

The 4th Survey on the Regional Headquarters (RHQ) Functions of Japanese Companies in Singapore

December 2015

**Conducted by
JETRO Singapore**

**Cooperated by
Embassy of Japan in Singapore
Japanese Chamber of Commerce & Industry, Singapore**

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Key Points in Survey Results

1. Of the 185 Japanese companies in Singapore (hereafter “Singapore-based companies”) that responded to the survey, **90 (48.6%) indicated that they have regional headquarters (“RHQ”) functions over group companies within the region.** If the 52 companies (28.1%) considering the establishment of an RHQ are included in the count, this brings the total to more than 70%.
2. **The establishment of RHQ functions in Singapore-based companies has rapidly increased since 2010.** About half of the respondent companies indicated that they established their RHQ subsequent to 2010. This increasing trend is set to continue in 2015.
3. Of the 90 companies that responded with having RHQ functions, 46 companies (51.1%) intend to “Enhance RHQ function” in the next 5 years or so, which is more than half of all the companies. If 29 companies considering to “Maintain current status” (32.2%) are included in the count, more than 80% of Singapore-based companies have the intention to maintain current status or enhance RHQ function. While **there were no companies considering or planning the transfer of all RHQ functions of their Singapore-based companies, 20% are considering or planning a partial transfer of their RHQ functions. Of these, 80% cited Thailand as a possible location for the transfer.**
4. **The 72.3% of companies that established RHQ functions assessed the establishment of the functions as having “Brought expected results (66.7%)” or “Brought better results than expected (5.6%)”.** On the other hand, as many companies have established their RHQs only recently, **20% replied “Not sure” in regard to their effectiveness.**
5. The main areas of concern regarding Singapore as the location for establishing RHQ functions are: “Wage increases,” “Expenses for rising office rent and cost of expatriate staff,” and “Tightening of employment visa issuance”. In particular, compared with the previous survey in 2011, **there was a significant increase of 37.2 points in companies that cited “Tightening of employment visa issuance” as a concern.**

Survey Outline and Profile of Responded Companies

1. Conducted by

JETRO Singapore

* Cooperated by Embassy of Japan in Singapore and Japanese Chamber of Commerce & Industry, Singapore (JCCI)

2. Contents of the Survey

- (1) Existence of RHQ functions
- (2) Details of the RHQ functions (countries/regions covered, functions, use of tax incentives, etc.)
- (3) Purpose of establishing RHQ functions and the reasons
- (4) Capital ties, organizational structure and source of revenue for RHQ functions
- (5) Evaluation of RHQ functions
- (6) Future direction of RHQ functions and awareness of issues in regard to Singapore as the location for RHQ
- (7) Others

3. Surveyed Companies

765 companies including 739 JCCI member companies (local corporations and branches except individual members or liaison offices)

4. Surveyed Period

Questionnaire: from 4 August to 15 September 2015

Interviews: from September to November 2015

5. Responses to Questionnaire

Valid responses: 185 companies

Valid response rate: 24.2%

* This survey is our fourth survey since it was first conducted in FY2005. Results of the FY2011 survey can be found in the following website.
<https://www.jetro.go.jp/world/reports/2012/07000868.html>

Companies by industry

(No of companies, %)

	No of companies	%
Manufacturing	86	46.5
Electric equipment	36	19.5
Chemicals	26	14.1
Iron and Steel	8	4.3
Transportation machinery	6	3.2
Food/Beverage	5	2.7
Other manufacturing	5	2.7
Non-manufacturing	99	53.5
Trading/Wholesale	31	16.8
Transportation	15	8.1
Professional Services	11	5.9
Information and Telecommunications	7	3.8
Construction	7	3.8
Finance, Insurance	7	3.8
Real Estate	3	1.6
Retail	3	1.6
Restaurant	3	1.6
Others	12	6.5
	185	100.0

(*1)Electric equipment includes electronic parts & devices, general machinery, precision equipment and tele-communications equipment.

(*2)Chemicals include medical supplies & cosmetics, petroleum, coal and rubber products.

(*3)Transportation machinery includes automobile, automotive parts and other transportation machinery.

(*4)Iron and Steel includes ceramic, stone & clay, non-ferrous metals and metal products.

* Definition of RHQ in this survey

RHQ function means having control of stock ownership, financing over regional group companies and providing other integrated operating functions as well as providing general business management supports (shared services) such as sales, manufacturing, logistics, procurement, research and development, human resources and legal services.

Existence of RHQ Functions in Singapore Offices

■ Almost half of all companies have established RHQ functions

Companies that replied having some form of RHQ functions for their group companies in a specific area/region such as the Asia Pacific region numbered 90, accounting for 48.6% of all survey respondent companies (185 companies). Since the respondent companies differ, a simple comparison is not possible. However, the ratio of companies that responded, “Yes, we have RHQ functions” has increased since the survey in 2011, and the absolute number has also increased.

■ Almost 40% of all companies have established RHQ functions in multiple countries

Of the 90 companies that replied they have an RHQ functions in their Singapore offices, 35 (38.9%) also replied that they have established RHQ functions at companies other than Singapore in a specific area/region, such as the Asia Pacific region. The countries/regions of establishment other than Singapore include China (excluding Hong Kong), with the largest number at 23 (65.7%), followed by Thailand (40.0%).

Singapore based companies with RHQ functions

(No of companies, %)

	2015		2011	
	No of companies	%	No of companies	%
With RHQ functions	90	48.6	77	36.2
No RHQ functions but planning in future	52	28.1	57	26.8
No RHQ functions and no future plans	43	23.2	79	37.1
Total	185	100.0	213	100.0

Companies with RHQ functions besides Singapore

(No of companies, %)

	No of companies	%
One or more	35	38.9
None	51	56.7
No answer	4	4.4
Total	90	100.0

※Countries/region where companies have RHQ functions (multiple answers)

	No of companies	%
China	23	65.7
Thailand	14	40.0
India	7	20.0
Hong Kong	6	17.1
Indonesia	4	11.4
Malaysia	3	8.6
Others	2	5.7

(*) Percentage is based on the total number of 35 companies with RHQ functions besides Singapore.

Singapore based companies with RHQ functions (by industry)

(No of companies, %)

	No of companies	With RHQ functions		Planning in future		Without RHQ and no future plans	
		Numbers	%	Numbers	%	Numbers	%
Manufacturing	86	50	55.6	20	38.5	16	37.2
Electric equipment	36	22	24.4	9	17.3	5	11.6
Chemicals	26	11	12.2	8	15.4	7	16.3
Iron and Steel	8	4	4.4	2	3.8	2	4.7
Transportation machinery	6	5	5.6	0	0.0	1	2.3
Food/Beverage	5	4	4.4	0	0.0	1	2.3
Other manufacturing	5	4	4.4	1	1.9	0	0.0
Non-manufacturing	99	40	44.4	32	61.5	27	62.8
Trading/Wholesale	31	14	15.6	11	21.2	6	14.0
Transportation	15	8	8.9	2	3.8	5	11.6
Professional Services	11	3	3.3	4	7.7	4	9.3
Information and Telecommunications	7	2	2.2	4	7.7	1	2.3
Construction	7	2	2.2	2	3.8	3	7.0
Finance, Insurance	7	3	3.3	1	1.9	3	7.0
Real Estate	3	1	1.1	0	0.0	2	4.7
Retail	3	2	2.2	1	1.9	0	0.0
Restaurant	3	1	1.1	2	3.8	0	0.0
Others	12	4	4.4	5	9.6	3	7.0
Total	185	90	100.0	52	100.0	43	100.0

RHQ Functions Establishment Year and Method

Establishment of RHQ functions increased rapidly from 2010 - trend continues in 2015

A review of the years of establishment of RHQ functions of Singapore-based companies shows that there was a rapid increase in establishment from 2010 onwards. There are many cases of establishment from 2012 in particular, and 13 companies replied that they established RHQ functions in 2014. Eight companies replied that they established RHQ functions in 2015 (as of August), which suggests that the trend toward establishing RHQ functions in Singapore-based companies is also continuing in 2015.

