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The Decision-Making Process of Foreign Direct Investment in Singapore

A multi-case study on three Swedish multinational corporations and Sweden's Ambassador

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Even though the eclectic paradigm was founded approximately 50 years ago, it remains among the leading frameworks for firms determining whether to engage in foreign direct investment (FDI). The framework asserts that multinational companies (MNCs) only will engage in FDI if they have ownership, location, and internalization advantages. There is currently a research gap pertaining to if there are any exceptions to the paradigm. Additionally, the framework has received criticism for failing to predict new opportunities arising from globalization. For instance, MNCs during the 21st century are no longer seeking cost advantages to the same extent as implied when the framework was first presented. This shift becomes apparent when looking at lists of the most expensive countries and the nations with the highest FDI inflows, where Singapore tops both lists. Thereby, this thesis explored if the eclectic paradigm has been applicable in the decision-making process for Swedish MNCs based in Singapore. Through four interviews with Swedish MNCs based in Singapore and Sweden's ambassador to Singapore, this thesis finds that firms can engage in FDI despite not possessing all three O-L-I advantages. It is also found that the decision-making process is more complex than determining whether the MNC possesses the three advantages. Additionally, adding the concept of Global City theory to the eclectic paradigm made the results more applicable to this case study.

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List of Abbreviations

OLI	Ownership, location and internalization
EDB	Singapore Economic Development Board
Oa	Ownership asset
Ot	Ownership transactions
FDI	Foreign direct investment
MNC	Multinational corporation
PAP	People's Action Party

1. Introduction

Recent decades have been characterized by rapid globalization, wherein the augmentation of foreign direct investment (FDI) has been one of the prominent outcomes (Cantwell & Narula, 2001). This process has enabled small-to-large-size multinational corporations (MNCs) across the globe access to new markets (ibid). The most frequent motives for engaging in FDI are strategic asset-seeking, market-seeking, resource-seeking, and efficiency-seeking (Dunning, 2000). Despite extensive literature focusing on the variables affecting the inflow of FDI (e.g., Basile et al., 2008; Carstensen & Toubal, 2004; Nielsen et al., 2017), there are few qualitative studies analyzing the most vital determinants MNCs consider before establishing a direct investment (Batschauer da Cruz et al., 2019).

The prevailing economic thought for explaining how new territories attract MNCs is the eclectic paradigm, also known as the OLI framework, formulated by economist John Dunning in 1976. Dunning (1988) asserts that MNCs only consider engaging in FDI if the firm possesses ownership, location, and internalization advantages (Dunning, 1977; 1979, as cited in Nielsen et al., 2017). The ownership advantages can be attributed to the MNCs competitive advantages over local and international firms in the host country (Dunning, 1988). The location advantages can be summarized as the factor endowments and macroeconomic stability which attract the firm to invest in the host country (ibid). The internalization advantages are the company's benefits from making a direct investment over other entry modes, such as exporting or licensing (ibid). Dunning (2000) acknowledges that the OLI framework is a theory rather than a paradigm, asserting that while there are specific assumptions within the O-L-I elements, the components included in the subsections of each element have been modified over time (e.g., Dunning & McQueen, 1981; Dunning, 1985; Dunning, 1988). This is highly attributed to the fact that the decision-making process is contextual and differs based on the nature of the investment (Dunning, 2000). However, the eclectic framework has been criticized for not being as applicable when globalization presents the world with new developments (Cantwell & Narula, 2001; Itaki, 1991).

Singapore has made a remarkable journey since the mid-20th century (Prime, 2012) and is ranked among the top nations with the highest inflow of FDI (International Monetary Fund, 2021). The successful growth spurt can be credited to the inflow of FDI (Yun, 1994; Khuong, 2018). The government, aware of the lack of natural resources, pursued building a robust business environment to allure foreign MNCs (Ann, 1973). This attractive business climate has appealed to Swedish MNCs (Team Sweden, 2022). As of 2022, over 250 Swedish firms were established in Singapore, making it one of the top investment locations for Swedish corporations to invest in the Asian Pacific (ibid).

Therefore, this thesis aims to explore if the eclectic paradigm has been applicable in the decision-making process for Swedish MNCs based in Singapore. The data is based on semi-structured interviews with three Swedish MNCs and Sweden's Ambassador to Singapore during the 21st century. While the eclectic paradigm claims that MNCs only engage in FDI when they have ownership, location, and internalization advantages (Dunning, 1977; 1979, as cited in Nielsen et al., 2017), this thesis finds that there are exceptions to this proposition. Additionally, this thesis contributed to existing literature within the eclectic paradigm by adding the element of global city theory.

1.1 Research Problem

Even though the eclectic paradigm was founded approximately 50 years ago, it remains among the leading frameworks for firms determining whether to engage in FDI (Dunning, 1988). Despite the fact that extensive quantitative studies have tested factors affecting the location aspect in the field (e.g., Baltagi et al., 2007; Cuervo & Pheng, 2003; Nielsen et al., 2017), it is rare with qualitative studies seeking to comprehend the MNCs decision-making (Batschauer da Cruz et al., 2019).

The framework asserts that firms only will make an overseas direct investment if they possess all three O-L-I advantages (Dunning, 1977; 1979, as cited in Nielsen et al., 2017). There is currently a research gap pertaining to if there are any exceptions to the paradigm. Additionally, the framework has received criticism for being outdated and failing to predict new globalization opportunities. As outlined by Ellram et al. (2013), firms during the 21st century are no longer resource-seeking, as implied by Dunning (1980), but rather more likely to utilize FDI as a measure to gain strategic assets. This shift becomes apparent when looking at lists of the most expensive countries to live and establish a company in (Economist Intelligence, 2022) and the nations with the highest inflow of FDI (International Monetary Fund, 2021), where Singapore is among the top-scoring countries for both rankings. As global cities like Singapore receive an increasing inflow of FDI, it is crucial to comprehend how the decision-making process under these circumstances changes (Goerzen et al., 2013). Especially considering that MNCs consider the benefits of establishing in a global city so paramount that they can overcome the high establishing costs (ibid).

