

Global Connections: a Study of Multinational Companies in Sydney

A project undertaken for the Australian Business Foundation

**Enright, Scott & Associates Limited
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Activity-level Competitiveness

- Increasingly, nations and regions compete to attract and retain specific corporate activities
- A focus on the activity level is particularly important for city economies
- The best way to examine the activity-level competitiveness of a location is to focus on the activities of foreign multinational companies
- The activity approach gets down to the details of what companies actually do in a particular location
- The activity approach allows for a fine grained assessment for policy and promotion purposes

The Project

- Goals
 - Assess the activities in which Sydney succeeds and in which it fails
 - Assess the geographic span of Sydney's influence
 - Assess Sydney's role as a source of knowledge
- Methods and sample
 - Survey of foreign MNCs with operations in Sydney, list generated from D&B and Chamber of Commerce sources
 - 100 responses, 85 usable
 - 41% North America, 46% Europe, 9% Asia, 4% Other
 - 36% manufacturing, 55% services, 9% other / did not answer

Parent Company Size

% of Respondents

Category	Global Sales	Global Assets
Less than US\$100 million	11	19
US\$100 to US\$250 million	9	7
US\$250 million to US\$1 billion	21	19
US\$1 to US\$5 billion	25	12
US\$5 to US\$10 billion	6	13
More than US\$10 billion	28	30
TOTAL	100	100

Mix shows that Sydney is “user-friendly” for large, medium, and small companies

International Experience, Age of Office

No. of Countries in which the Parent Company has Operations

Category	% of Respondents
2-5 countries	15
6-10 countries	14
11-30 countries	17
31-50 countries	27
> 50 countries	27
TOTAL	100

Length of Office Presence in Sydney

Category	% of Respondents
< 2 years	2
2 – 5 years	13
6 – 10 years	22
11 – 15 years	18
16 – 25 years	18
> 25 years	27
TOTAL	100

Mix shows that Sydney is “user-friendly” for companies with moderate and extensive international experience and has a healthy mix of new, “middle-aged,” and well-established offices.

Activity Locations

Asia-Pacific Economies in which the Parent Company has Significant Activities, Service Companies Only, Percent of Respondents

Function Country	Sales	Service Provision	Internal Support	R&D
Japan	64	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	71	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

Activity Locations

Asia-Pacific Economies in which the Parent Company has Significant Activities, Manufacturing Companies Only, Percent of Respondents

Function Country	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

RHQs and ROs

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

City \ Year	Sydney 2008	Sydney 1998	Sydney 2008	Sydney 1998	Sydney 2008	Sydney 1998
	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

RHQ, RO Coverage, 2008

Geographical Areas over which RHQs/ROs Identified

Exercise Significant Coordination and/or Control Functions, Percent of Respondents

RHQ / RO	Beijing	Shanghai	H. Kong	Singapore	Sydney	Taipei	Tokyo
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
N. Zealand	0	4	5	15	34	0	0
India	0	5	6	9	6	0	0
Pakistan	0	4	4	5	4	0	0

Country Activities and RHQs/ ROs

- Australia activities dominate in the country tables, not surprising since by definition all companies have activities in Australia
- Less than half of the manufacturing firms with a presence in Sydney have significant manufacturing in Australia
- Australia does relatively well as a location for R&D (remember sample bias)
- All activities are not alike! We need to study the details!
- 43% of firms in sample report RHQ or RO in Sydney, up from 37% in a similar survey in 1998 (remember sample bias)
- The vast majority of “regional” operations cover only Australia and New Zealand. This is very different from Singapore, for example
- Sydney is a “sub-regional” management centre at best

City Importance, 2008 vs 1998

The Importance of Sydney to the Parent Company as a Centre for the Performance of the Various Activities

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	2008	1998
<u>Corporate Coordination</u>		
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 center 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
<u>Central Management Functions</u>		
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

City Importance, 2008 vs 1998

The Importance of Sydney to the Parent Company as a Centre for the Performance of the Various Activities

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	2008	1998
<u>Finance and Accounting</u>		
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
<u>Sales, Marketing, and Customer Service</u>		
Sales planning and execution (n = 79, 2008; n = 59, 1998)	4.2	3.7
Customer servicing and support (n = 78; 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

City Importance, 2008 vs 1998

The Importance of Sydney to the Parent Company as a Centre for the Performance of the Various Activities (Cont.)

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	2008	1998
<u>Distributional Activities</u>		
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

City Importance, 2008 vs 1998

The Importance of Sydney to the Parent Company as a Center for the Performance of the Various Activities (Cont.)

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	2008	1998
<u>Production Activities</u>		
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
<u>Research and Development</u>		
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

City Importance, Sydney vs Hong Kong

The Importance of Cities to the Parent Company as a Centre for the Performance of the Various Activities, Sydney 2008 and Hong Kong 2007

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	Sydney 2008	Hong Kong 2007
<u>Corporate Coordination</u>		
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 center 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
<u>Central Management Functions</u>		
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

City Importance, Sydney vs Hong Kong

The Importance of Cities to the Parent Company as a Centre for the Performance of the Various Activities, Sydney 2008 and Hong Kong 2007

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	Sydney 2008	Hong Kong 2007
<u>Finance and Accounting</u>		
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
<u>Sales, Marketing, and Customer Service</u>		
Sales planning and execution (n = 79, 2008; n = 96, 2007)	4.2	4.2
Customer servicing and support (n = 78; 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

City Importance, Sydney vs Hong Kong

The Importance of Cities to the Parent Company as a Centre for the Performance of the Various Activities, Sydney 2008 and Hong Kong 2007 (cont.)

