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Internationalization of Firms: Mitigating Liability of Foreignness in the Singapore Context

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Abstract

Purpose: This study explores the level of relevance of liability of foreignness (LOF) in foreign firms' decision to relocate or to expand their regional headquarters (RHQ) in Singapore. **Research design, data and methodology:** The research question is: what are the mitigating factors of LOF for RHQs operating in Singapore? This explorative study uses various resources from the government agencies: Singapore Economic Development Board such as annual reports between 2012 and 2022, investment programs and published interviews with RHQ's CEOs, Singapore Department of Statistics such as economic, socio-economic and investment data. **Results:** My study shows that years of nation-building toward a world-class infrastructure, identifying key-industries and conscientiously enhancing workforce skills and competency, developing and reviewing investment programs to attract and retain RHQs were the mitigating factors of LOF. **Conclusion:** This implies a low level of relevance of LOF in foreign firms' strategic choice to relocate or to expand their regional headquarters to Singapore. As such, the steady growth of multinational enterprises' (MNEs) RHQs in Singapore presents a challenge to the theoretical postulation of LOF positing that foreign firms are discriminated in host country-environment. As a result, incurring additional costs operating in an unfamiliar environment manifested by varying responses from the local actors. Singapore is a case in point.

Keywords: Internationalization, Liability of Foreignness, Strategy, Foreign Direct Investment, Regional Headquarters

JEL Classification Code: L50, L51, F88, L21

1. Introduction

Existing theories of firms' international expansion are built upon exploitation of managerial resources (Penrose, 1959), competitive advantages of a firm (Hymer, 1976) and intangible assets (Caves, 1982). In a similar vein, the OLI eclectic paradigm developed by Dunning (1979) posited that the ownership (O), location (L), and internalization (I) advantages motivate firm's internationalization decision.

As a result, liability of foreignness (LOF) arises from the cost of doing business abroad (CDBA) manifested by the host and home countries' environments (Hymer, 1976; Zaheer, 1995). Firms in international ventures are likely to be challenged by restrictions based on foreignness imposed by host institutions and marketplace.

The tiny nation of Singapore remains the most business-friendly country as it continues to reform its regulations and polices to attract foreign investment (World Bank, 2016). Current notable rankings are: the fourth most attractive foreign direct investment (FDI) destination (UNCTAD,

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2022), and the second easiest country to start a business (World Bank, 2020); the 9th most global cities of connectivity (Kearny, 2022) and ranks 3rd in its global competitiveness (IMD, 2022); human development index (HDI) remains high at over 0.90; highest among the Association of Southeast Asia Nations (ASEAN) and is on par with developed countries; GDP per capita stood at $79, 575 or the 6th place in world ranking (IMF, 2022). Singapore's achievements in the past decades are prime national assets. In the international business literature, location-based specific advantages are reasons for firms to move abroad to inherit these national assets (Dunning, (2002).

Despite its smallness and spatial distance relative to Europe and the U.S., Singapore continues to attract these countries' investors over the years (Singapore Department of Statistics, 2022). For example, its location-based advantages were clearly reflected in its high volume of foreign direct investment (FDI) that stood remarkably high at $99 billion in 2021 (UNCTAD, 2022). This phenomenon piques curiosity in the realm of liability of foreignness (LOF). In particular, market size and market characteristics such as institutional distance are significant causes of LOF that tend to be manifested in additional operating costs incurred by foreign firms in host country (Zaheer, 1995).

Against the backdrop of Singapore's national assets that are deployed meaningfully in the regulatory (government), cognitive (people) and normative (society) environments, this paper explores the level of relevance of LOF in firms' decision to relocate or to expand their regional headquarters in Singapore. Hence, what are the mitigating factors of LOF for regional headquarters operating in Singapore?

2. Background

In 1965, Singapore separated from it Southeast Asian neighbors, Malaysia, North Borneo and Sarawak also known as the Federation of Malaysia, and became independent. Singapore had no viable natural resources, national security, skillful workforce and a high unemployment rate of 14%. This double-edged challenge spurred the country leaders to rebuild its economy using its only assets – its people (Lee, 2000).

Today, Singapore's economic progress is reflected in the structure of economic output that shifted from industry-based activities (reduced from 35% to 26%) to service-based activities (increased from 65% to 74%) between 2000 and 2021. Its GDP per capita was a mere $10,000 in 1989. However, it has risen to $79,575, about 45% higher than the average of advanced economies (IMF, 2022) in 2022. Singapore was the only Southeast Asian country to be in the top 10 ranking of the Global Peace Index. In relation to peace, nearly all expatriates who were surveyed, considered Singapore to be a safe country to live (Expat Insider, 2022).

The economic and the socio-economic transformations of Singapore from third world to first was evident from its resultant economic indicators (Table 1) leading to the country's business attractiveness reflected in the FDI income (Table 2), as well as the development of a pool of talented global capital and human resources. Today, it is home to a multitude of global and Asia regional headquarters across diverse industries (EDB, n.d.-a).