Hence, the lack of qualitative studies exploring the decision-making process of MNCs in expensive but seemingly unique countries like Singapore opens up exploring new aspects of FDI. Comprehending the relationship between the eclectic paradigm and the decision-making process from a modern perspective is essential for firms looking to expand in foreign markets and policymakers seeking to attract FDI.

1.2 Aim and Scope

This study aims to conduct a case study analyzing if the decision-making process of Swedish MNCs established in Singapore aligns with the characteristics of the eclectic paradigm. As the OLI framework claims that firms only will make an overseas direct investment if they possess all three O-L-I advantages (Dunning, 1977; 1979, as cited in Nielsen et al., 2017), the results in this case study must be consistent with these requirements for it to be considered successful to the full extent. However, one must note that the decision-making process is highly complex, and the results might be unsuccessful even in spite of the companies possessing all three components. Thereby, this study also seeks to find if any component can be added to comprehend the decision-making process to a larger extent.

Concretely, the research question is:

Does Dunning's eclectic paradigm succeed in explaining the decision-making process of Swedish MNCs in Singapore?

Followed by the sub-research question:

Are there certain component(s) that could be added to make the eclectic paradigm more applicable for Swedish MNCs in Singapore?

1.3 Delimitations and definitions

As the thesis is based on foreign direct investment, defining and clarifying the concept seems highly relevant. Foreign direct investment (FDI) refers to the ownership or investment in a foreign nation by a company, individual, or another nation (Anwar & Nguyen, 2011). While there are several modes of foreign entry (Müller, 2007), this thesis is limited to investments made by MNCs through greenfield investment. Greenfield investment refers to establishing a new operation from the ground up in a foreign country (ibid).

The eclectic paradigm and OLI framework will also be used as synonymous terms. A large multinational corporation can be defined as a company that "...owns and controls value-adding activities in two or more countries" (Dunning 1989, as cited in Vanninen et al., 2022, p.4) and possesses over 250 employees (OECD, 2020). The three companies interviewed in the study are referred to as Companies A-C. Company A and B fulfill the requirement for a large multinational corporation, as Company A has approximately 105 000 employees in over 180 countries, and Company B has approximately 51 000 employees in approximately 150 countries. Vanninen et al. (2022) characterize small multinational companies as firms with fewer than 250 employees and operate in at least two countries (Vanninen et al., 2022). Company C can be categorized as a small multinational company with approximately 200 employees and operates in three countries. However, for the simplicity of this study, all companies will be referred to as MNCs.

Additionally, the scope and time frame of the study did not allow for analyzing how firm-specific variables affect the decision-making process. These include variables pertaining to the firms; number of employees, number of offices in foreign markets, industry-specifics, and year of establishment.

1.4 Outline of the Thesis

This thesis is composed of eight sections. The next section contains a background of Singapore's economic, social, and political history. This section is of utmost importance to understand Singapore's investment climate, which is being explored further in subsequent sections. The following chapter will present a literature review of previous studies exploring the decision-making process of FDI and how the circumstances may vary based on host-country and firm-specific factors. The section after that presents the OLI framework, which will be explored in the case study. The following section presents the paper's methodology, consisting of the research design and analysis, collection, and limitation of the data. The subsequent analysis section presents the results from the interviews and a cross-pattern analysis connected to previous literature. The following discussion section seeks to answer the research questions and possible limitations of the study. Lastly, a conclusion section is presented to summarize and discuss future findings.

2. Background of Singapore- Economic, Social, and Political

In order to understand the determining factors multinational corporations consider before establishing in Singapore, one has to comprehend how a small and resource-scarce nation transformed into a country with one of the highest GDPs in the world (Prime, 2012). The following section will thereby delve into Singapore's economic, social, and political background, as it is essential to understand the connections made to Singapore in the subsequent empirical analysis.

Singapore was colonized by the British East India Company (EIC) in 1819 (Ann, 1973). Yun (1994) outlines that Singapore and Malaysia served as colonial outposts for the elites during this period. Ann (1973) points out that the British implemented various societal institutions and systems which were kept and utilized after independence in 1965. For instance, Singapore still possesses a legal system of English origin (ibid). The decolonization period was, however, characterized by high levels of unemployment, a slow manufacturing sector, political tension, and poor educational systems (Ann, 1973).

The People's Action Party (PAP) has withheld political power since 1959, thereby implementing, for instance, societal institutions to combat political and economic tension (Prime, 2012). As a result of lacking natural resources, the Singaporean government quickly realized the importance of building a competitive advantage in attracting foreign investors (Yun, 1994). As more developed institutions correspond to a higher flow of FDI, the investments made by the government also acted as a strategy to attract more MNCs (Prime, 2012; Nielsen et al., 2017). Ann (1973) additionally asserts that Singapore's small size made the labor market even more fierce, creating a constant high demand for goods and services. Additionally, the continuous apprehension that technically skilled laborers would move to Malaysia created an even more competitive environment, fostering Singapore's labor market throughout industrialization (Ann, 1973). In line with this, Krugman (1994) claims that no other East Asian country has industrialized as fast as Singapore, especially regarding education, FDI, and high-skilled labor.

