rather than being imported from elsewhere.
 - The results support the notion that Sydney operations have local links to serve the local markets, but have significantly less extensive international linkages to support wider roles in the application and generation of knowledge and in management. Again, the results indicate that the Sydney operations do not actively interact with independent sources of knowledge or information outside the company and outside Australia, which in turn reinforces the notion that the Sydney operations tend to be local implementers rather than regional or global innovators for the parent companies.
 - Broader links between the foreign multinational firm and Sydney-based companies relate to the recruitment of staff, and to Australian marketing and sales. The ability of Sydney companies to offer broader value (in terms of activities or geographies) does not exist, is not recognised and/or is not utilised.
 - Overall, the multinational companies appear to develop relationships with professional services companies outside of Sydney for strategy setting and information technology work. Where Sydney offices of professional services companies are engaged by foreign multinationals, this is driven mostly by the need to access knowledge of local laws, regulations and policies. There is only limited evidence that the multinationals are involved in using Sydney offices of professional service companies for non-Australian work. Thus, it would appear that Sydney offices of professional service companies have only taken advantage of the presence of multinationals in the city to extend their own international activities to only a limited extent.
 - The multinational companies active in Sydney indicate that they actually provide more support for the internationalisation of their Australian customers than for their Australian suppliers. This to a certain extent turns one conventional rationale for attracting foreign investment, to promote the internationalisation of suppliers to the multinationals, on its head and suggests that it may be the customers that could benefit the most from multinational support for their internationalisation efforts.
 - Sydney companies will have to enhance their capabilities across the board if they are to be successfully introduced into the international networks of the multinationals that have offices in Sydney. The biggest gaps are seen in strategy formulation and customer service and awareness, but all of the capabilities identified were listed as needing work before Sydney companies could be introduced into the global networks. This is a particular cause for concern, since Sydney-based companies need to outperform their counterparts in other

cities if they are to leverage the presence of foreign multinationals in Sydney to internationalise. This, together with the need to overcome predefined notions within foreign multinational companies about the role of Sydney as being merely a sales centre for Australia and New Zealand, is the major challenge for Sydney-based companies if they are to grow internationally.

- Sydney in 2008 is viewed as being more important to the parent company of the surveyed foreign multinational as a location for regional headquarters and regional offices than it was in 1998. Looking across the two sets of responses, it is clear that Singapore and Sydney stand out as management centres in the region, with Hong Kong and Shanghai also attaining interesting positions as management centres. The ten-year trend is positive for Sydney and suggests that Sydney is more relevant to foreign multinational companies in 2008 than it was in 1998.
- Sydney in 2008 is viewed as being more important to the parent company of the surveyed foreign multinational as a location for the performance of 36 of the 39 identified activities than it was in 1998. The ten-year trend is overwhelmingly positive for Sydney and suggests that Sydney is more relevant to foreign multinational companies in 2008 than it was in 1998. This implies that Sydney has a base that it can build from in generating the maximum benefit from the multinational presence in the city.

POTENTIAL IMPACTS OF THE PRESENT ECONOMIC DOWNTURN

The present global economic downturn has disrupted economies around the world. Past experience would indicate that the present downturn may have a number of impacts on multinationals in the Asia-Pacific in general, and those operating in Sydney in particular.

- The first impact is that over time, multinational activities in Australia tend to focus on the Australian market. Thus, to the extent that Australia itself suffers from the downturn, multinationals will take that into account in their staffing, planning, and across all of their activities. In early February 2009, the Reserve Bank of Australia was forecasting nearly zero growth for 2009. Leading Australian economists and the IMF were projecting a recession for 2009 and growth of below two percent for 2010. These are hardly the sorts of numbers that are likely to result in an influx of multinational investment.
- The second impact is that the present economic downturn is affecting the export oriented economies of the Asia-Pacific to a greater extent than many other economies around the world. The reason is the collapse in export markets in the United States, Europe and Japan. The South Korean economy, for example, contracted 5.6 percent in the fourth quarter of 2008. The IMF expects it will contract 4 percent in 2009. The Chinese economy grew 6.8 percent in the fourth quarter on a year-on-year basis, but compared the third quarter of 2008 and seasonally adjusted (the way most OECD economies report their growth rates) the growth rate was actually close to zero. Chinese official sources have reported on the order of 30 million unemployed in China as of early February 2009 with little sign of improvement expected in the short-term. The Singapore Government has already projected that Singapore's GDP will contract 5 percent in 2009 and present signs are that it will be worse than that. The IMF projects that Japan's economy will contract by 2.8 percent in 2009.
- In February 2009, the IMF forecast that economic growth in Asia would be on the order of 2.7 percent in 2009, less than one-third of the nine percent registered in 2007. The EIU forecast that Asia plus Australasia would grow only 0.3 percent in 2009. No matter what the precise numbers turn out to be, the rapid slowdown in growth in the Asia-Pacific will have a strong impact on the way that major multinationals deal with the whole region. Thus, it is possible that Sydney operations could see cut backs over and above what would be warranted just looking at the Australian market, due to worsening conditions around the region. This is particularly true for Sydney operations that have regional responsibility, but could be true of other operations as well.