Table 1: Singapore Selected Economic Indicators

Singapore Selected Economic Indicators	2000	2010	2021	Latest Global Ranking
Government				
GDP per Capita	$23,852.83	$47,236.67	$ 72,794.91	6
FDI (billions)	$6	$39	$99	4
Ease of Doing Business ranking	-	1	2	2
Corruption Perception Index	9.1	9.3	88	4
Global Peace Index	-	1.624	1.326	9
People and Society				
Human Development Index (HDI)	0.831	0.91	0.939	12
Global Competitiveness Ranking	9	3	5	3

Note: Author's compilation from various reports: (IMF, 2022; TI, 2021; UNDP, 2000, 2010, 2021-22; UNCTAD, 2001, 2011, 2022; WB, 2010, 2021)

Table 2: Singapore FDI Income (Unit: billion**)**

Region/Year	2000	2010	2020	% change in 2020/2000	GDP equivalent
Asia	3.2	6.4	21.2	554.4%	Iceland
United States	3.9	8.7	35.4	808.1%	Paraguay
Europe Union	3.8	18.0	44.8	1080.58%	Jordan

Note: Adapted from UNCTAD, 2001, 2011, 2021

3. Literature Review

Early studies of the cost of doing business abroad (CDBA) by Hymer (1976) posited that foreign firms incur inevitable costs when operating outside their home country. He attributed the CDBA to three types of costs: fixed costs such as gathering information to understand better the country's economy, language, law and politics, discriminatory cost as a result of discrimination that foreign firms face in the host country, such as discrimination from government, consumers and suppliers. Thus, foreign firms would be at a disadvantage to local firms.

However, foreignness-disadvantage could be mitigated in the view of Dunning (1979) by examining a firm's internal strengths based on the eclectic paradigm (OLI). O-ownership, L-location-specificity and I-internalization advantages are conferred as MNEs competitive superiority (Dunning, 1979). As such, MNEs prefer to internalize their O and L-advantages to reduce the transaction cost such as agency opportunism arising from structural or cognitive imperfections in the host market (Dunning, 2002; Nachum, 2003). Johanson and Vahlne (1977) termed the CDBA as the extent of psychic distance that would lead to risks and uncertainties in foreign countries. Differences in psychic distance are cost-bearing in nature and tend to have an impact on foreign firms' profitability manifested in additional operating costs (Hymer, 1976).

The concept of liability of foreignness arose in Zaheer's (1995) study two decades later. Zaheer encapsulates the CDBA in the context of liability of foreignness (LOF) that is attributable to four sources: "costs directly associated with spatial distance; firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local environment; costs resulting from the host country environment; costs from the home country environment." (1995, p. 343). These costs were identified as institutional hazards (Eden & Miller, 2004) in the form of unfamiliarity with host-environment, discrimination by the authorities on a firm's foreignness, and relational difficulties in navigating the host-environment process that is embedded with a set of societal norms and values.

Prior to Zaheer's (1995), Kostova (1996) studied the CDBA under the lens of institutional distance and defined it as the extent of dissimilarity between three institutional pillars; regulatory, cognitive, and normative (Scott, 1995) of two countries. The regulative pillar depicts a set of formal rules of governance, controls and enforcement by the government. The normative pillar is a set of societal values, beliefs and actions which are viewed to be acceptable norms within a society. The cognitive pillar prescribes to the taken for granted values and beliefs that tend to link to individual and firm behavior. Taken together, these three pillars may interact differently with one another depending on the organizational form and processes (Scott, 1995).

Another stream of research examines the interplay between firm-level assets (Dunning, 1979) and the sources of LOF (Zaheer, 1995). Nachum's (2003) study found that firms were not disadvantaged by their foreignness and asserted the possibility of a non-existent LOF under certain circumstances as opposed to typical assumptions that foreign firms tend to experience higher cost (LOF) as a result of psychic distance, institutional hazards and outsidership (Johanson & Vahlne, 2009). Nachum argued that foreign firms have integrated international networks that help to accelerate the gathering of information and resources from multiple geographical locations more efficiently, spread risks in multiple cross-border transactions and benefit from economies of scale and scope in production. Most importantly, the extent of LOF experiences by foreign firms are affected by how they aligned their advantages to achieve optimal competitive edge in a given environment (Sethi & Guisinger, 2002).

A later study by Nachum (2010) characterizes foreignness as an asset when it becomes a competitive advantage for foreign firms in the host country. In this case, firm-specific advantages (FSA) such as firm size, brand, technology, and organization capabilities, would be deployed effectively to offset the cost of the LOF. Thus, foreign firms enjoy ownership, location, and internalization advantages (Dunning, 2002). This assertion is validated by the empirical findings of Nachum, (2010) that showed foreign firms enjoyed competitive advantages derived from the location attribute of being in global cities and these firms did not experience additional costs (Nachum, 2010).