At the same time, several governmental agencies were founded to transform Singapore into a global business hub and assist companies' establishment process (Ann, 1973). Yun (1994) concretizes and explains the importance of the government agency "Singapore's Economic Development Board" (EDB) which primarily was responsible for attracting foreign investment. EDB implemented several incentivizing programs for MNCs to become attracted to come to Singapore (Ann, 1973). A large volume of the published literature on FDI in Singapore emphasizes the importance of Singapore's strategic location (Prime, 2012; Ann, 1973; Huff, 1987; Pangarkar & Lim, 2003). These studies point out that the vast majority of all MNCs in Singapore are there to be in the middle of the trade route between Asia and Europe (ibid). Another vital determinant that attracted foreign MNCs was Singapore's English judicial system due to colonialism, which simplified the establishment process for many investors familiar with the legal system (Ann, 1973).

Singapore's openness to trade and trade agreements has been one of the prominent drivers of FDI. More specifically, Singapore has aimed to bargain trade agreements with countries worldwide to transform from a regional trade hub to a global one (Prime, 2012). The trade agreements, along with the implementation of liberal immigration policies, attracted professionals from all around the world (Yun, 1994). The government has continued to attract FDI by consistently changing and adapting measures to accommodate and optimize the conditions for new business ventures (ibid).

All in all, the utilization of the decolonization period, government intervention, and Singapore's strategic location (Ann, 1973) enabled the transformation from a third-world country to a first-world one in less than 50 years (World Bank, 2019). Despite being categorized as a late-developing country, Singapore managed to transform into one of the nations with the highest inflow of FDI globally (International Monetary Fund, 2021). However, one must emphasize that

Singapore industrialized when other economies prospered, and the demand for an export-oriented trade hub localized in the middle of the trade route of Asia and Europe was high (Yun, 1994).

3. Literature Review

The last few decades have been characterized by a significant increase in foreign direct investment around the globe (Cantwell & Narula, 2001). The rise has not only indicated an increase in the number of investments but also in intensity and variety (ibid). The growth of FDI has been a vital contributor to the integration of the world economy (Pangarkar & Lim, 2003). In order to comprehend the most prominent drivers of FDI, one has to understand why firms started to expand their operations in foreign markets, to begin with (Nielsen et al., 2017). The following paragraphs will thereby present a brief insight into the early development of foreign direct investment theories.

The first neoclassical theory within international trade was the Heckscher-Ohlin model, founded by Eli Heckscher and Bertil Ohlin in 1933. It hypothesized that nations would export goods in which they are abundant and import goods in which the nation had scarce resources (Kunroo & Ahmad, 2022). The model assumes perfect competition, a presumption that Hymer (1960) questioned and claimed it still could not explain why firms engaged in international production. As a result, he developed the Monopolistic Advantage Theory, which is based on market imperfections and obtaining a competitive or monopolistic advantage over local firms in the host country (Dunning & Rugman, 1985; Hymer, 1960). Examples of these monopolistic advantages include economies of scale, product diversification, and access to raw materials (Dunning & Rugman, 1985).

Aspects within the framework remain relevant today as economists draw on the concept of monopolistic advantages. More specifically, Dunning and Rugman (1985) outline how Hymers' argument about utilizing intangible assets in different countries still is a prominent part of modern foreign direct investment theory (ibid). While Hymer (1960) asserts that firms can utilize structural imperfections to limit competition through these competitive advantages, Dunning and Rugman (1985) criticize the framework for failing to describe why MNEs decide to make a direct investment instead of licensing, exporting, or franchising (Dunning & Rugman, 1985). This weakness led to the birth of new theories within FDI (e.g., Buckley & Casson, 1976; Vernon, 1996; Dunning, 1988).

Collectively, the Heckscher-Ohlin model and Monopolistic Advantage Theory played a critical role in comprehending "why" FDI occurs. The following literature review sections will analyze the FDI decision-making depending on the host country- and firm-level characteristics.

3.1 Host country characteristics

One of the most prominent factors when firms choose the location is the host-country characteristics (Nielsen et al., 2017). These characteristics primarily relate to the nation's legal, political, social, and cultural factors (Dunning & Lundan, 2008, p.637). As globalization has enabled the opportunity to establish operations anywhere in the world, it has become more crucial for the host country to possess strong host country characteristics which attract MNCs (Cantwell & Narula, 2001; Buckley & Ghauri, 2004).

Many studies have concluded the significant effect of host-country characteristics on the FDI decision-making process (e.g., Cuervo & Pheng, 2003; Daude & Stein, 2007; Mansfield, 1988). An example is the study by Cuervo and Pheng (2003), which examined how 22 transnational construction companies in Singapore ranked which host country location factors were the most important during their establishment phase. The ranking was the following; 1) social, political, cultural, and geographic aspects, 2) the host government's approach to FDI 3) the costs of engaging in international production (Cuervo & Pheng, 2003). Similarly, Nielsen et al. (2017) conducted a study based on 153 quantitative studies analyzing FDI location drivers. They found that host country factors such as psychic distance, global cities, and political environment had a prominent effect. The following section will thereby explore the host country characteristics examined in the two studies (Cuervo & Pheng, 2003; Nielsen et al., 2017) together with other recurring factors in the literature.

3.1.1 Political and Legal Environment

A voluminous literature confirms that the legal environment and the overall political environment affect the inflow of FDI (Daude & Stein, 2007; Nielsen et al., 2017; Wheeler &

Moody, 1992). In the study by Cuervo and Pheng (2003), the social, political, and geographic aspects were ranked as the most crucial location factor. Similarly, factors such as political instability, corruption, bureaucracy, and a flawed legal system affected the FDI inflow negatively (Daude & Stein, 2007; Nielsen et al., 2017; Wheeler & Moody, 1992).

Along similar lines, Steigner et al. (2018) found that the legal system's origin affected FDI. The legal origin is most significantly a consequence of colonialism (La Porta et al., 1998). Steigner et al. (2018) found that host countries that had a legal system based on common law nations were, in general, more likely to attract foreign direct investment than civil law countries. This can be attributed to the fact that MNCs view the importance of understanding and ensuring that the legal system can support the company in the event of an adverse outcome (La Porta et al., 1998). Hence, a solid and familiar legal system corresponds to higher international involvement (ibid). One must, however, acknowledge that legal origin is an essential but less emphasized factor within the literature (Steigner et al., 2018).