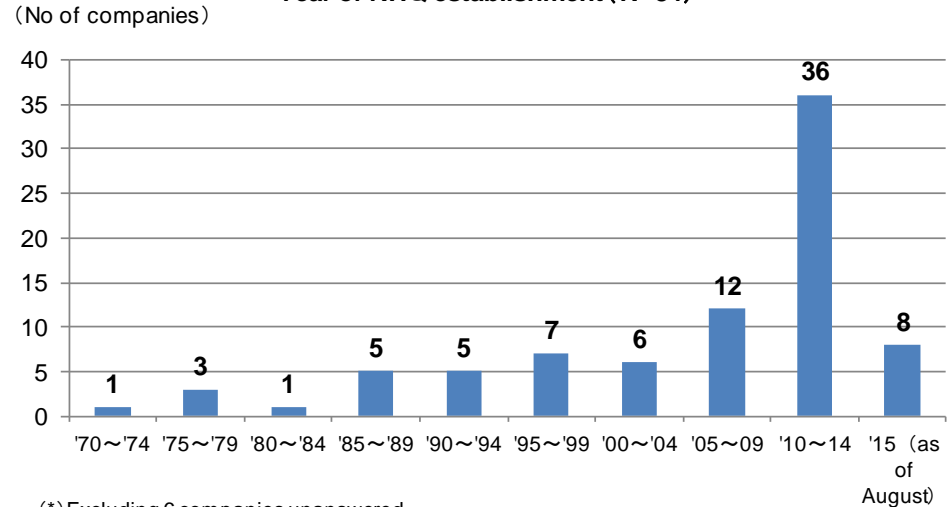
RHQ functions establishment method— equal application of approaches

Two approaches can be seen as methods for establishing RHQ functions: the establishment of a new Singapore-based company assigned with RHQ functions or the addition of RHQ functions to an existing company. In responses given by companies, there was no significant difference in number.

How RHQ was established

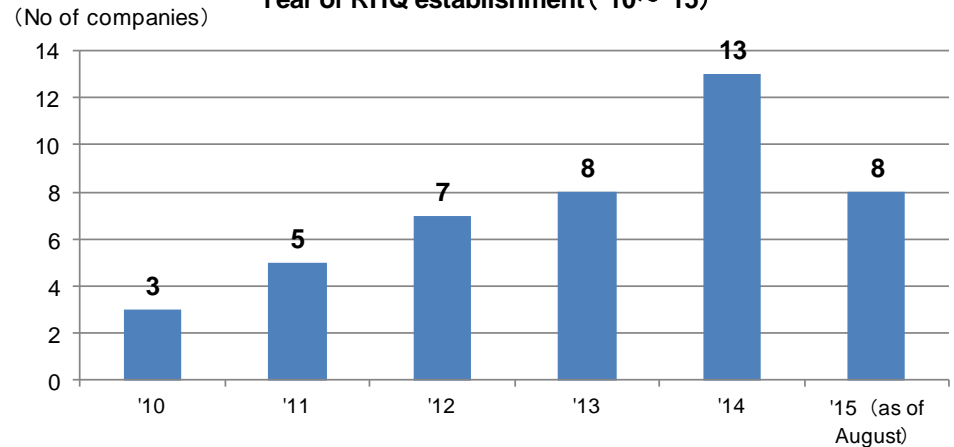
	(No of companies, %)	
	No of companies	%
By establishing a new Singapore-based company with RHQ functions	39	43.3
By adding RHQ functions to the existing Singapore-based company	44	48.9
Others	7	7.8
Total	90	100.0

Year of RHQ establishment (N=84)



(*Excluding 6 companies unanswered.

Year of RHQ establishment ('10~'15)



Scale of Companies with RHQ Functions

Most common response was “8” - number of regional group companies under the management of RHQ functions

In regard to the number of regional group companies managed by the RHQ functions of a Singapore-based company, “8 companies” was the most common response (No. of responses: 11). However, in a comparatively large number of cases, Singapore-based companies manage only a small number of group companies such as “2” or “4” companies, or a large number of group companies such as “20 to 24” companies. The median number was 8.

Overall scale of regional group companies is relatively large, but distributed

In regard to overall sales of regional group companies, companies with sales of “more than JPY100 billion” comprised the largest group, accounting for 28 companies (31.1%). In regard to number of employees, companies that responded “1,001 to 3,000” comprised the largest group. Therefore overall scale of regional group companies under the management of RHQ functions is relatively large. But the scale is distributed because there are some small and medium-scale companies in regard to both sales and number of employees.

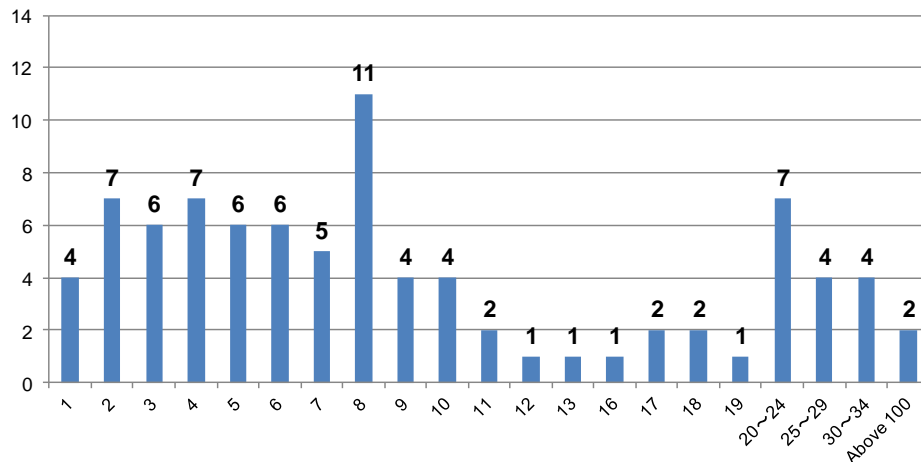
Total sales of regional group companies under the management of RHQ

(No of companies, %)

	No of companies	%
Below JPY1 billion	8	8.9
From JPY 1 to 5 billion	11	12.2
From JPY5 to 10 billion	9	10.0
From JPY 10 to 50 billion	20	22.2
From JPY50 to 100 billion	12	13.3
More than JPY 100 billion	28	31.1
Unanswered	2	2.2
Total	90	100.0

Companies managed under the RHQ function (N=87)

(Companies)



(*) Excluding 3 companies unanswered.