- The third potential impact is that the economic downturn is so severe that many Western and Japanese companies, the dominant sources of foreign direct investment worldwide, are already retrenching foreign operations in order to focus on coping with the crisis at home. In some cases, this will mean a slowdown in investment in the Asia-Pacific. In other cases, it may involve pulling out of the region completely. The number of bankruptcies and company failures is also likely to reach alarming proportions. While some Asia-Pacific operations will be sold on to others, some will wither as their parent companies collapse. Even though the difficulties of many major multinationals may be primarily in their home markets, or in the Western and Japanese markets, they may wind up pulling back or being forced to pull back more in the Asia-Pacific than their position in local markets would warrant. In addition, “discretionary” expenditures and long term plans for market development, research, and other expenditures without immediate returns tend to be put on hold in downturns. This is particularly true in what might be considered peripheral locations or in relatively small markets. To the extent that Sydney is considered peripheral in the regional organisation, there is a chance that it could lose activities over and above what one might expect given conditions in the markets.
- Another potential impact that we are likely to see is consolidation of activities in the Asia-Pacific. Before the Asian Financial Crisis of the late 1990s, many foreign multinationals were exploring placing new management centres in places like Kuala Lumpur, Bangkok, and Seoul. The Asian Crisis completely wiped away any chance of that happening. Instead, management activities were consolidated into a limited number of management centres, like Hong Kong, Singapore, and to a certain extent Sydney. Should foreign multinationals see deterioration of their Asia-Pacific operations, or even their operations at home, we may see a consolidation of activities into a limited number of centres in the Asia-Pacific region. While Sydney-based managerial activities for the Australia-New Zealand market would seem to be safe, it is entirely possible that many regional functions could be consolidated into Singapore or Hong Kong. On the other hand, to the extent that the Sydney office plays important regional roles, there is a chance that activities will be consolidated into Sydney rather than out of Sydney.

In short, few if any of the potential impacts of the present economic crisis on multinational companies would be positive for Sydney. In fact, several of the potential impacts would lead to worse outcomes in Sydney than one might expect by just taking the Sydney market into account. It is important for Sydney to be able to engage the multinationals and determine what conditions could cause them to consolidate activities into Sydney rather than out of Sydney.

IMPLICATIONS FROM THE PRESENT STUDY

There are several implications that can be drawn more generally from the present study of Sydney multinationals.

- The first involves the value of understanding in detail which activities multinational companies perform in Sydney, the geographic and product scope over which these activities take place, and the importance of these activities in the strategies of the multinational companies. All foreign investment is not created equal. Different activities are placed in different locations by multinational companies for specific reasons. The revealed preferences of major multinationals show where Sydney is competitive, where it is not competitive, where it may choose to try to improve, and where the obstacles may be big enough to indicate that efforts should be turned elsewhere. Such knowledge should be extremely useful to those who might wish to help Sydney build on its strengths and overcome its weaknesses.
- Understanding the nature of the multinational companies and their activities in Sydney also should provide input to investment promotion activities that might be carried out for

Sydney. In investment promotion, many cities and nations around the world try to sell what they want to sell rather than what the buyer (the multinational company) wants to buy. In the process, they generally do themselves no favors. Approaches that start with a clear understanding of how multinationals view Sydney and how Sydney fits into their strategies, on the other hand, should allow investment promotion agencies to identify how the activities of multinationals already present in Sydney might be expanded and which activities new entrants are likely to wish to place in Sydney.