Additionally, there is a general consensus that nations with a governmental approach that fosters international trade have historically received more FDI inflows (e.g., Nielsen et al., 2017; Cuervo & Pheng, 2003). For instance, the overall host government approach was ranked second in importance in the study by Cuervo and Pheng (2003). An open governmental approach involves implementing incentives, infrastructure, and policies to create a more investor-friendly environment (Nielsen et al., 2017). More specifically, the more high-quality institutions the host country has, the likelier it is to be selected by foreign MNCs (ibid). This is a vital determinant as MNCs aim to devote resources and economies of scale in the host country (Buckley et al., 2007).

Another emphasized governmental approach within FDI literature is the effect of tax rates on FDI. For instance, Nielsen et al. (2017) examined the effect on tax rates and attraction of MNCs. More specifically, out of 27 studies reviewed by Nielsen et al. (2017), approximately half of the studies discovered that MNCs are more attracted to host countries with low taxes. These results confirm the traditional belief that MNCs always favor locations where they can maximize their profits (Itaki, 1991).

3.1.2 Global City Theory and Agglomeration Theory

Goerzen et al. (2013) highlight how MNCs that seek to invest in “global cities” are overlooked. Industry agglomeration is used to explain industrial clusters; meanwhile, agglomeration within different industries causes the rise of global cities (Nielsen et al., 2017). Goerzen et al. (2013) define global cities by the following characteristics 1) A high level of linkage to local and global markets, 2) a Cosmopolitan setting, and 3) Knowledge-intensive production services. Nielsen et al. (2017) highlight that global cities, as opposed to industry clusters, are industry-agnostic, meaning that all companies within different industries gain advantages from being located in the same location. One also must acknowledge that global cities usually give rise to agglomeration diseconomies, where the clustering leads to higher living- and congestion costs (Goerzen et al., 2013). Additionally, when summarizing the interplays between the different factors within agglomeration and global cities, Nielsen et al. (2017) made the following conclusion 1) a country known as a global city is more likely to attract FDI and 3) a location is more likely to be chosen if firms from the same home country are established there. Additionally, Goerzen et al. (2013) further outline how firms with expatriates living on sites are more likely to invest in a global city. However, the current literature on host country characteristics oversees how location factors affect expatriates (ibid).

3.1.3 Psychic distance

Psychic distance is a concept that describes the objectives which hinder the knowledge flow between the home- and host country, such as a gap in culture, language, and business perception (Johanson Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). These psychic distances are prominent location determinants as companies primarily consider nations with similar market conditions to their home country (Johanson & Vahlne, 1977). Mansfield (1988) outlines that the concept is separate from the geographical distance between the countries, as geographically distant nations can have a close physical distance. Additionally, this is not only considered a host country's characteristics but factors concerning the relationship between the home and host country (Cuervo & Pheng, 2003). Cuervo and Pheng (2003) also found that language similarities were among the most critical when considering home-host country factors.

3.2 Firm-specific characteristics

The second segment explores the literature on the decision-making process from a firm-level perspective. These are characteristics inseparable from the company itself (Mansfield, 1988). The firm can use host country characteristics to utilize its ownership advantages (Nielsen et al., 2017). Additionally, the paragraph also gives a short presentation of how internalization factors concerning the advantages a firm can gain by utilizing FDI as opposed to arms-length production (Itaki, 1991).

3.2.1 Competitive Advantages and Internalization Factors

Competitive or ownership advantages refer to a company's intangible assets, such as branding, patents, and technological knowledge (Mansfield, 1988). Nielsen et al. (2017) highlight that a prominent factor MNCs consider when deciding the location of the investment is where they have the most competitive advantages. Hence, firms with stronger intangible assets are more likely to engage in FDI. Additionally, the literature exploring the link between location and intangible assets is obscure (ibid). For instance, Fiegenbaum, Shaver & Yeung (1997) find that firms with strong intangible assets are more likely to enter more risky locations. Meanwhile, a larger share of the literature finds that companies with robust intangible assets tend to enter more "attractive" markets (Nielsen et al., 2017).

Similarly, Dawar and Parker (1994) found that when customers are exposed to a product, their first thought is based on the brand name; meanwhile, price and appearance are considered second thoughts. As a result, many firms with stronger name recognition, such as Apple or Coca-Cola, consider these as ownership advantages over indigenous firms in the host country and thereby establish an operation in the foreign market (Dawar & Parker, 1994). Another dimension was put forward by Millet et al. (1989), who highlighted how being first in an industry can be considered an ownership advantage as this allows for the company to implement the rules to its advantage.

Itaki (1991) explains that these ownership advantages are related to internalization advantages. Many firms consider making a direct investment instead of using other entry modes to market products and gain a more substantial brand advantage (Itaki, 1991). However, in several cases, rules and regulations prohibit MNCs from directly investing (Steigner et al., 2018). Thereby, the political and legal environment also affect these internalization factors (ibid).

3.2.2 Summary

Overall, current empirical literature outlines a complexity in understanding the decision process before engaging in FDI. Collectively, these studies on host country characteristics showcase the importance of factors such as political and legal environment, psychic distance, and government approach (e.g., Nielsen et al., 2017; Dunning & Lundan, 2008, p.637). Additionally, the importance of global cities is a prominent but less emphasized characteristic within FDI (Nielsen et al., 2017; Goerzen et al., 2013). The literature on firm-specific characteristics outlines how firms value competitive advantages (e.g., Dawar and Parker, 1994) and how the elements can affect internalization factors (Steigner et al., 2018).