In support of Nachum's findings (2003, 2010), Sethi and Judge (2009) argued that the IB literature using Hymer's (1976) CDBA view accentuates the costs and neglecting the benefits derived from doing business abroad are assets of foreignness (AOF). The AOF includes host country pro-foreign investor policy such as preferential subsidies, lower/free rent, tax holidays etc. In addition, branding and quality of foreign firms are often perceived to be better than local firms. These are competitive advantages that could favor the foreign firm. Additionally, when local conditions change to favor foreign firms (Uzzi, 1997), local firms could experience liability of localness (Perez-Batres & Eden, 2008).

Hilmersson and Jansson (2012) asserted that host country's knowledge accumulated has an impact on reducing uncertainties upon entry. Specific knowledge accumulated such as the ability to understand and respond to the host's regulatory environment, possessing social capital in understanding the nuances of the business environment and insider business network knowledge tends to reduce the perceived uncertainties and thus lower the LOF. Laudien and Freiling (2015) argued that regional headquarters (RHQ) could serve as an interlocutor between the headquarters (HQ) and local subsidiaries to materialize location-specific advantages and conversely reduce the LOF.

Ando and Paik (2013) argued that institutional distance between parent and subsidiary can be bridged by adopting staffing practices that would facilitate the merger of localness and foreignness to achieve organizational legitimacy and reducing the LOF. At the same time, MNEs could use the foreign staff to maintain control which is necessary for the transfer of knowledge and organizational practices.

When LOF is viewed in the light of foreign firms' exit rate, Zaheer and Mosakowski's (1997) study found that 12 years is the minimum condition for foreign firms' survival in the financial industry. Foreign trading firms were likely to experience higher exit rate for a period of up to 9 years. This implies that it takes a considerable length of time for foreign trading firms to be on a level playing field with local trading firms. As a result, foreign firms must have firm-specific advantages (FSA) which are superior to local firms, in order to compensate for the LOF faced from the start of their operations. LOF tended to decrease as the financial market was deregulated and became globalized.

Other empirical evidence also suggests that the availability of a host country's resources (knowledge-intensive assets) could be inherited as an O-advantage by the home country (Almeida, 1996; Cantwell, 1995; Dunning & Narula, 1995; Kogut & Chang, 1991). Recent research shows that traditional MNEs have evolved to be 'network- oriented', including horizontal and vertical integrated activities and having non-equity relations with different actors along the global value chain. In other words, global production networks become borderless so the need to own physical production facilities is less compelling than the traditional L-advantage, which is location-bound (Merino & Grandval, 2012).

In short, the eclectic paradigm (Dunning, 1979) subscribes to firm-level assets that could be deployed to reduce risks and uncertainties (Johanson & Vahlne, 1977). These challenges have appeared in many studies with an array of definitions. Hymer (1976) defined these challenges as CDBA, Zaheer (1995) defined them as LOF, while Eden and Miller (2004) disintegrated the sources of LOF into three types of hazards. Other studies used firm-level and host-country specific advantages to assert the strength of these combined advantages making LOF irrelevant. (Hilmersson & Jansson, 2012; Laudien & Freiling, 2015; Nachum, 2003, 2010; Sethi & Judge, 2009).

4. Research Methodology

My study examines Singapore's developmental trajectory and economic success from the theoretical perspective of firms doing business abroad that tend to incur liability of foreignness manifested by spatial distance, unfamiliarity with the local environment resulting in additional costs.

This study uses secondary data to investigate the growth of regional headquarters (RHQ) in Singapore through the lens of liability of foreignness (LOF). The Singapore Economic Development Board's annual reports, investment programs, related press releases including interviews with CEOs pertaining to regional headquarters were reviewed for years between 2012 and 2022.

Statistical data about foreign and local enterprise employment was drawn from the Singapore Department of Statistics. Personal communication was established with the Singapore Accounting and Corporate Regulatory Authority (ACRA) to gather detailed breakdown of foreign and local enterprise formation and cessation, as well as the total local and foreign enterprises from 2010 to 2021.

In addition, an extensive website search using keyword "regional headquarters in Singapore" was conducted to determine the inflow of regional headquarters between 2010 and 2023. The data was then categorized using the same industry classification convention as the EDB's annual reports. The published interviews were further analyzed to examine the underlying reasons that companies chose to set up their RHQs in Singapore.

Taken together, the collective data is analyzed using North's (1991) work on institutions and their interactions with economic actors. He defines institutions as "humanly devised constraints that structure political, economic, and social interactions, namely the regulatory, cognitive, and the normative environments. North contends that the institutional framework provides opportunities for organizations to evolve because it has the power to institute protection of investments. Protection such as enforcement of contracts and property rights which may be costly and impractical for organizations to undertake.

As such, the ensuing sections encompass the results and the discussions in light of the regulatory, cognitive, and the normative environments in Singapore.