- The profile of multinational companies in the dataset is a broad one in terms of nationality, industry, size and international experience. This is a strong positive for Sydney. However, the range is such that the company demographics provide no way to prioritise investment promotion activities along these dimensions. The implication is that Sydney should cast a wide net in terms of the types of multinational companies it seeks to market to around the world. The present results indicate that a focus on attracting particular types of activities may be a more fruitful endeavor than a focus on attracting particular types of companies.
- The activities that the foreign multinationals have placed in Sydney, and the ones they consider the most important, are those related to Sales, Marketing and Customer Service; Corporate Coordination; and Central Management. This was true across industries, nationalities and company sizes. These activities are relatively high-value in terms of the skill levels of the people employed in such activities. One implication is that these are the types of activities that Sydney is most likely to attract and therefore would seem to be the sorts of activities that Sydney should promote. Another implication is that if Sydney is seeking to develop skills and capabilities that would make the city more attractive to foreign multinationals, then marketing, sales, management and coordination skills and capabilities should be major areas of emphasis.
- Another implication of the present work is that the notion of a “Global Sydney” should be thought of as more of an aspiration than a reality, at least when it comes to the strategies of multinational companies. Only a small percentage of leading multinationals have assigned global roles to Sydney. The vast majority of multinationals has assigned Sydney domestic roles, or at best Australia-New Zealand roles. In this context, a strong implication is that overemphasis of “Global Sydney” as a brand rather than an aspiration may fly in the face of what a brand is supposed to be, a promise that is delivered upon without question. It would be far better to style “Global Sydney” as an aspiration rather than a brand, when it comes to Sydney’s roles in the strategies of multinational companies.
- While a clear implication of the present work is that Sydney is not viewed as a global centre for the vast majority of foreign multinational companies, the fact is that a small portion has assigned Sydney global roles. This means that while “Global Sydney” is not a reality today, there is a basis from which to work in this direction. Jumping the gun and claiming for Sydney more than is the case today is likely to obscure the things that Sydney would need to do in order to achieve the ambition of a “Global Sydney.” Instead, we should focus on why it is that some companies place global responsibilities in Sydney and how the situation in Sydney could be improved so that more do so in the future.
- One reason, perhaps, that Sydney is not viewed as a global centre is that the Sydney operations appear to be relatively standalone operations, linked to the multinational firm networks and to local companies, but not as strongly as we might hope. The Sydney operations appear to be split roughly down the middle between “knowledge makers” and “knowledge takers,” but in both cases the deployment of knowledge is on a local or sub regional scale. A clear implication is that the Sydney operations of the foreign multinationals will have to become more embedded into both local networks and the multinational firm networks if they are to make a greater contribution to the knowledge deployed in the multinationals, and presumably generate more value for Sydney in the process. In addition, the Sydney-based operations of foreign multinationals do not appear to be

linked well into non-local sources of information and knowledge, indicating that they do not have a mandate to scour the world for sources of information and knowledge. It is unlikely that these operations will take on more global roles without such mandates.

- From a Sydney standpoint, it may be difficult to do anything about how Sydney is viewed in the networks of the multinational companies. On the other hand, a clear implication of the present work is that there is room to enhance the interactions of the foreign multinationals with local partners, suppliers and public research institutes and universities. Presumably improving such linkages, as well as the skills and capabilities available in Sydney, would be important steps in Sydney obtaining larger roles in the strategies of the multinational companies.
- A small number of the multinationals indicate that they use Sydney-based professional service providers in international activities. An implication for Sydney-based professional service companies is that working with the Sydney offices of major multinationals can, in some cases, lead to the multinational using the Sydney offices for business outside of Australia. Thus, working with major multinationals has the potential to lead to international business in a way that working with other local clients may not. Thus, while it may be difficult to sell business to the foreign multinationals, such business could lead to further use outside of Australia. Another implication is that since relatively few multinationals actually report using Sydney-based professional service providers outside of Australia, that the Sydney-based providers will need to expand their skill and knowledge base if they are to obtain that sort of business.
- The results of the present study should provide a wake-up call for Sydney companies that wish to enter into the global networks of foreign multinationals with operations in Sydney. The clear implication is that, on average, Sydney companies will have to up their game across the board if they wish to enter these networks in a significant way. Of particular importance will be improvements in customer service and support and strategic thinking. The presence of foreign multinationals provides a unique opportunity to piggy-back into global markets. Impressing the Sydney operations of multinationals may be a much easier way to internationalise than having to set up foreign marketing and distribution. However, it appears that Sydney companies in general do not have the capabilities and links with the foreign multinationals present in Sydney to do so.
- An interesting finding is that the foreign multinationals apparently expend more efforts helping their Australian customers become international or global companies than they expend helping their Australian suppliers. While this makes sense intuitively, the multinationals are more intent on helping their customers expand their markets than their suppliers, this link is rarely the focus of investment promotion efforts. An implication is that Sydney-based companies can look to their foreign multinational suppliers for help in penetrating global markets more than one might expect.
- If Sydney hopes foreign multinationals will contribute to the internationalisation of Sydney-based companies, then it will have to make this hope much better known to the multinationals active in Sydney and will need to develop an approach that is consistent with the strategies and aims of the multinational companies.
- The fact that Sydney has become more important to multinational companies in almost all activities in the last ten years is an indication that the Asia-Pacific as a whole is more important to these companies and that Sydney has been improving as a location for these companies. The implication is that Sydney has a more significant place in the strategies of multinational companies. This is a positive trend for Sydney that reflects well on the city and provides a base from which to expand the benefits that Sydney receives from the presence of the operations of foreign multinationals.