(No. of companies managed)

Total number of employees under the management of RHQ

(No of companies, %)

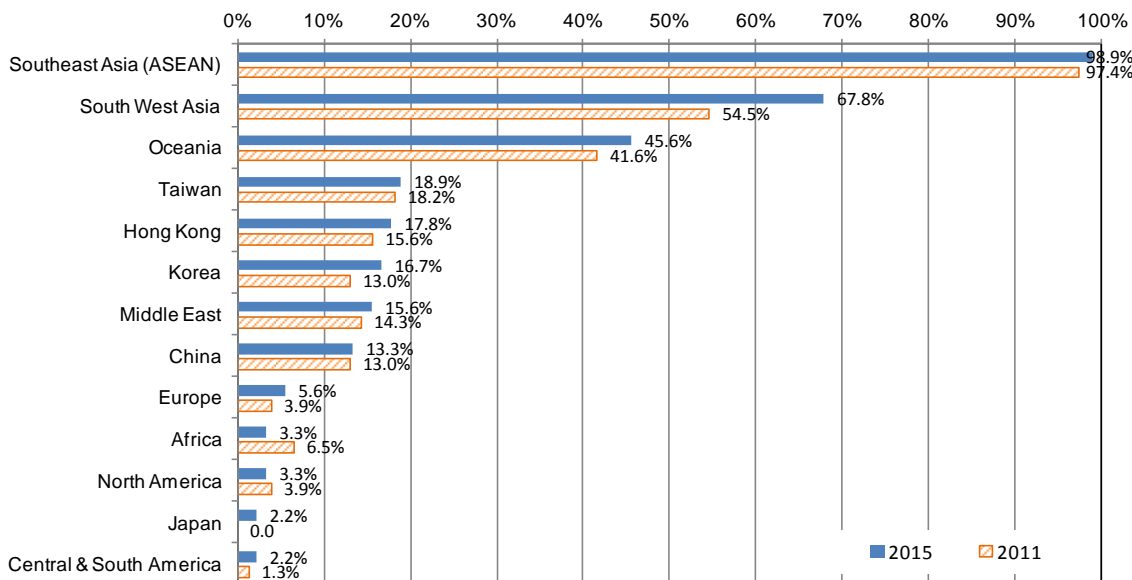
	No of companies	%
100 and below	15	16.7
101 to 300	13	14.4
301 to 1,000	16	17.8
1,001 to 3,000	24	26.7
3,001 to 10,000	12	13.3
more than 10,001	10	11.1
Total	90	100.0

Countries/Regions Covered by RHQ Functions

Management of Singapore-based companies is centered on Southeast Asia, Southwest Asia, and Oceania

Countries and regions covered by RHQ functions of Singapore-based companies include not only Southeast Asia (ASEAN) (89 companies, 98.9%) but also Southwest Asia (61 companies, 67.8%) and Oceania (41 companies, 45.6%). The ratio of companies covering RHQ functions of Southwest Asia in particular has increased by 13.3 points compared to that of the FY2011 survey. However, management of companies covering this area is centered on India, and the number of companies covering Southwest Asia excluding India remains at 25, or 27.8%.

These are followed by RHQ operations covering Northeast Asia including Taiwan, Hong Kong, Korea, and China as well as the Middle East. However, the ratio of companies under RHQ management in these countries/regions is only about 10 to 20%. It is believed that this is because RHQ functions for these respective countries/regions had already been established (for example, either in China or Hong Kong for Northeast Asia, or in Europe for the Middle East).



Countries/regions managed under the RHQ functions (comparison of 2015 and 2011)

(No of companies, %)

	2015		2011	
	No of companies	%	No of companies	%
Southeast Asia (ASEAN)	89	98.9	75	97.4
South West Asia	61	67.8	42	54.5
Oceania	41	45.6	32	41.6
Taiwan	17	18.9	14	18.2
Hong Kong	16	17.8	12	15.6
Korea	15	16.7	10	13.0
Middle East	14	15.6	11	14.3
China	12	13.3	10	13.0
Europe	5	5.6	3	3.9
Africa	3	3.3	5	6.5
North America	3	3.3	3	3.9
Japan	2	2.2	-	-
Central & South America	2	2.2	1	1.3

(*) Percentage is based on the number of companies with RHQ functions (2015: 90 companies, 2011: 77 companies)

(1) Breakdown of "Southeast Asia (ASEAN)" as of 2015 (Multiple answer)

	No of companies	%
All of Southeast Asian countries	46	51.1
Part of Southeast Asian countries	43	47.8
Singapore	36	40.0
Indonesia	36	40.0
Thailand	34	37.8
Malaysia	34	37.8
Vietnam	27	30.0
Philippines	24	26.7
Myanmar	10	11.1
Cambodia	9	10.0
Laos	3	3.3
Brunei	2	2.2

(*) Percentage is based on the total number of 90 companies with RHQ functions.

(2) Breakdown of "South West Asia" as of 2015 (Multiple answer)

	No of companies	%
India	60	66.7
South West Asia excluding India	25	27.8

(*) Percentage is based on the total number of 90 companies with RHQ functions.

Source of Revenue for RHQ Functions

Source of revenue for RHQ functions is mainly derived from regional management fees paid by the parent company or regional group companies

Companies that receive a “Regional management fee paid by the parent company” comprise the largest group (35 companies, 38.9%), followed by companies that receive a “Regional management fee paid by the regional group companies (excl. parent company)” (31 companies, 34.4%). These were followed by companies that receive “Revenue derived from general business” (28 companies, 31.1%) and companies that receive “Dividend revenue from group companies within the region” (27 companies, 30%).

Some companies have only one source of revenue for RHQ functions

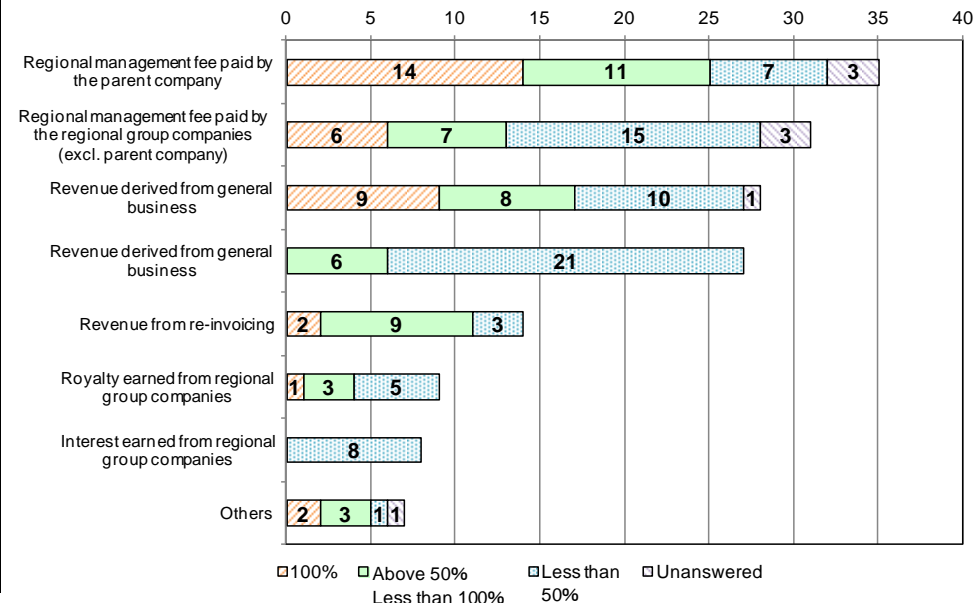
The revenue (source) structure for RHQ functions naturally differs from company to company but 34 companies derive their revenue from a single source. Of these, the 14 companies which derive their revenue solely from a “regional management fee paid by the parent company” comprise the largest group. Other companies derive revenue for RHQ functions from multiple sources.