5. Results and Discussions

5.1. The Regulatory Environment

Singapore's global economic standing has its roots in the Singapore Economic Development Board (EDB) created in August, 1961 as a one-stop agency for overseas investors (Lee, 2000). In the early 2000s, when the world economy was recovering from an economic slump, Singapore's economy was reestablishing itself correspondingly. Then, the government instituted policies through the EDB to ensure that its economic output was not dependent on electronic goods and the manufacturing sector. Instead, the government focused on designing discriminative policies (Hymer, 1976) favoring multi-national enterprises (MNE) in targeted industries of high value-added services, such as biomedical services, healthcare, education, and telecommunications (EIU, 2002).

The EDB's strategic approach is very clear in its multitude of programs (Dunning, 1979) to position Singapore as a global center for business, innovation, and talent. For example, the "International Business Hub Program" launched in 1996 achieved a significant milestone of success. In a span of 4 years, it attracted 200 transnational companies to locate their regional headquarters (RHQ) to Singapore (UNCTAD, 2001). Regionally, the number of Japanese RHQs in Singapore had also increased by almost 4-folds from only 12 in the 1990s to 44 in 2015. (Hayakawa & Shiino, 2018).

A series of strategic initiatives were launched by the EDB targeting foreign global and regional headquarters based in Singapore (Sethi & Judge, 2009). In May 2021, it rolled out the Corporate Venture Launch pad (CVLP). It is a $7.5 million investment undertaken to support foreign companies that have regional headquarters in Singapore, as well as large local firms in their quest to build new ventures through strategic initiatives to increase their revenues such as creating new and innovative products and services. (EDB, n.d.-b). The CVLP suggests that foreign companies in Singapore are not treated differently than larger local firms when it comes to benefiting from the EDB's programs. The EDB's website defines applicants' eligibility very clearly and the same process applies to all regardless of foreignness.

In 2022, the EDB established an incentive scheme (The Pioneer Certificate Incentive (PC) and the Development and Expansion Incentive (DEI) to support global and regional headquarters to further their business activities to encourage growth and expansion in Singapore (EDB, n.d.-c). This program's exclusivity to foreign firms indicates a preferential treatment resulting in liability of localness (Perez-Batres & Eden, 2008) making liability of foreignness less relevant.

Through the EDB's strategic initiatives, a net inflow of foreign enterprise registration in Singapore is expected. Table 3 illustrates the share of foreign and local enterprises between 2010 and 2022. Number of foreign enterprise registration increased significantly by 70% between 2010 and 2022. There were only 34,500 foreign enterprise registrations in 2010 but it increased to 60,300 in 2022. In contrast, the share of local enterprise registrations was reduced to 80% in 2022 against 83% in 2010. This means 1 out of 4 enterprises in Singapore is currently foreign-owned. The incremental increase year-on-year of foreign enterprise participation in Singapore's employment attests that LOF is not a significant business decision for firms entering Singapore later.

Table 3: Number of Foreign and Local Enterprise Registrations

Number of Enterprises	2022	% Share	2010	% Share	% Change (Year)
Foreign Enterprises	60,300	20%	34,500	17%	75%
Local Enterprises	239,600	80%	165,300	83%	45%
Total	299,900		199,800		50%

Note: Adapted from Singapore Department of Statistics (2010, 2022).

In terms of foreign enterprise's contribution toward Singapore's employment (Table 4), its share is higher than the share of number foreign enterprises. For example, in 2022, 32% of the total employment of Singapore was contributed by foreign enterprises (Table 4), while its share of total number of enterprises was 20% (Table 3).

In the last decade since 2010, share of foreign employment has increased to 32% (Table 4). In other words, foreign enterprises generated more than 1/3 of jobs in Singapore's economy. In addition, the number of foreign enterprises that filed for re-domiciliation in Singapore is fewer than 10 each year (ACRA, 2022, personal communication, 26 September). This is an interesting development because it increases the conversion of existing foreign enterprises into regional or global headquarters to benefit from the programs instituted by the EDB. This also suggests that the local incentives together with the FSAs of foreign firms are greater than the cost of conversion. This indicates a possible reduction in LOF.

Table 4: Employment by Foreign and Local Enterprises

Employment by Enterprise Type	2022	% Share	2010	% Share	% Change (Year)
Foreign Enterprise Employment	1,160,000	32%	840,000	29%	38%
Local Enterprise Employment	2,470,000	68%	2,070,000	71%	19%
Total Employment	3,630,000	100%	2,910,000	100%	25%

Note: Adapted from The Singapore Department of Statistics (2010, 2022).

The EDB annual reports elucidate the breakdown of fixed assets investment, business expenditures and its value added to Singapore's GDP by industry. For this research, I examine the headquarters and professional service industry (Table 5). Between 2012 and 2022, on average, its fixed assets investment amounted to around $500 million, total business expenditures at $1.5 billion and the value added to GDP was at $3.8 billion. The GDP contribution of this industry to the total industries in FDI, averaged at 30%. This is a leading industry that has double digit share of contribution to the GDP. In 2015, it accounted for over 50% of GDP contribution followed by 43.6% share in 2016, and 32.1% in 2022.