Appendix: Relations to Other Recent Studies

The role and the attractiveness of Sydney from the perspective of foreign multinational companies is a topic of significant and growing interest. Prior studies provide complementary evidence and findings that the current study informs and extends.

In 2002, a study by the Australian Business Foundation titled *Friend or Foe, Leveraging Foreign Multinationals in the Australian Economy* observed that foreign multinational companies have positive impacts in Australia through:

- employment and export benefits from RHQs and centres of excellence within the foreign multinational;
- increases in local investment and resource allocation by the foreign multinational where the importance of their Australian offices grows;
- transfers of knowledge and expertise from foreign multinationals to local suppliers;
- training and skills development for Australian staff of foreign multinationals; and
- testing of new products and services in Australia enabling local suppliers to internationalise based on enhancements to their technical capacity.

In relation to this, the present study finds a significant presence of RHQs and ROs with the associated benefits. However, it provides a note of caution in that where the Sydney-based offices of foreign multinational companies possess regional status, this typically takes in Australia and New Zealand only, rather than taking in the broader Asia-Pacific region. Thus, the activities that come under the auspices of the Sydney-based office of the foreign multinational firm are exposed more to mature and developed economies rather than to less developed, but potentially more vibrant, economies in Asia.

In relation to the transfer of knowledge and skills, the report found potential for this with both customers and suppliers. However, as these stakeholders were not directly investigated in the “Friend or Foe” report, it is difficult to offer a firm conclusion as to the realisation of these benefits. On the testing of new products and services in Australia, the report is more definitive; foreign multinationals do not regard Australia as an independent design and development centre.

The present study provides an updated perspective on the benefits of having foreign multinational companies in Sydney. Overall, there has not been significant change with the Sydney-based offices of foreign multinational companies being cast primarily as centres for sales, marketing and customer support for Australia and New Zealand. Furthermore, the present study finds relatively low levels of research and development and a low level of involvement with local universities and public research organisations. Low levels of manufacturing activity were also reported among the manufacturing companies.

In 2008, the Sydney Chamber of Commerce together with PriceWaterhouseCoopers produced a report entitled *Asia Pacific Cities of Opportunity*. Rather than focus on foreign multinational companies, this report profiled Bangkok, Beijing, Hong Kong, Jakarta, Kuala Lumpur, Shanghai, Singapore, Sydney, and Tokyo across different categories of “business readiness.” Although the report did not rank cities, it found that Sydney generally ranked in the top three for dimensions such as financial clout, ease of doing business, intellectual capital, environmental and lifestyle assets, health, safety, and security, and demographic advantages. Sydney was ranked sixth for transportation assets and cost. The report observes that Tokyo, Sydney, Hong Kong, and Singapore performed well across the various categories of business readiness.

While this profile of the cities is interesting, it is also important to consider actual choices made by multinationals in terms of locating activities and what this indicates about the role and the perceived importance of the various cities. This is the perspective employed by this current *Global Connections* report. While generally well regarded as a city, Sydney has yet to fully exploit its potential advantages and expand as a centre for corporate coordination and central management. Right now it is seen as a centre for sales, marketing, and customer support. While this is for a broad range of products and services, geographically the multinational offices in Sydney seem to focus on the markets in Australia and New Zealand rather than on markets elsewhere in the Asia-Pacific. Thus, while Sydney plays a role in the strategies and networks of the multinationals with a presence in the city, this role is limited at present. While geographic and market size may provide inherent limitations, it will be useful for Sydney to continue to explore how it can broaden and deepen the roles that Sydney plays for multinational companies. At the same time, it can use the revealed preferences of the multinationals to identify the activities, skills, and capabilities that are most likely to lead to a broader and deeper role for Sydney.

Also in 2008, the CEO Forum Group produced a study entitled *Positioning Australia, Defining the Role of the Australian Subsidiary*. The study was jointly sponsored by Galileo Connect and ADP. The study identified various roles that are assumed, or might be assumed, by the Australian operation of multinational companies. These roles include that of talent factory, test market, innovation incubator, lynchpin in the regional platform, as well as the role of performing an indispensable task for the global company (identified as a “promise-keeper” role). Although an evaluation of some of these roles was not the explicit focus of the current study, the findings of the current study clearly indicate that the Sydney-based operation of multinationals is often used as a regional platform for key activities, although the focal markets are most commonly Australia and New Zealand. A reasonable inference from the data, taking into account other knowledge of Sydney’s connections to the global economy, is that the other roles identified by the CEO Forum Group study for the Australian operation of multinationals are also likely to be assumed in some instances, and in fact are roles that are currently played by at least some Sydney-based offices of foreign multinational companies.