Source of revenue and its percentage out of total revenue

(No of companies, %)

	No of companies	Percentage out of total revenue			
		100%	Above 50% Less than 100%	Less than 50%	Unanswered
Regional management fee paid by the parent company	35 (38.9)	14 (40.0)	11 (31.4)	7 (20.0)	3 (8.6)
Regional management fee paid by the regional group companies (excl. parent company)	31 (34.4)	6 (19.4)	7 (22.6)	15 (48.4)	3 (9.7)
Revenue derived from general business	28 (31.1)	9 (32.1)	8 (28.6)	10 (35.7)	1 (3.6)
Dividend income from regional group companies	27 (30.0)	0 (0.0)	6 (22.2)	21 (77.8)	0 (0.0)
Revenue from re-invoicing	14 (15.6)	2 (14.3)	9 (64.3)	3 (21.4)	0 (0.0)
Royalty earned from regional group companies	9 (10.0)	1 (11.1)	3 (33.3)	5 (55.6)	0 (0.0)
Interest earned from regional group companies	8 (8.9)	0 (0.0)	0 (0.0)	8 (100.0)	0 (0.0)
Others	7 (7.8)	2 (28.6)	3 (42.9)	1 (14.3)	1 (14.3)

(*) Upper row indicates the number of companies and lower row indicates the percentage. The percentage is based on the total number of 90 companies with RHQ functions, including 3 companies unanswered. The "Percentage out of total revenue" is calculated based on the number of companies from each source of revenue (i.e.: "Regional management fee paid by the parent company" is calculated based on 35 companies.)



Capital Ties with Companies under RHQ and Attributes of RHQ Representatives

■ About 70% of all companies own shares in regional group companies

The number of companies that either own shares in all or some regional group companies is as high as 64, and increases to about 80% when 24 companies that are planning (considering) owning shares in these companies in the future are included.

■ The majority of representatives of Singapore-based RHQs are executive director or general manager level

Most of the positions in Japan for representatives of Singapore-based RHQs are at the Executive Director level (41 companies, 45.6%), followed by positions at the Department Manager level (35 companies, 38.9%), and the positions at these two levels combined account for about 85% of the positions held by the representatives.

Share ownership of the regional group companies

(No of companies, %)

	No of Companies	%
Share ownership of the regional group companies	64	71.1
All	19	21.1
Partial Planning to acquire all or already in the process	20	22.2
Partial No plan to acquire all in the future	25	27.8
Nil	24	26.7
Planning to acquire in the future	7	7.8
No plan in the future	17	18.9
Not sure	2	2.2
Total	90	100.0

Position of the Singapore representative in Japan

(No of companies, %)

	No of companies	%
Executive Vice President level or above	2	2.2
Director/ Board member level	3	3.3
Executive Director level	41	45.6
Department Manager level	35	38.9
Division Manager level	2	2.2
Others	7	7.8
Total	90	100.0

Relationship between the RHQ representative and the representative of Singapore

(No of companies, %)

	No of companies	%
There is a regional representative different from the representative responsible to Singapore	25	27.8
There is a regional representative who is also the representative responsible to Singapore	39	43.3
There is no regional representative position	26	28.9
Total	90	100.0

Purpose of Establishing RHQ Functions and the Reasons

Most companies cited strengthening governance as the purpose in establishing RHQ functions

Companies that cited “To strengthen management control over the regional group companies” as the purpose in setting up RHQ functions comprised the largest at 77.8%, followed by 66.7% that cited “To enhance business relationships for promoting sales with the regional group companies”.

Favorable access to nearby countries - leading reason for establishing RHQ functions in Singapore

An overwhelming majority of more than 90% of respondents cited “Good location for accessing nearby regions” as the reason for establishing RHQ functions in Singapore. This was followed by “Readily accessible to business information,” “English is widely spoken,” and “Political stability” respectively.

Purpose of establishing RHQ functions

(No of companies, %)

	No of companies	%
To strengthen management control over the regional group companies	70	77.8
To enhance business relationships for promoting sales with the regional group companies	60	66.7
To deliver more productivity/cost savings within the regional group companies by providing management support function (shared services)	57	63.3
To have speedy decision making and business management that meet market needs within the region	54	60.0
To attain financial efficiency for the regional group companies as a whole by consolidating foreign exchange risk management, fund management, and settlement management	25	27.8
To utilise various tax incentives for enhanced tax strategy within the regional group companies	22	24.4
Others	6	6.7

(*) Percentage is based on the total number of 90 companies with RHQ functions.

Reason of establishing RHQ functions in Singapore

(No of companies, %)

	No of companies	%
Good location for accessing to the nearby region	82	91.1
Readily accessible to business information	55	61.1
English is widely spoken	54	60.0
Political stability	54	60.0
Well-established legal systems as well as transparent and efficient administrative procedures	47	52.2
Well-developed infrastructures such as logistics, transportations, telecommunications and etc	46	51.1
Tax incentives such as low corporate tax rate and preferential taxation system for RHQ	44	48.9
Financial advantages such as flexible financial regulation and well-established funding market	42	46.7
Availability of skilled personnel necessary for RHQ operations	39	43.3
Availability of professional business services such as legal, accounting, consulting, etc.	38	42.2
Well-established quality of life for foreigners	34	37.8
Having the largest scale of businesses or number of businesses that benefit the most from RHQ function	17	18.9
Protected environment for investment from Singapore under the investment agreement and well-established international arbitration system	14	15.6
Less affected by natural disaster	14	15.6
Readily obtainable Employment VISA for foreigners	12	13.3
Others	3	3.3
Cost of living is relatively reasonable	1	1.1

(*) Percentage is based on the total number of 90 companies with RHQ functions.

Use of Tax Incentives Offered by the Singapore Government

■ Companies benefiting from tax incentives are in the minority

Only 16 companies (17.8%) replied that they are benefiting or had benefited from tax incentives offered by the Singapore government when establishing RHQ functions. Even the inclusion of respondents that replied, “Not at this moment but we are considering to apply,” brings the number of companies only to 17 (18.9%), or about one-third of all companies.

■ Factors contributing to low utilization rate of tax incentives

On the other hand, while 48.9% of the companies cited “Tax incentives such as low corporate tax rate and preferential taxation system for RHQ” as a reason for establishing RHQ functions in Singapore, almost half indicated that they were not benefiting from tax incentives and had no intention to apply for them in the future. Some of the contributing factors for this may be: (1) Many companies consider the tax reduction effects small compared to the level of difficulty of requirements when using the tax incentives, (2) Companies in general feel that the corporate tax rate in Singapore is already low and that they are receiving adequate tax benefits as a result, and (3) RHQs for Japanese companies are often “cost centers” that do not generate profit.