On the other hand, the value added to the gross domestic product (GDP) in terms of headquarters and professional services soared from $3.6 billion in 2012 to $4.9 billion in 2022 (EDB, 2012-2022). In 2022, headquarters and professional services constituted almost half of the total business expenditures amounting to $2.1 billion. Even though the contribution of this industry to the Singapore's economy has been fluctuating between 2012 and 2022, it remains a growing industry.

Table 5: Headquarters and Professional Services Foreign Direct Investment into Singapore

Industry: Headquarters and Professional Services						
Year	Fixed Assets Investment $ billions	% Share of Contribution	Total Business Expenditures $billions	% Share of Contribution	Value Added to GDP $ billions	% Share of Contribution
2012	0.6	4.8	1.0	22.9	3.6	23.9
2013	0.5	6	1.3	23.6	2.8	23
2014	0.9	10.2	2.2	42.9	4.1	44
2015	0.9	10.4	1.9	46.5	4.9	53.8
2016	1.0	14	2.5	40.8	4.1	43.6
2017	0.1	10.2	1.7	35.8	3.7	29.1
2018	0.1	1.9	0.8	18.2	1.5	14.6
2019	0.3	2.6	1.5	22.5	3.9	18.1
2020	0.1	0.9	0.9	17.6	5.9	25.74
2021	0.2	2.4	1.0	27.2	2.1	17
2022	1.0	6.1	2.1	46.6	4.9	32.1

Note: Adapted from Singapore Economic Development Board. (2010-2021)

The global economic recovery in 2010 saw a significant leap in investment interest of companies setting up their home base (global and regional headquarters) in Singapore (EDB, 2011). Table 6 depicts the number of RHQs by industry between 2010 and 2023. This table is not exhaustive as it relies on website search using keyword "regional headquarters in Singapore" as the EDB does not have a centralized database to reflect the flow of RHQs, other than intermittent press releases. The number of RHQs peaked in 2012 (10) potentially due to the EDB's Home Strategy and to continue to position Singapore as the Global-Asia hub in 2011 (EDV, 2011). In 2022, the number rose to 12 implying the attractiveness of the Pioneer Certificate and the Development and Expansion incentives that draw more companies to establish their RHQ in Singapore.

Table 6: Number of Regional Headquarters (RHQ) by Industry

Number of Regional Headquarters (RHQ) by Industry											
Year	Bio-med mfrg	Chem'ls	Edu/Health care Serv.	Eng'rg env. serv	Gen. mfgr.	Info-comm & Media	Log'tics	Precision Eng'rng	Prof. Serv.	R&D	Total
2010				2	2	1	1				6
2011						1				1	2
2012	1				2	1	1	1	3	1	10
2013					3				3	1	7
2014	2				2				2		6
2015						1			1		2
2016	1								3		4
2017	1	1		1		1			1	1	6
2018		1		1						1	3
2019		1							4		5
2020				2		2			2		6

2021	2				1				1	1	5
2022			1			4			7		12
2023							1		3		4
Total	7	3	1	6	10	11	3	1	30	6	78

Note: Author's compilation from press releases

Majority of the RHQs that were established between 2010 and 2023 chose Singapore based on two dominant factors: strategic access to ASEAN and the Asia Pacific (AP) markets (Nachum, 2003) and its macro-environment such as robust support from the EDB through their attractive economic policies strongly endorsed by the government, talented pool of educated and competent workforce, innovative eco-system, sophisticated infrastructure etc. (Almeida, 1996; Cantwell, 1995; Dunning & Narula, 1995; Kogut & Chang, 1991). It is clear that the deliberate policies orchestrated by the EDB to attract and retain RHQs have generated consistent flow of foreign-owned enterprises to start their business activities in Singapore. As recent as 2022, there were 12 new RHQs in Singapore. Thus, liability of smallness in the Singapore's context is not subject to high transaction costs that tend to increase the cost of doing business leading to increased LOF. Instead, its location is the gateway to ASEAN as well as the rest of the AP countries where MNEs have established networks (Merino & Grandval, 2012) making Singapore's smallness irrelevant.

Singapore is often compared to Hong Kong that shares similarities such as geographical proximity at the heart of the Asia Pacific region, competing financial hubs, small workforce and limited land space, former colonial rule, lack of natural resources etc. Not only the number of RHQs has increased, Singapore has surpassed Hong Kong significantly. For example, in the early 2000s, Hong Kong was the country for MNEs to locate their RHQ to access the China's market. The same period, Singapore had only 200 RHQs (Dicken & Kirkpatrick, 1991) while there were 855 in Hong Kong (UNCTAD, 2001). In 2019, Singapore was leading Hong Kong by over 3 folds and hosting 4,200 regional headquarters. It is not surprising that Singapore was leading as the top choice of RHQ location. Businesswire (2016) and INS Global (2022) reported that Singapore remained the number one spot for multi-national enterprises to set up their RHQ.