The framework that captures this discussion the most is the eclectic paradigm which still, decades later, remains one of the most recognized frameworks within FDI theory (Dunning, 2000). The following theoretical framework section will present the eclectic paradigm and the effect of the host country- and firm-specific characteristics that this literature review has already delved into. The host country's characteristics are highly attributed to the location drivers, including governmental approach, psychic distances, and political and legal climate (Dunning & Lundan, 2008, pp. 92;637; Cuervo & Pheng, 2003). The firm-specific characteristics can be analyzed based on the competitive advantages and the advantages a firm gains from making a direct investment entry mode (Nielsen et al., 2017).

4. Theoretical Framework

4.1 Eclectic paradigm

The eclectic paradigm asserts that MNCs only will engage in FDI when there are ownership (O), location (L), and internalization (I) advantages (Dunning, 1988). The framework has been reformulated and modified several times (e.g., Dunning & McQueen, 1981; Dunning, 1980; Dunning, 1988).

Ownership advantages

Ownership advantages refer to the competitive advantage that the firm possesses over other firms of other nationalities in the specific market (Dunning, 1988). Dunning (1988) has further emphasized the importance of possessing both ownership assets (OA) and ownership transactions (OT). OA refers to the company possessing unique intangible capabilities, including firm-specific assets such as patents, brand image, and reputation. OT can be attributed to the firm's capacity to gain transactional benefits or decrease transaction costs through engaging in FDI (Dunning, 1988). The modern view of ownership advantages refers to the benefits the MNC possesses in relation to local and international competitors (Cantwell & Narula, 2001). However, this is still a prominent debate today, as Cantwell and Narula (2001) assert that some critics argue that ownership advantages should be considered in relation to domestic firms in the host country. The authors add and state that *"...the real world has moved on"* (p.158) from the first FDI theories, such as the monopolistic advantage theory by Hymer (1960), who highlighted the latter.

Location advantages

The location advantages are characterized by the host country's factor endowments and the extent to which the firm can utilize these characteristics to gain ownership advantages (Cuervo & Pheng, 2003; Dunning, 2000). The location advantages are based on the host country's characteristics (Nielsen et al., 2017). As these host country characteristics differ between nations, one can not create a synthesis for the subdivisions of location factors (Cantwell & Narula, 2001; Dunning & Lundan, 2008, p.637). However, Dunning and Lundan (2008) argue that it can be characterized by legal, political, social, and cultural factors (p.637). The previous literature review on the eclectic paradigm summarized the most emphasized host country characteristics in FDI literature into the following categories;

- *Geographical location:* The geographic location of the host country is a prominent driver when deciding where to locate (Dunning & Lundan, 2008, p.103; Cuervo & Pheng, 2003; Nielsen et al., 2017). Nielsen et al. (2017) find that the farther distance between the home and the host country, the likelier it is that the home country is being picked as a location.
- *Political power and legal environment:* Political and economic stability is another vital location factor (Daude & Stein, 2007; Nielsen et al., 2017; Dunning & Lundan, 2017, p.637). For instance, foreign MNCs tend to avoid countries with high levels of corruption (Nielsen et al., 2017). Additionally, the legal system is another crucial determinant as it is vital in the case of an adverse outcome (La Porta et al., 1998). The political environment also corresponds to the host country's governmental approach to FDI (Nielsen et al., 2017; Cuervo & Pheng, 2003: Dunning and Lundan, 2008, p.705). These factors include institutions, governmental regulations, tax rates, and agencies implemented to promote FDI (Nielsen et al., 2017).
- *Psychic distances:* Before deciding on the specific location, MNCs consider the psychic distance in culture, language, and business perception between the potential host and domestic countries (Dunning & Lundan, 2008, p.92; Johanson & Vahlne, 1977). Similarly, the concept conceptualizes that it is more efficient to engage in FDI when the physical gap between the home and host country is small (Johanson & Vahlne, 1977).

Internalization advantages

The internalization advantages can be summarized as the advantages the MNC gains from direct investment over other entry modes such as exporting, licensing, and franchising (Dunning, 2000). When arms-length production creates vast transaction costs derived from market failure, it is better to utilize unified control by making a direct investment (ibid). For instance, transaction costs are related to negotiation costs that arise from using, for instance, distributors (Dunning, 1988). As a result of increasing global trade, distance-related transaction costs have decreased during the last two decades leading to a rise in MNCs favoring subsidies over other entry modes (ibid).

Internalization advantages are deeply rooted in ownership advantages as the MNC considers which entry mode will allow the company to utilize these competitive advantages to the greatest extent (Dunning & Lundan, 2008, pp. 99-100). Internalization is the most crucial for highly specialized and less standardized firms, such as high-technology corporations like electronics or management consulting (Dunning, 2000). These MNCs are more likely to invest directly rather than outsource the service (ibid). However, sometimes the political and legal system of the host country precludes complete control of foreign MNCs (Steigner et al., 2018). This deficient control makes these companies forced to use other entry modes than making a foreign direct investment (ibid).

4.2 FDI Motivation

Another dimension of the eclectic paradigm is the FDI motivation the MNC has for seeking to expand in a foreign market (Dunning, 2000). The concept explains that these firms most commonly engage in FDI for the following purposes; market seeking, resources seeking, strategic asset seeking, or efficiency-seeking (Dunning, 2000). Understanding the motive for undertaking FDI can be vital as it affects the factors the firm might view as the most important in the decision-making process (Meyer, 2015). Cuervo and Pheng (2003) outline that companies can seek a combination of motives. Meyer (2015) outlines that market-seeking is when a firm establishes new operations or supports existing ones in the host country to increase market share, sales, or consumer demand. Efficiency-seeking FDI is usually a strategy for firms aiming to make their operation more productive and decrease costs. Resource-seeking FDI is characterized by companies looking to access natural resources or new dimensions of skilled labour, knowledge, or technology. Lastly, strategic-asset-seeking FDI is a purpose where firms expand their operations to gain strategic assets such as international recognition, branding, or patents (ibid).