Tax incentives benefitting from the Singapore government

(No of companies, %)

	No of companies	%
Yes, we benefit or benefitted in the past	16	17.8
No, but planning to apply	17	18.9
No, and no intention to apply in the future	41	45.6
Not sure	15	16.7
Unanswered	1	1.1
Total	90	100.0

Benefitting tax incentives - Present and past

(No of companies, %)

	No of companies	%
RHQ (Regional Headquarters)	5	31.3
IHQ (International Headquarters)	1	6.3
FTC (Finance and Treasury Centre)	4	25.0
GTP (Global Trader Programme)	4	25.0
Others	2	12.5

(*) Percentage is based on the total number of 16 companies (including 1 company who did not respond to this particular question) that benefits from tax incentives or have benefitted in the past.

【Reference】 Outline of Tax Incentives by the Singapore Government

■ Regional Headquarters Award (RHQ)

The applicant for RHQ Award is required to provide affiliated companies outside Singapore in 3 or more countries with 3 or more RHQ services. A concessionary tax rate of 15% will be offered to the applicant company for up to 5 years on incremental qualifying income from abroad (i.e. income generated from RHQ services such as management, services, sales, trade and royalties) provided that the applicant company satisfies minimum requirements.

■ International Headquarters Award (IHQ)

IHQ Award is granted to applicant companies that commit to exceed the minimum requirements of the RHQ Award. Concessionary tax rates on qualifying income and incentive periods will be determined and applied to applicant companies in a flexible manner upon consultation with Singapore Economic Development Board.

■ Tax Incentive Scheme for Finance & Treasury Centres (FTC)

Singapore-based companies can benefit from a 10% concessionary tax rate on the income from provision of financial, fund management and corporate finance advisory services as well as interest, dividend and gains from foreign-currency denominated shares and bonds, and foreign exchange trading for up to 10 years, provided that they meet minimum criteria.

■ Global Trader Programme (GTP)

International trading companies dealing with qualifying products such as petroleum products, petrochemical products, agricultural commodities, metal, electronic components, building materials, consumer products who are keen to choose Singapore as their regional base for their principle offshore trading activities with support functions including management control, investment and market development, financial control and logistics management are qualified to apply for GTP. Upon approval, they can benefit from a 5 or 10% concessionary corporate tax rate on the income from their offshore trading activities involving qualifying products and commodities.

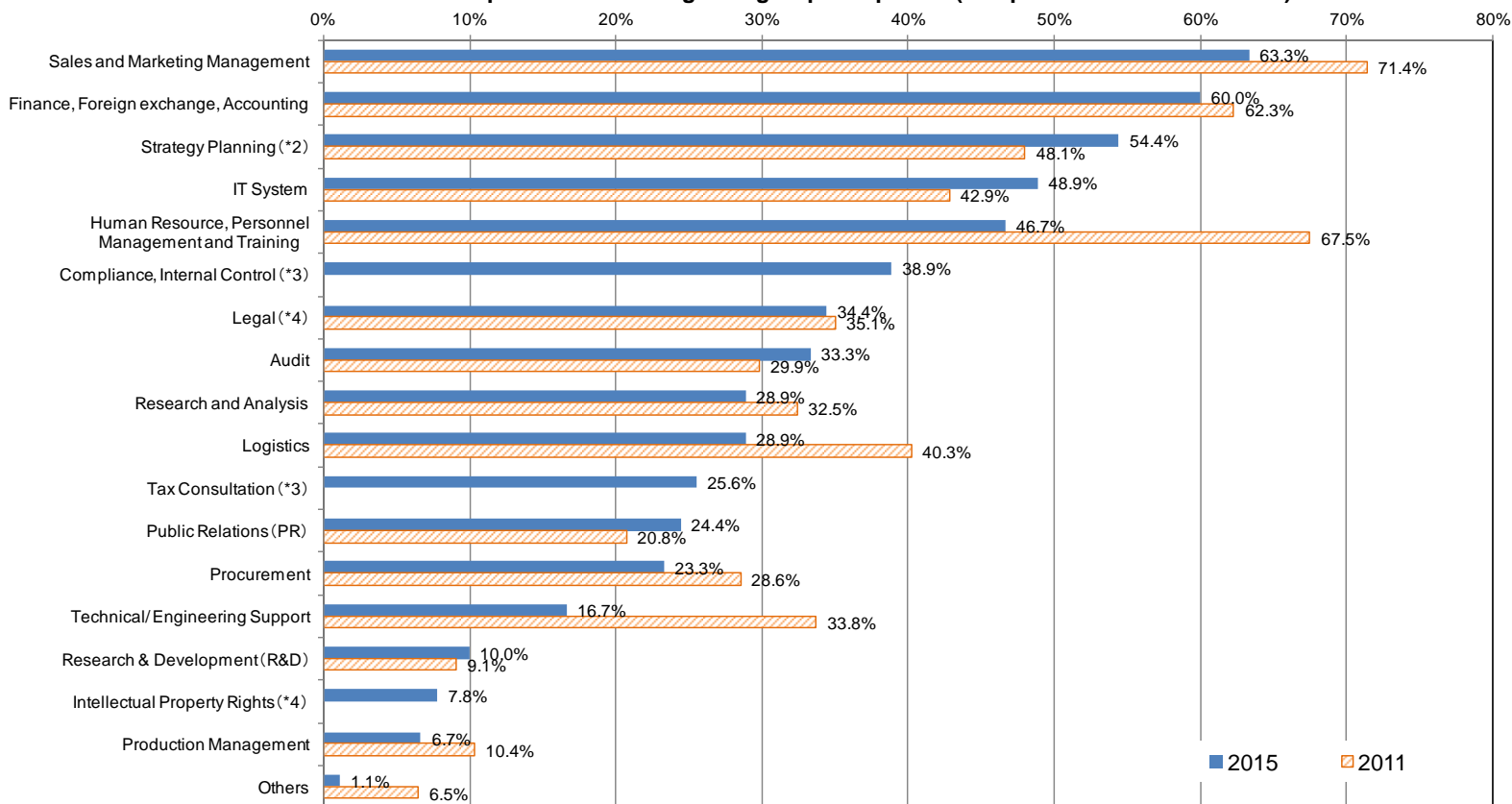
RHQ Functions Provided to Regional Group Companies and their Evaluation (1)

■ **“Sales and Marketing” leads the RHQ functions provided, followed by “Finance, Foreign Exchange, Accounting” and “Strategy Planning”**

As for RHQ functions that Singapore-based companies provide to regional group companies, “Sales and Marketing” cited the most (57 companies), accounting for 63.3% of the 90 companies which reported they have RHQ functions. Next was “Finance, Foreign Exchange, Accounting” (54 companies, 60.0%), followed by “Strategy Planning” (49 companies, 54.4%) and “IT System” (44 companies, 48.9%). In general, these are RHQ functions provided by about half or more of the Singapore-based companies.