Finally, the cessation of foreign enterprises is examined relative to the cessation of local enterprises to determine the degree of cessation of foreign enterprises over the current-year total of foreign enterprises as well as the current-year total of total enterprises between 2010 and 2021 (ACRA, 2022, personal communication, 26 September). Table 7 shows that the year-on-year foreign enterprise cessation was less than 0.5% and the 12-year average was even lower at 0.33%. In comparison, local enterprise cessation was at double-digit in most years and average at almost 11%. On the whole, foreign enterprises that left Singapore based on a 12-year average of 0.06%, is insignificant and immaterial to cause major shift in Singapore's economic landscape. On the other hand, cessation of local enterprises was at almost 9%. The significant disparity between cessation of foreign and local enterprises suggests a high survivability of foreign firms in Singapore which could be attributable to firm-specific advantages which are superior to local firms (Zaheer & Mosakowski, 1997).

Table 7: Cessation of Enterprises

Cessation of Enterprises				
Year	**% of Foreign Enterprises/Total No. Foreign Enterprises**	**% of Local Enterprises/Total no. of Local Enterprises**	**% of Foreign Enterprises/Total No. of Enterprises**	**% of Local Enterprises/Total No. of Enterprises**
2010	0.47%	8.98%	0.08%	7.43%
2011	0.37%	11.26%	0.06%	9.26%
2012	0.30%	10.77%	0.05%	8.82%
2013	0.36%	9.89%	0.07%	8.10%
2014	0.41%	9.46%	0.07%	7.84%
2015	0.34%	10.47%	0.06%	8.61%
2016	0.35%	11.29%	0.06%	9.27%
2017	0.36%	10.63%	0.06%	8.69%
2018	0.30%	11.19%	0.06%	9.05%
2019	0.27%	10.62%	0.05%	8.51%
2020	0.23%	10.49%	0.05%	8.36%
2021	0.22%	12.70%	0.04%	10.11%
Aver.	0.33%	10.65%	0.06%	8.67%

Note: ACRA, 2022, personal communication, 26 September.

5.2. Cognitive Environment

The human development index (HDI) was developed by adopting Amartya Sen's capabilities approach to ascertain human quality of life using dimensions that reflect human richness expressed in quality of life. Traditionally, using a nation's gross domestic product to assess a country's richness manifested in the state of economic progress does not necessarily reflect human wellness (Shaikh, 2004).

In 2021, Singapore ranked 12th (Table 1) in the HDI amongst Switzerland, Nordic countries, Germany, Australia, Ireland, the Netherlands and Hong Kong. The average life-expectancy is 82.8 years, the expected years of education is 16.5 years and the mean years of schooling is about 12 years (UNDP, 2022). The very high HDI is reflected in the investment on education by the government.

Primary and secondary school education are mandatory in Singapore totaling 10 years of basic education in English. The general population speaks and understands English. According to Singapore educational statistics, over 90% of secondary students passed English in the 10 year-average between 2010 and 2020 (Singapore Census of Population, 2020). The high English literacy is an advantage in doing business in Singapore eliminating the need for interpreters (Akelsen, 2000). This result in lowering the costs of doing business and reducing LOF.

Average government development spending on all levels of education during the same period was $559 million per year and university-level accounted for an average of 25%. The number of polytechnics and universities has increased from 2 in the 1980s to 5 and 10 respectively in 2023. This increment is aligned to the drive to attract and retain entrepreneurs and professionals emanated from the growing economy in the 1980s (Lee, 2000).

Decades of human capital investment in training and development to align Singapore's resources to the needs of RHQs to plan, organize and coordinate their business activities in Singapore and the Asia Pacific markets are environmentally-derived AOF. Knowledge-based assets are inherent in Singapore that could be inherited as an O-advantage by investors, in this case the RHQs in Singapore (Hilmersson & Jansson, 2012). This value of intellectual capital has been cited often as an essential component that eases the functioning of RHQs as demonstrated by the interviews below:

When GlaxoSmithKline (GSK) relocated its regional headquarters to Singapore in 2018. The Regional President expressed:

"Singapore has a conducive business environment due to its pro-business and pro-innovation government policies, advanced infrastructure, well-established legal and IP systems, social stability, and of course a very highly skilled workforce and ability to attract both local and foreign talent around the world. When it comes to Singapore talent, what is really great about Singaporeans is they naturally have an international worldview. We have many great Singaporean talents who now have roles outside of Singapore and are thriving – and I truly believe it's because of how they've grown up in an international city, are highly adaptable, and can very comfortably work with people of different cultures and nationalities. What I love about being a professional in Singapore is being able to interact with the best of the best." (EDB, 2022a).

In 2017, Motorola set up its new Asia Pacific headquarters in Singapore: "With colleagues from around the world, the Singapore office is a true replica of diversity and inclusion, one of our key corporate values at Motorola Solutions." (Human Resources Online.net, 2017).