Ellram et al. (2013) highlight that firms have recently started to shift from resource-seeking to efficiency and strategic-seeking advantages to gain knowledge and customer assets. Another dimension of motivation is explained by Goerzen et al. (2013), who outline that firms undertaking market-driven FDI are more likely to invest in a global city. Alcantara and Mitsuhashi (2012) found in an empirical study that companies which are efficiency-driven are more likely to establish in a country with low GDP.

4.3 Critique and Clarifications

While the eclectic paradigm is among the leading frameworks, it has received prominent criticism for failing to outline several dimensions of FDI. Firstly, one must clarify that the OLI framework is a paradigm rather than a theory. Dunning (2000) further clarifies that the eclectic paradigm is contextual. However, Itaki (1991) critiques the framework for being so general that its "explanatory power" is lost. He states that "theorists, empiricists, and historians can freely invent new determinants to describe a particular case of FDI as long as they fall under one of the three headings" (p.456).

Secondly, Itaki (1991) means that the ownership advantages overlap with internalization- and location advantages. For instance, the competitive advantages are determined by the firm's location and the level of control the firm gains from internalization advantages (Itaki, 1991). Hence, as the location and ownership factors are connected, the framework fails to explain why a firm would establish in a location where it did not have the most prominent competitive advantages (ibid).

Thirdly, the framework has been criticized for not being as applicable as globalization presents the world with new developments (Cantwell & Narula, 2001). According to Cantwell and Narula (2001), the paradigm fails to predict and explain trends and new kinds of foreign direct investment. For instance, the paradigm fails to outline outsourcing or alliances and needs to be combined with other theories to explain their presence. Similarly, the framework can not assert how the advantages a firm considers prominent during the establishment phase might shift with time, in several cases causing firms to reallocate back to their home country (Cantwell & Narula, 2001; Johanson et al., 2019). Additionally, several firms do not possess all O-L-I advantages and expand overseas because they seek to be in another market than in their home country (ibid).

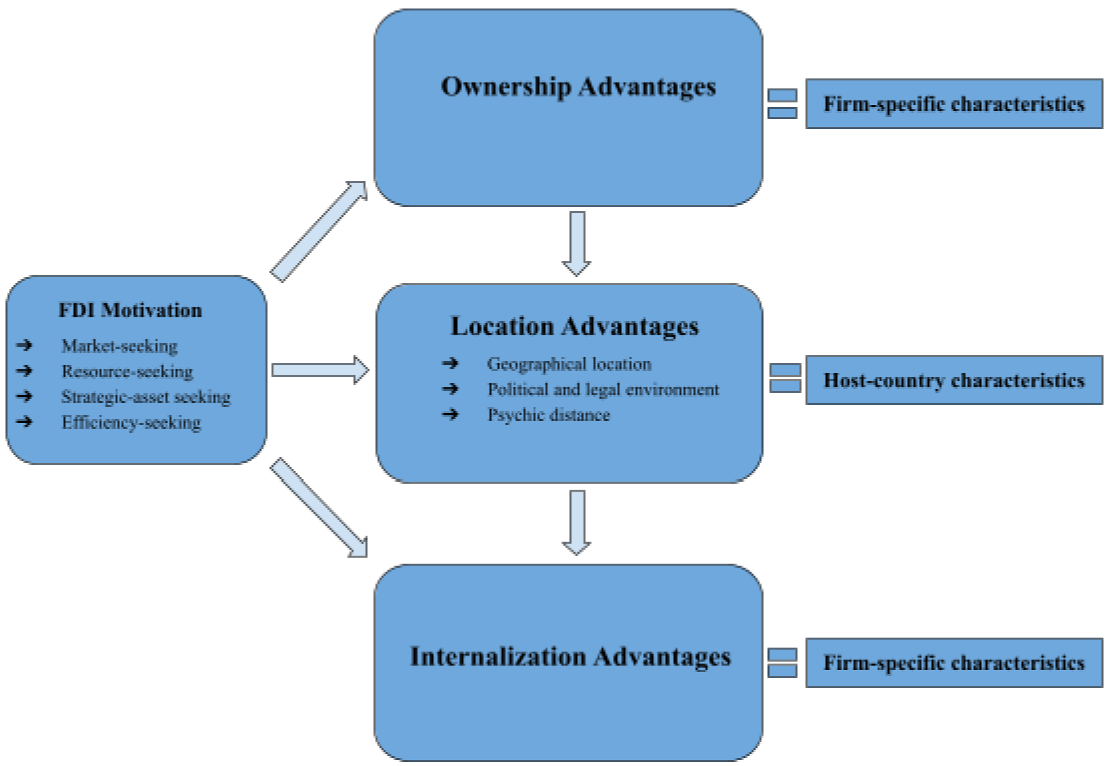

Figure 1: Theoretical framework: The eclectic paradigm (Author's own work)

There are many determining factors behind FDI, as seen in the previous discussion. While the eclectic framework dominates the picture, some critical work has questioned the paradigm's generality, modernity, and applicability. The current study attempts to leverage a qualitative case study to examine the decision-making of Swedish companies that have expanded in Singapore, which are both within and outside of the scope of the eclectic paradigm. Figure 1 presents a summary of the theoretical framework outlining how an MNC first has an initial motivation for engaging in FDI. It then examines whether they have the ownership, location, and internalization advantages to follow through with the investment (Dunning, 2000). The figure also clarifies how ownership and internalization advantages are based on firm-specific factors (Nielsen et al., 2017). Meanwhile, location advantages are categorized as a host country characteristic (Cuervo & Pheng, 2003).