Noticeably, there was the decline in the provision of some functions compared with the previous survey. In addition to a 20.8-point decline in “Human Resource, Personnel Management and Training”, other functions that showed a decline were “Technical/Engineering Support” (down 17.1 points), “Logistics (down 11.4 points)”, and “Sales and Marketing” (down 8.1 points).

Functions provided to the regional group companies (comparison of 2015 and 2011)



(*1) Percentage is based on the number of companies with RHQ functions (2015: 90 companies including 4 companies who did not respond to this particular question, 2011: 77 companies)
 (*2) "Strategy Planning" includes planning of new business start-up, restructuring, investment, M&A, etc. The same applies to all other questions below.
 (*3) "Compliance, Internal Control" and "Tax Consultation" are newly added functions from the 2015 survey.
 (*4) "Legal" and "Intellectual Property Rights" were a collective function for the 2011 survey. The 2011 survey result of "Legal and Intellectual Property Rights" (35%) is listed in the "Legal" category.

RHQ Functions Provided to Regional Group Companies and their Evaluation (2)

■ Evaluation of RHQ functions - "Finance, Foreign Exchange, Accounting" scored high and "Procurement" scored low

The table below shows the results of questions on companies' evaluation of RHQ functions. While the majority of companies indicated that all RHQ functions "Brought expected results", "Finance, Foreign Exchange, Accounting" comprised the highest (22.2%) for "Brought better results than expected". Many companies also gave a high assessment for "Audit" (20.0%) and "Public Relations (PR)" (18.2%). On the other hand, the functions that were most frequently cited as having "Brought less results than expected" were "Procurement" (23.8%), followed by "Human Resource, Personnel Management and Training" (16.7%), and "Compliance, Internal Control" (14.3%).

Evaluation against RHQ functions providing to the regional group companies

【Top five results of "Brought better results than expected"】

	No of companies providing RHQ functions	Evaluation			
		Better than expected	Expected	Less than expected	Unanswered
Finance, Foreign exchange, Accounting	54	12 (22.2)	32 (59.3)	3 (5.6)	7 (13.0)
Audit	30	6 (20.0)	19 (63.3)	2 (6.7)	3 (10.0)
Public Relations (PR)	22	4 (18.2)	13 (59.1)	2 (9.1)	3 (13.6)
Legal	31	5 (16.1)	22 (71.0)	1 (3.2)	3 (9.7)
IT System	44	7 (15.9)	30 (68.2)	3 (6.8)	4 (9.1)

【Top five results of "Brought less results than expected"】

	No of companies providing RHQ functions	Evaluation			
		Better than expected	Expected	Less than expected	Unanswered
Procurement	21	2 (9.5)	12 (57.1)	5 (23.8)	2 (9.5)
Human Resource, Personnel Management and Training	42	5 (11.9)	24 (57.1)	7 (16.7)	6 (14.3)
Compliance, Internal Control	35	3 (8.6)	23 (65.7)	5 (14.3)	4 (11.4)
Sales and Marketing Management	57	7 (12.3)	41 (71.9)	6 (10.5)	3 (5.3)
Public Relations (PR)	22	4 (18.2)	13 (59.1)	2 (9.1)	3 (13.6)

(*1) "Better than expected" means "Brought better results than expected", "Expected" means "Brought expected results" and "Less than expected" means "Brought less results than expected".

(*2) RHQ functions less than 20 companies provide to their group companies are excluded.

(*3) Upper row indicates the number of companies and lower row indicates the percentage. The percentage is based on the total number of companies providing RHQ functions (i.e.: "Finance, Foreign exchange, Accounting" is calculated based on 54 companies.)

Overall Evaluation of RHQ Functions

More than 70% believe RHQ functions “Brought better results than expected” or “Brought expected results”

From an overall perspective, the majority of companies (65 companies, 72.3%) viewed the business/management effectiveness achieved by setting up RHQ functions positively, with 5.6% of companies indicating that RHQ functions “Brought better results than expected” and 66.7% of companies indicating that they “Brought expected results”.

On the other hand, when the companies (6 companies) that replied “Brought less results than expected” were asked about factors contributing to this result, among the reasons they gave were: (1) recruitment and training of human resources for RHQ functions did not proceed satisfactorily, and (2) delegation of authority from the head office in Japan did not proceed satisfactorily.

Furthermore, although 20% of the companies replied “Not sure” in regard to business/management effectiveness of RHQ functions, at more than 70% (13 companies) of these companies’ RHQ functions had been in operation less than 5 years; it is therefore presumed that these companies believe it is not yet possible to evaluate the functions.

Effect on business/management by setting up RHQ functions

(No of companies, %)

	No of companies	%
Brought better results than expected	5	5.6
Brought expected results	60	66.7
Brought less results than expected	6	6.7
Not sure	18	20.0
Unanswered	1	1.1
Total	90	100.0

Reasons for achieving “less results than expected” after setting up RHQ functions

(No of companies, %)

	No of companies	%
Hiring of skilled personnel and training within the RHQ were not successful	4	66.7
Transfer of authority from the Japanese HQ for decision making in investment/new business didn't proceed accordingly	3	50.0
Organisational framework that includes chain of command between Singapore-based company, regional group company and the HQ in Japan was not carried out effectively	3	50.0
Lack of understanding and cooperation from the regional group companies	3	50.0
Transfer of authority from the Japanese HQ for strategy planning didn't proceed accordingly	2	33.3
Transfer of authority from the Japanese HQ for personnel affairs didn't proceed accordingly	2	33.3
RHQ's stock ownership was not reinforced	2	33.3
Uncertainty of future vision and purpose for RHQ function among Singapore-based company, the group companies and the HQ	2	33.3
Costs for RHQ related matters were higher than expected	1	16.7
Others	1	16.7
Tax incentives did not play a big role	0	0.0
Tax issues arising from transfer price taxation and such	0	0.0
Lack of finding appropriate outsourcing partner for legal, tax, labour and system services	0	0.0

(*) Percentage is based on the total number of 6 companies that evaluated for achieving “less results than expected”.

Past Record of RHQ Functions and Future Direction

■ 60% of companies enhanced their RHQ functions

Companies that replied they “Enhanced RHQ functions” in the last five years or so amounted to 60%. Even limiting those companies that established RHQ functions by 2010, the ratio at 55.8% still represents more than half of those companies.

■ The majority of companies have plans to enhance RHQ functions in the future

In terms of the future direction of RHQ functions over the next 5 years or so, 46 companies, which is more than half of all companies, indicated that they intend to enhance RHQ functions. Of the companies that enhanced RHQ function over the previous 5 years or so, 36 companies, which accounts for 40% of all 90 companies that replied having RHQ functions indicated that they intend to enhance RHQ functions in the future (in the next 5 years or so) as well.

On the other hand, companies that indicated they are considering reducing or down-sizing RHQ functions accounted for only at 4.4% (4 companies) of all companies.