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	Sydney 2008	Hong Kong 2007
<u>Distributional Activities</u>		
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

City Importance, Sydney vs Hong Kong

The Importance of Cities to the Parent Company as a Centre for the Performance of the Various Activities, Sydney 2008 and Hong Kong 2007 (cont.)

1 = Very Unimportant; 2= Unimportant; 3 = Neutral; 4 = Important; 5 = Very Important

Activity	Sydney 2008	Hong Kong 2007
<u>Production Activities</u>		
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
<u>Research and Development</u>		
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

City Importance

- The most important activities carried out in Sydney are in Sales, Marketing, and Customer Service; Central Management Functions; and Corporate Coordination
- Sydney is not considered important for R&D, Production, Finance and Accounting, and most Distribution activities
- Sydney was viewed as more important to the MNCs in 2008 than 1998 in virtually all activities, showing a positive trend
- Sydney is considered significantly less important to Sydney respondents than Hong Kong to Hong Kong respondents
- The results suggest a localized role for Sydney in the strategies of MNCs

Decision Making

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

Knowledge Sources

Source of knowledge Held by the Sydney Operation

Scale range: 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

Sydney's Roles

The Role Played by Sydney in Management Capabilities and Product / Service Development

Scale range: 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 / services 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

Only around 10% of the firms report design and development for international markets in Sydney

Scope of Sydney Operations

Product / Service Scope of Sydney Operation in its Major Roles

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

Geographic Scope of Sydney Operation in its Major Roles

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

12% of respondents claimed Sydney has a global Mandate, but the importance of Sydney to these companies is lower across the board than for the whole sample

Sydney's Roles

- For most companies in the sample, the specifications of products and services sold in Sydney are not determined in Sydney
- Sydney offices are standalone, or isolated, in terms of knowledge generation, are plugged into the local environment and corporate network only moderately, and do not generally search farther afield for external sources of knowledge
- The Sydney-based offices contribute to overall management of the MNC, but on average are not independent contributors to the design or development of products, services, or processes for international markets
- Roughly 10% of the Sydney offices have a global mandate, perhaps indicating capabilities that can be leveraged, or have yet to be discovered by the bulk of the MNCs

Sydney Resources

The Extent of Work between Sydney Office and Sydney-based Entities

Scale range is 1=Not at all to 7=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

Sydney Resources

The Extent of Work between Sydney Office of the Foreign Multinational and Other Foreign-based Entities

Scale range is 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 partners	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

Sydney Resources

The Extent of Cooperation between the Foreign Multinational as a Whole and Sydney-based Entities

Scale range is 1=Not at all to 7= To a Great Extent

Category	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

Category	Mean Response
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

Sydney Resources

The Use by the Foreign 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 Firm only used for Activities in Australia	Sydney Office of Professional Services Firm used for Activities Across Asia-Pacific	Sydney Office of Professional Services Firm used for Activities Globally
Strategy setting	68	24	4	4
IT services	48	37	5	10
Legal services	10	79	6	5
Accounting and financial management	21	64	8	8
Audit services	9	70	10	12
Tax services	7	76	10	7

Sydney Resources

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

Scale range is 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

Sydney Resources

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

Sydney Resources

The Extent of Improvement Required by the Sydney-based Companies in order to be introduced to the Foreign Multinational Firm's International Business Network

Scale range is 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

Category	Mean Response
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

Sydney Resources (1)

- The Sydney-based offices of foreign multinational companies tend to work most closely with customers and local industry organisations and associations, and not with universities, institutes, or government
- Collaboration between the Sydney offices of foreign MNCs and foreign-based organisations was much lower
- The results indicate Sydney operations have local links to serve the local market, but have significantly less extensive international linkages that would reflect wider roles
- The Sydney operations do not interact with sources of knowledge or information outside the company and outside Australia
- Broader links between the MNCs and Sydney-based companies relate to staffing and local 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.

Sydney Resources (2)

- MNCs use non-Australian service providers for strategy and IT and appear to use Australian offices for local work
- There is only limited evidence that the MNCs use Sydney services for non-Australian work (10-12% do so)
- The MNCs indicate that they actually provide more support for the internationalisation of their Australian customers than for their Australian suppliers
- Sydney companies will have to enhance their capabilities across the board (strategy and customer service in particular) to be introduced into the MNCs' networks

Implications (1)

- The activity approach provides distinct insights into where Sydney is competitive, where it is not competitive, where it may choose to try to improve, and where the obstacles may be too great
- Understanding the nature of the MNCs and their activities in Sydney should provide input into Sydney's investment promotion activities
- The wide range of MNCs active in Sydney indicates that Sydney should cast a wide net in investment promotion programs, an activity rather than industry focus would appear to be in order
- The most important activities MNCs place in Sydney are related to Sales, Marketing, and Customer Service; Corporate Coordination; and Central Management. These point toward activities Sydney should try to attract and skills and capabilities it should try to develop
- The notion of a "Global Sydney" is more an aspiration than a reality, at least for MNCs. This should be reflected in branding efforts

Implications (2)

- While Sydney is not a global centre for the vast majority of MNCs, it is for a small percentage that could be built upon
- Sydney offices are relatively standalone, they will have to become more embedded into local networks, MNC networks, and foreign knowledge sources to create more value for MNCs and Sydney
- There is room to enhance the interactions of the MNCs with local partners, suppliers, research institutes, and universities
- Sydney professional service companies should seek opportunities to leverage work with the MNCs in Sydney into wider markets
- Sydney companies will have to up their game across the board if they wish to enter MNC networks in a significant way
- Since the MNCs report working most closely with their Sydney-based customers, Sydney-based companies can look to their MNC suppliers for help in penetrating global markets more than one might expect
- If Sydney hopes MNCs will contribute to the internationalisation of Sydney-based companies, it will have to make this clear

Implications (3)

- 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.

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