5. Methods and Data

5.1 Research Design

The field of FDI is dominated by quantitative studies testing the relationship between FDI and determining variables (e.g., Baltagi et al., 2007; Basile et al., 2008; Carstensen & Toubal, 2004; Nielsen et al.,. 2017). This thesis will, however, use a qualitative research design to contribute to the current lacking in-depth studies analyzing the predominant factors foreign companies consider before making a direct investment. Applying a qualitative-based approach seems the most applicable as this thesis aims to analyze how a smaller group of companies perceived and experienced their FDI decision-making process (Ambert et al., 1995). Qualitative studies are a more applicable method when aiming to analyze the different stages in a process (Creswell & Creswell, 2018, p. 225), which aligns with the purpose of this study.

Research design is generally divided into a deductive- or inductive approach (Bryman & Bell, 2015, pp. 26-27). An inductive approach is based on the empirical data collected to formulate but not test a theoretical approach (Bell et al., 2022, p. 529). Meanwhile, a deductive approach is when the researcher starts with an existing theoretical framework and then tests its validity (Dubois & Gadde, 2002). Dubois and Gadde (2002) clarified that combining an inductive and deductive approach by utilizing empirical and theoretical data is abductive. Furthermore, an abductive approach is generally used to compare the framework, data sources, and analysis back and forth to get a broader understanding. This thesis is classified into the abductive category as it combines empirical data from interviews with the eclectic framework. Utilizing an abductive approach will allow to discover new relationships within the eclectic framework (ibid).

The purpose of the study was to contribute to the existing theoretical framework within foreign direct investment and the eclectic paradigm. However, one must note that the study's conclusions only apply to this specific organizational context and do not deduce any generalizations to other companies aiming to engage in FDI (Yin, 1989, p. 21). The thesis design incorporates a multi-case study of Swedish companies using semi-structured interviews. A multi-case study was chosen to explore each company's unique characteristics while still detecting differences and similarities between them (Bryman & Bell, 2019, pp. 68-72). A similar interview method was used for all companies to identify similar and contrasting patterns between the companies (Yin, 2004, p. 34).

5.2 Research Sample

Table 1: Participating companies in the case study (information extracted from interviews)

Company	**Interviewee**	**Industry**	**Position of interviewee**	**Year of Relevant Operations' Relocation to Singapore**
Company A	Interviewee A	Telecommunications	President Treasury Services - Asia	2000
Company B	Interviewee B	Home Appliance	Marketing and Sales Manager for Asia Pacific	2003
Company C	Interviewee C1	Strategy consultancy	Founder	2013
Company C	Interviewee C2	Strategy consultancy	Senior Client Lead of Singapore	2013

Table 2: Diplomatic mission interviewed for the case study (information extracted from interview)

Diplomatic Mission	**Interviewee's Diplomatic Mission Tenure**	**Position of interviewee**
Sweden’s Ambassador to Singapore	Five years	Ambassador

This thesis used snowball sampling to gain initial access to potential interviewees. Bell et al. (2022) define this process as a “...sample technique in which the researcher makes initial contact with a small group of people who are relevant to the research topic and then uses these to establish contacts with others” (p.594). The first step in the sampling process was to contact the Embassy of Sweden in Singapore, which provided a list of Swedish companies established in Singapore. As this thesis is a multi-case study, gaining access to at least two companies was important (Yin, 2004, p.61). Conducting a multi-case study instead of a single-case study decreases the risk of bias and vulnerability (Yin, 2004, p.24). In total, ten companies were contacted through email, and ultimately, three of the companies agreed to be interviewed. As presented in Table 1, one representative, each from Company A and B, was interviewed, and two representatives from Company C. There were two reasons for conducting two interviews with Company C. Firstly, while the founder was the head decision-maker in deciding on Singapore as an investment location back in 2013, he moved back to Sweden in 2018. The senior client lead of Singapore of Company C is currently based and more specialized in the Singaporean market. She could therefore depict a more dynamic perception of the ownership advantages Company C had during their establishment process.

The goal was to have interviews with companies in different industries, as this allowed for dynamic cross-company comparisons and pattern matching (Yin, 2004, p.34). Additionally, Sweden's Ambassador to Singapore was interviewed to depict an overview and a more unbiased opinion of the most determinant factors Swedish firms consider before their establishment. The specific years of the Swedish Ambassador's mission will not be revealed due to confidentiality, but it was during the 21st century. The respondents from each company were decided based on their expertise within their field and the Singaporean market. Most importantly, all respondents were highly involved in choosing Singapore as the destination of investment.

5.3. Data Collection

The primary data was collected through semi-structured interviews with three Swedish companies established in Singapore and an interview with Sweden's Ambassador to Singapore. Semi-structured questions are practical for conducting interviews, as it allows for open-ended and follow-up questions (Bell et al., 2022, pp.12; 427). Hence, the interviews are detailed but flexible in the direction the interview is going (ibid). Each interview varied between 30-90 minutes and was carried out between 13 April and 27 April 2022. While the study could have benefited from more interviews, five interviews seemed feasible concerning the time frame and reachability. All interviews were conducted through Zoom as the interviewees were unable to meet in person. A consent form was sent out before the interviews to communicate the purpose of the study, their involvement, and the anonymization of the interviews. As a result, the company names are addressed as Company A-C, and the interviewees are addressed using generic identifiers (Table 1 & 2).

Creswell and Creswell (2018) outline that the most effective way to conduct a case study is to ask questions about themes the thesis aims to address (p. 225). The authors outline that one should avoid direct questions which include the theory or literature explored in the case study as this may tailor the responses (p.226). As this thesis is based on the eclectic paradigm, the interview questions were structured into themes of location, advantages, and internalization (Creswell & Creswell, 2018, p. 225; Dunning, 2000). To mitigate response bias, the themes were, however, never disclosed to the interviewees (ibid). Additionally, more general questions were asked about the most prominent reasons for establishing in Singapore to allow for responses outside the eclectic paradigm's scope. The interview guide (Appendix A) was continuously altered throughout the interviews to allow for follow-up questions and to gain a more comprehensive view of their experience (Bell et al., 2022, p. 12; 427).