In 2012, ABB set up its regional headquarters and by 2018 it increased its investment commitment by establishing a new Digital Solutions Center to drive innovation and bring pioneering solutions to its customers worldwide. Its investment commitment is expected to continue as stated by the managing director that "ABB will continue to deepen its commitment to Singapore as a key growth market and an important talent base to power growth." (Tao, 2018)

Ajay Bangar, former Chief Executive Office of Mastercard stated:

"Singapore has played a unique and critical role in the world for many years. It is a center of human progress, dedicated to peace and prosperity for its citizens and neighbors as they work to achieve a more inclusive future. This starts at the highest levels of leadership, rooted in a forward-thinking, collaborative and pro-business approach that will deliver dividends for years to come. I have been privileged over the last decade at Mastercard to have a large and talented team in Singapore. They have worked hard and benefited from the amazing environment that Singapore provides - its role as a hub, as a catalyst, as a spark of human creativity and application. All of us are grateful and proud to be a part of the Singapore magic." (EDB, 2022b).

In 2020, Velchamy Sankarlingam, President of Product and Engineering for Zoom said "We plan to immediately hire employees, leveraging Singapore's highly-educated engineering talent pool." (Zoom, 2020). Similarly, accessing top talent was one of the important factors for setting up Nium's RHQ in 2023 (Nium, 2023).

A recent survey by the American Chamber of Commerce in Singapore further illustrated the skills and competencies of the locals that were valued by American firms. Fifty percent of the firms surveyed reportedly had more than half of their senior positions held by the locals (AmCham, 2021). This suggests that managerial cost of expatriates is substantially reduced as locals are adequately competent, thus narrowing the cognitive distance between the RHQs represented by the locals and the government (Ando & Paik, 2013).

Apart from honing its citizens with relevant skills and competencies to meet work demands and expectations of foreign enterprises in Singapore, its government is also attracting foreign professionals. Recently, Singapore launched the Overseas Networks & Expertise Pass (ONE Pass permitting highly skilled foreign individuals to continue their stay and work for other employers in Singapore instead of leaving the country when their tenure of employment ends with a specific company. This policy increases their employment mobility enabling an increase pool of local and retained foreign talent (EDB, 2023). In addition, it enables MNEs to deploy foreign staff easily to maintain management control and to facilitate transfer of knowledge and organizational practices.

All the positive cognitive inputs presented above triangulate to confirm the low LOF existing in Singapore's regional headquarters' industry.

5.3. The Normative Environment

The multi-racial environment in Singapore requires acceptance and tolerance among cultures of Chinese, Indian, Malay, Eurasian, and Caucasian origins. As opposed to a homogenous culture such as Japan, Singapore's normative environment is a complex mix of human interactions that over time is contained within an orderly structure of governance (North,1991).

Singapore's multi-racial society is bound by common societal values and a common language i.e., English. These common values of a family-oriented society, filial piety, sense of security and economic stability are well depicted in the World Values Survey (2020 wave) comprising 2,012 participants in Singapore (Mathews, Teo, Tay, & Wang, 2021). Laziness is seemed to be a negative value and are strongly correlated with people who do not work. Thus, the society has higher respect and regard for people who work since it is viewed as a duty to society. This suggests a culture that is inclined to have a positive attitude toward foreign firms and the jobs creation that ensues. Thus, foreign firms are less likely to be discriminated by the population.

Religion and politics are not regarded as important in the Singaporean daily lives. This low ranking indicates a high religious tolerance and robust support of the same political governance that necessitates racial harmony and political stability. Singapore is the world's most religiously diverse society in that it does not have a major religion (Pew Research Center, 2014). Another recent research validates the World Values Survey results as Singapore emerged as the top country among the Southeast Asian countries to have the highest religious tolerance (Evans, Starr, Corichi, & Miner, 2023).

The size of Singapore on the world map is a mere red-dot but it is one of the world's top 10 leading cities of high international connectivity and character (Kearny, 2022). The strategic location of Singapore (Table 6) is an enabler for RHQs' access to the ASEAN and the Asia Pacific markets. This suggests that RHQs benefit from the competitive advantages derived from Singapore's stature as a global city of high connectivity and that the RHQs tend not to experience additional costs (Nachum, 2010). Thus, reducing the effect of LOF.

It is located in proximity to its important trading partners such as Japan, China, South Korea, ASEAN, and India. Singapore's multi-racial society accommodates a plethora of cultures from its close neighbors and distant acquaintances in the west indicated by the tourist arrival in 2019. They were largely from ASEAN (69%) and China, (24%). Europe placed 3rd at 11% followed by India (7%), Japan (5%) and South Korea (3%) (Singapore Department of Statistics, 2019). The large volume of diverse tourists' arrival into Singapore indicates the taken for granted assumption that Singapore is receptive to the different facets of foreigners. Before the global pandemic, in 2019 about 8.6 million Singapore residents traveled abroad by air (Singapore Department of Statistics, 2023). Taken together, Singapore's socio-economic structure is well-balanced between diversity and inclusion.

6. Contribution to Theory and Practice

Contrary to the existing theory, overcoming LOF and increasing survivability tend to take a longer time. (Zaheer, 1995, Zaheer & Mosakowski, 1997). My study shows the increased momentum of firms setting up RHQs in Singapore indicates an inherent firm's survivability resulting in a low relevancy of LOF.