Direction of RHQ function compared with the last 5 years

(No of companies, %)

	No of companies	%
Enhanced RHQ function	54	60.0
No major changes	24	26.7
Reduced/down-sized RHQ function	4	4.4
Not sure	8	8.9
Total	90	100.0

Direction of RHQ function in the next 5 years

(No of companies, %)

	No of companies	%
Enhance RHQ function	46	51.1
Maintain current status	29	32.2
Considering reduce/down-sizing RHQ function	4	4.4
Not sure	10	11.1
Unanswered	1	1.1
Total	90	100.0

New Countries, Regions, and RHQ Functions under Consideration

Reinforcement and expansion to ASEAN, Oceania, and India are under consideration

ASEAN countries lead the list of countries/regions for companies considering to cover by enhanced RHQ functions. In particular, companies cited the least developed ASEAN countries such as Vietnam, Myanmar, and Cambodia a relatively large number of times.

Many companies also cited Oceania and India over countries/regions as those considering to cover by enhanced RHQ functions, and there is an evident trend toward expanding the scope of countries and regions under the management of RHQ functions of Singapore-based companies.

Personnel affairs, compliance and internal control considered as new candidate functions under RHQ management

As for function/operations under consideration as new RHQ functions, companies cited "Human Resource, Personnel Management and Training" and "Compliance, Internal Control" the most, with 10 companies (21.7%) citing each respectively. From this, it is inferred that some companies are considering to build a common regional platform for internal systems (personnel assessment system, training programs, etc.) that currently differ from country to country within the region.

Moreover, "Finance, Foreign Exchange, Accounting", "Sales and Marketing Management", "Technical/Engineering Support", "IT System", "Audit" and "Research and Analysis" are being considered as further areas to cover under RHQ.

Countries/regions considering to cover by enhanced RHQ function

	(No of companies, %)	
	No of companies	%
All of Southeast Asia (ASEAN)	5	10.9
Part of Southeast Asia (ASEAN)	10	21.7
Vietnam	6	13.0
Myanmar	5	10.9
Cambodia	4	8.7
Philippines	3	6.5
Thailand	3	6.5
Laos	2	4.3
Malaysia	2	4.3
Singapore	2	4.3
Indonesia	1	2.2
Brunei	1	2.2
India	6	13.0
South West Asia (excluding India)	1	2.2
Oceania	7	15.2
China	2	4.3
Hong Kong	0	0.0
Korea	1	2.2
Taiwan	2	4.3
Japan	0	0.0
Middle East	2	4.3
Africa	0	0.0
North America	1	2.2
Central & South America	0	0.0
Europe	2	4.3

(*) Percentage is based on the total number of 46 companies (including 22 companies who did not respond to this particular question) that replied with an intention to "Enhance RHQ function".

Additional RHQ function considered in the future

	(No of companies, %)	
	No of companies	%
Human Resource, Personnel Management and Training	10	21.7
Compliance, Internal Control	10	21.7
Finance, Foreign exchange, Accounting	9	19.6
Sales and Marketing Management	8	17.4
Technical/ Engineering Support	8	17.4
IT System	8	17.4
Audit	8	17.4
Research and Analysis	8	17.4
Research & Development (R&D)	7	15.2
Legal	7	15.2
Public Relations (PR)	6	13.0
Strategy Planning	5	10.9
Tax Consultation	5	10.9
Logistics	5	10.9
Procurement	3	6.5
Intellectual Property Rights	3	6.5
Production Management	2	4.3
Others	1	2.2

(*) Percentage is based on the total number of 46 companies (including 9 companies who did not respond to this particular question) that replied with an intention to "Enhance RHQ function".

Awareness of Issues in regard to Singapore as the Location for RHQ

Wage increases, rising office rent, and the tightening of employment visa issuance are causes for concern

The issue of most concern cited by companies regarding Singapore as an RHQ location was “Wage increase” (82.2%), followed by “Rising expenses for office rent and cost of expatriate staff” (70.0%).

Noticeable increase in “Tightening of employment visa issuance”, “Wage increase” and “Lack of local talent capable of RHQ operations” compared with the 2011 survey

While companies that cited “Tightening of employment visa issuance” as a cause for concern remained at 48.9%, this represents a marked increase from 11.7% at the time of the 2011 survey. This is believed to be due to the impact of the recent rise in the minimum monthly salary for employment visa issuance, as well as the tightening of employment visa issuance to companies that rarely promote local personnel to managerial positions. In addition to this, the increase in the number of companies citing “Wage increase” and “Lack of local talent capable of RHQ operations” as causes for concern is also noticeable.

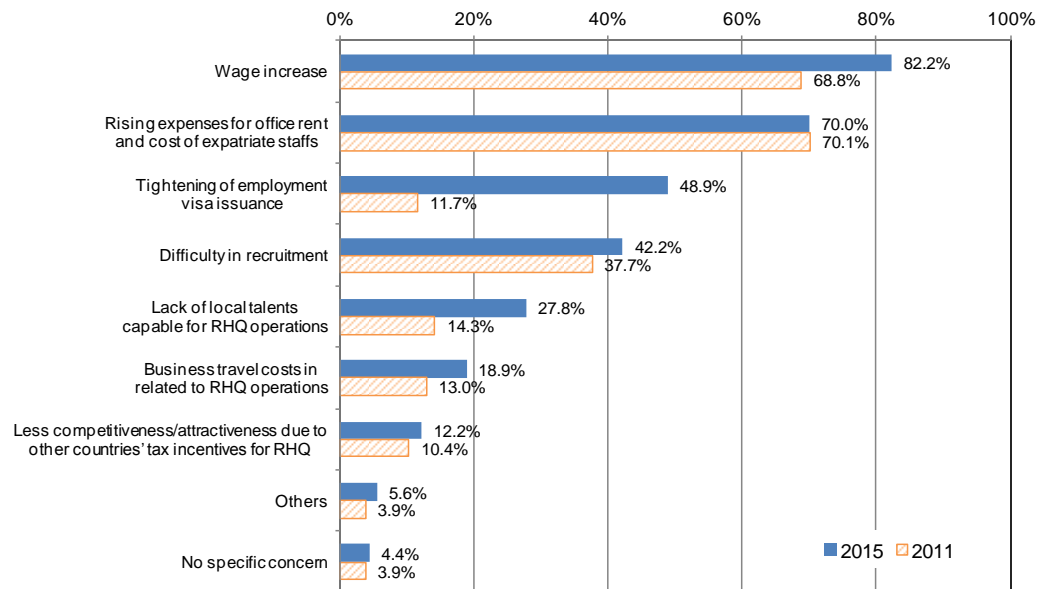
RHQ function in Singapore - Causes for concern

(No of companies, %)

	No of companies	%
Wage increase	74	82.2
Rising expenses for office rent and cost of expatriate staffs	63	70.0
Tightening of employment visa issuance	44	48.9
Difficulty in recruitment	38	42.2
Lack of local talents capable for RHQ operations	25	27.8
Business travel costs in related to RHQ operations	17	18.9
Less competitiveness/attractiveness due to other countries' tax incentives for RHQ	11	12.2
Others	5	5.6
No specific concern	4	4.4

(*) Percentage is based on the total number of 90 companies with RHQ functions. (including 2 companies who did not respond to this particular question)

RHQ function in Singapore - Causes for concern (comparison of 2015 and 2011)



Plans to Transfer RHQ Functions to Another Country from Singapore

■ While more than 60% of companies are not considering the transfer of RHQ functions from Singapore, 20% of companies plan to transfer or have already transferred part of their RHQ functions

20.0% of companies indicated that they are “Considering/planning to transfer part of RHQ functions” or “Already transferred part of RHQ functions”. As the transfer destination, most of these respondents indicated Thailand (77.8%), and the most frequently cited function/operation being considered for transfer was “Sales and Marketing Management” (38.9%).