My study shows the collective forces of the regulatory, cognitive, and the normative institutions are environmentally-derived assets of foreignness (AOF) inherited by firms which decide to set up RHQs in Singapore. Thus, the interplay between firm-specific assets and the environmentally-derived AOF tend to reduce foreign global firms' vulnerability to LOF in the Singapore's context. As a result, there is an indicator of higher survivability of foreign firms in Singapore as opposed to local firms as the exit rate between 2010 and 2021 averaged at 0.06% as opposed to 8.67% by local firms (Table 7). Contrary to Zaheer & Mosakowski's 1997 study, foreign firms were likely to experience higher exit rate for a period of up to 9 years.

Singapore's global economic stature is a lever for other firms located in the Asian region such as Japan, South Korea, India, China, Australia, New Zealand (JSKICANZ) to set up RHQ accelerating their access to the ASEAN's market. Its strategic location connects to the Asia Pacific region, home of about 4.3 billion people including two largest countries in the world, China and India (UNFPA, n.d.).

Besides Singapore's high English literacy and workforce competencies, Singapore shares similar cultural norms and values thus, the normative distance is narrowed and it is well placed as an interlocutor between Asian investors and JSKICANZ Laudien and Freiling (2015). Hence, Asia region businesses stand to gain from Singapore's human resource capabilities to accelerate knowledge transfer and organizational skills to the workforce in ASEAN. Thus, increasing their workforce efficiency and productivity. As a result, potentially lowering LOF in firms' business expansion.

Asia region businesses can benefit from Singapore's impressive free trade agreement (FTA) network providing opportunities for them to expand to the immediate markets as well as beyond. There are 15 bilateral, 12 regional FTAs and digital economy agreements (DEAs), including ASEAN-China, ASEAN-Hong Kong, and ASEAN and India spelling preferential treatments, reduced import tariffs and protection of intellectual property (Medina, 2023).

7. Conclusion

My study shows the evolution of Singapore's institutions reflects North's postulation that institutions evolved after learning and knowledge are gained. Thus, they are able to adopt innovative methods to reduce transaction costs (risks, uncertainties, unfamiliarity) in order to achieve realizable profits for organizations involved in cross-border trade. Singapore's robust economic growth is a culmination of friendly regulatory policies that are oriented to inward investment, a developed pool of local workforce complementing an attitude of welcoming highly skilled foreign nationals, as well as a socio-demographic population that is racially diverse and has high English literacy. Singapore's political stability and economic progress attest to North's assertion that the complexity of human interactions could be (have been in the Singapore's context) contained within an orderly structure to reduce uncertainty. My study shows that foreign firms (RHQs) are advantaged by an ease of entry into Singapore and this lowers the pressure of LOF faced by the RHQs, evidenced by the 30% GDP contribution in the headquarters and professional services between 2012 and 2022.

My study elucidates the importance of foreign firms' contribution to Singapore's employment between 2012 and 2022. Consequently, foreign investors can rely on Singapore's business system and environment as it is clear that the government's policies are long-term oriented to attract and retain foreign investment. In addition, the people and the society have a high acceptance rate of foreign-owned enterprises since their existence contributes to the wellness of the economy. This attests to the high survivability rate of foreign firms in Singapore vis-à-vis local firms.

In conclusion, my research shows a low level of relevance of LOF in foreign firms' decision to relocate or to expand their regional headquarters to Singapore. The LOF mitigating factors are the combined strength of firm-specific assets operating in a business climate that is constantly harnessed by designing attractive policies buttressed by a competent and adaptable workforce. The number of RHQs in Singapore has increased and existing RHQs are increasing their investment commitment. Substantive commitments in the form of larger office space, manufacturing facility, new research and development centers, sales and marketing etc. The RHQs are owned by the MNEs that have capabilities of deploying their globalized and regional networks to coordinate their business activities in Singapore. The decision of selecting Singapore is substantiated by my study which shows the mitigating factors of LOF for RHQs operating in Singapore.

7.1. Limitations

This study explores the level of relevance of LOF in Singapore's attempt to attract foreign firms to set up RHQs in Singapore. The secondary data is mainly from government related agencies which may be a limitation as this may be biased toward foreign firms that could be facing other sources of LOF in Singapore. The author believes that such work can nonetheless complement the existing studies to provide an overview of Singapore's economic and investment trajectory between 2012 and 2022 based on the postulation of LOF asserting that foreign firms tend to be challenged by a myriad host-country factors.

7.2. Further Research

Investigating the RHQs that have high-profile collaboration with the Singapore EDB would certainly help to confirm and extend this study. It would also add a new dimension in understanding the sources of LOF that might surface as they navigate through the government processes, and their mitigating strategies adopted.

Comparative studies to investigate the RHQs that have lower or no collaboration with the Singapore EDB could provide meaningful insights to compare the LOF between RHQs with high-profile collaboration and RHQs with minimal collaboration with the Singapore EDB.

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