Possibility to transfer RHQ out of Singapore

(No of companies, %)

	No of companies	%
Considering/planning to transfer all the RHQ functions	0	0.0
Considering/planning to transfer part of RHQ functions	14	15.6
Already transferred part of RHQ functions	4	4.4
Not considering/planning at all	57	63.3
Not sure	14	15.6
Unanswered	1	1.1
Total	90	100.0

Possible countries/region considering transfer or have already transferred

(No of companies, %)

	No of companies	%
Thailand	14	77.8
India	4	22.2
Malaysia	2	11.1
Indonesia	2	11.1
Hong Kong	1	5.6
China	0	0.0
Others	3	16.7

(*) Percentage is based on the total number of 18 companies that are "Considering/planning to transfer part of RHQ functions" or "Already transferred part of RHQ functions".

RHQ function(s) considering transfer or have already transferred

(No of companies, %)

	No of companies	%
Sales and Marketing Management	7	38.9
Strategy Planning	6	33.3
Human Resource, Personnel Management and Training	6	33.3
Finance, Foreign exchange, Accounting	5	27.8
Procurement	3	16.7
Technical/Engineering Support	3	16.7
IT System	3	16.7
Tax Consultation	2	11.1
Production Management	2	11.1
Research & Development (R&D)	2	11.1
Legal	2	11.1
Compliance, Internal Control	2	11.1
Audit	2	11.1
Intellectual Property Rights	1	5.6
Public Relations (PR)	1	5.6
Research and Analysis	1	5.6
Others	1	5.6
Logistics	0	0.0

(*) Percentage is based on the total number of 18 companies that are "Considering/planning to transfer part of RHQ functions" or "Already transferred part of RHQ functions". (including 1 company who did not respond to this particular question)

Companies without RHQ Functions in Singapore

Seven firms terminated RHQ functions of their Singapore-based companies

Of the firms that have not established RHQ functions at their Singapore-based companies, 17 companies replied that they have RHQ functions in other countries. Most of these are established in Thailand and China (excluding Hong Kong) with 8 companies in each location. Furthermore, 7 companies terminated RHQ functions that had previously been managed by their Singapore-based offices, and the years of their termination are concentrated from 2010 onwards.

RHQs outside of Singapore covering Asia Pacific region

(No of companies, %)

	No of companies	%
RHQ exists outside of Singapore that covers Asia Pacific region	17	17.9
No RHQ in Asia Pacific	78	82.1
Total	95	100.0

Countries/Region with RHQ outside of Singapore

(No of companies, %)

	No of companies	%
Thailand	8	47.1
China	8	47.1
Hong Kong	5	29.4
India	2	11.8
Malaysia	1	5.9
Indonesia	1	5.9

(*) Percentage is based on the total number of 17 companies with RHQs outside of Singapore.

Singapore RHQ in the past

(No of companies, %)

	No of companies	%
Never	87	91.6
Yes	7	7.4
Not sure	1	1.1
Total	95	100.0

Year of RHQ termination

(No of companies, %)

	No of companies	%
Before 2009	1	14.3
After 2010	5	71.4
Not sure	1	14.3
Total	7	100.0

(*) Percentage is based on the total number of 7 companies that used to have RHQ function in Singapore.

Comments concerning RHQ Functions

(Companies that have established RHQ functions)

■ Establishment of RHQ functions in Singapore

- In addition to tax incentives offered by Singapore, the currency, politics, economy and other systems in Singapore are relatively stable, and we believe that Singapore is a more advantageous location than other countries promoting RHQ functions such as Thailand and Malaysia. (Manufacturing)
- We feel that price hikes and the contraction of the domestic market (transfer of production to other countries, etc.) are making Singapore less attractive than before. (Manufacturing)
- We do not believe that we receive as many benefits as we did in the past for centralizing functions in Singapore due to rising cost. On the other hand, from the perspective of politics, the economy and geographical conditions, etc., Singapore maintains its superior edge. (Non-manufacturing)

■ Evaluation of the establishment of RHQ functions

- RHQ functions are meaningful in terms of having management in close proximity to local business. Having RHQ functions is also effective in human resource development as business is actively managed in the region. (Manufacturing)
- We believe that we are gradually seeing the effects of the establishment of RHQ functions in areas such as an increase in communication with affiliated companies and an improvement in motivation in local staff. (Manufacturing)
- While the establishment of RHQ functions is contributing to an improvement in corporate governance, we have some doubts about the extent of its cost-effectiveness. (Non-manufacturing)

■ Future direction of RHQ

- The meaning of RHQ is being questioned in terms of the extent to which authority and decision-making can be transferred from the head office in Japan. (Manufacturing)
- Securing and training personnel and securing a revenue source for maintaining RHQ functions are outstanding issues. (Manufacturing)
- Unlike in North America and Europe, there are few similarities in legal systems, cultures, and languages of countries in Asia. Instead of ambitiously launching functions at the beginning, it would be better to consider the benefits to be gained by establishing which functions, and in which country the benefits of management could be maximized. (Manufacturing)
- In view of results of RHQ functions to date, we believe it is time to clarify the relationship with the business axis (transfer of authority, etc.) in regard to decision-making rules. (Manufacturing)

Comments concerning RHQ Functions (Companies without RHQ functions)

■ Obstacles in establishing RHQ functions

- Our divisional system is firmly established, making interdivisional management difficult. (Manufacturing)
- It is difficult to establish the division of roles with the head office in Japan. (Manufacturing)
- From an operational standpoint, setting up RHQ functions in Singapore where wage and other expenses are high is difficult. (Non-manufacturing)
- Only a small number of local staff are capable of taking charge of the regional strategy, and such personnel are generally trained at the head office. (Non-manufacturing)

■ Potential for establishing RHQ functions in the future

- In the Asia region, financial regulations and currencies are different in each country. Therefore, we realize that the role of RHQ functions also from the aspect of maturity is very important in comparison with other areas. (Manufacturing)
- After determining the benefits, we would like to consider the best time for establishing RHQ functions. (Non-manufacturing)
- We feel the need to establish RHQ functions to standardize the levels of business operations at our group companies within the region. (Manufacturing)
- We intend to decide on a country/region for establishing RHQ functions after considering factors such as efficient management of resources, tax benefits, superiority in terms of marketing and skill of local personnel. (Non-manufacturing)
- In terms of factors such as tax incentives and convenience of access within the Asian region, we believe that there are significant advantages in establishing RHQ in Singapore. (Non-manufacturing)
- Following the growth of ASEAN region, we intend to consider separating our RHQ functions in Hong Kong and Singapore. (Manufacturing)
- As the economic development of ASEAN countries continues, the fixed idea that “ASEAN RHQ = Singapore” is losing weight. In the future, we believe that RHQ functions may be established in different countries or regions depending on the type of business. (Manufacturing)

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