5.4 Data Analysis

The interviews were conducted via Zoom, transcribed using otter.ai, and coded using the NVIVO software. Creswell and Creswell (2018) recommend using these kinds of qualitative computer software programs even for smaller studies to help organize, sort and describe the data (p. 313). In order to create a systematic method, constant memoing was used to structure the data into codes and themes throughout the research process (p. 302).

The data has been structured according to a combination of the work of Eisenhardt (1989) and Creswell and Creswell (2018, p.316). The data is structured using two categories; expected codes and codes of unusual or conceptual interest (Creswell & Creswell, 2018, p.316), and within these sections, a cross-pattern analysis between the companies is carried out (Eisenhardt, 1989). More specifically. Section 6.2 consists of the expected codes. Hence, the results are structured accordingly with the eclectic paradigm (Creswell & Creswell, 2018, p.316). Followed by section 6.3, where "codes of conceptual interest" is presented; these are factors outside the eclectic paradigm's scope, will be presented, which can provide insights that develop new frameworks or add new dimensions to existing literature (ibid). A cross-case analysis within these sections is beneficial for observing the data divergently (Eisenhardt, 1989).

5.5 Data Limitations

One must acknowledge several limitations connected to validity and reliability when conducting a qualitative case study. As semi-structured interviews include asking open-ended questions, the structure and follow-up questions differed somewhat between the interviews. This makes it more difficult to code the interviews and increases the risk of making less reliable cross-company analyses. This risk can be avoided using discrepant information connected to themes (Creswell & Creswell, 2018, p. 323). As this case study is built on the established eclectic paradigm framework, one could ensure qualitative reliability to a greater extent as the themes were pre-defined by Dunning (1981). As noted by Creswell and Creswell (2018), this also decreases the risk of code drifting and misinterpretations (p. 323). On the other hand, using an established framework only contributes to the existing theory rather than filling a research gap that yet, has to be explored.

Another limitation connected to internal validity is the diffusion of treatment or cross-contamination of groups (Creswell & Creswell, 2018, p. 28,4). While the Swedish Ambassador recommended interviewees one, two, three, and five, interviewee four was recommended by interviewee 3. For instance, this increases the risk of unwanted effects when the representative suggests employees with similar opinions on the topic (Emerson, 2015). This risk can, however, be considered discarded to some extent as the recommendation occurred before the interviewees knew the purpose of the study, and the participants did not communicate in between the interviews.

As Creswell and Creswell (2018) reported, preventative methods for external validity must be applied when conducting a case study (pp. 283-286; 324). This refers to the risks connected to generalizability and the fact that the researcher only can draw conclusions based on the settings of the conducted study (ibid). For instance, the results in this case study are not generalizable for all Swedish companies expanding their business in Singapore. More specifically, there are approximately 250 Swedish companies in Singapore (Team Sweden, 2022), and only three of these companies were interviewed.

However, Creswell and Creswell (2018) identify that if the case study selects additional interviewees, the researcher can generalize the findings more profoundly (p. 324). Thereby, Sweden's Ambassador to Singapore was interviewed to present the opinion of the companies he was in contact with during his five years in the Embassy. Further, Dubois and Gadde (2002) assert that case studies supply unique and new insights into the empirical framework and should therefore be considered a strength. While the case study is context-specific to the companies interviewed, future studies examining the eclectic paradigm can still be tested using this study's empirical and theoretical framework.

6. Analysis

The following section presents the empirical analysis in line with work done by Eisenhardt (1989) and Creswell and Creswell (2018, p. 316), where the researcher identifies expected codes and codes of conceptual interest. Within these sections, a cross-case analysis of the companies is utilized. This structure is beneficial to answer the main research question and sub-research question as both factors within and outside the eclectic paradigm's scope are identified.

Main research question: *Does Dunning's eclectic paradigm succeed in explaining the decision-making process of Swedish MNCs in Singapore?*

Followed by the sub-research question: *Are there certain component(s) that could be added to make the eclectic paradigm more applicable for Swedish MNCs in Singapore?*

Section 6.1 provides a short description of the interviewed entities. The following section, 6.2, seeks to structure the responses in line with the OLI framework. Section 6.3 provides a base for the second research question and adds the concept of global cities.

6.1 Presentation of interviewed entities

Sweden's Ambassador to Singapore:

Sweden's Ambassador to Singapore was interviewed to depict a more unbiased view of the establishment process of Swedish companies. He was an Ambassador for five years during the

21st century. One of his primary assignments was to support Swedish companies wanting to establish themselves in Singapore. This includes approaching Singaporean authorities and assisting the Swedish companies before, during, and throughout their establishment process. However, one must acknowledge that the Ambassador provided a generalized perspective of all the Swedish firms he worked with during his time in the Embassy, opening up the risk of oversimplification.

Company A

Company A is a leading Information and Communication Technology (ICT) company. The company was founded in Stockholm. Their first operation was established in Singapore around 1960 to provide 3G sales for the Asian Pacific. In 2000, they expanded to manage foreign exchange transactions, set up infrastructure for money transfers, and market the company in Singapore. The representative from Company A is referred to as Interviewee A, and his title was the President of the Treasury Service. Hence, the founder of the regional financial hub. The analysis will be based on the expansion of the financial operations established in Singapore in 2000 rather than their initial establishment in 1957.

Company B

Company B is a home appliance manufactory company founded in Sweden and set up its first office in Singapore around 1975. The representative for Company B is referred to as Interviewee B. As the Regional Marketing and Sales Manager for Asia, he founded a regional office in Singapore in 2003, hence the establishment on which the following analysis will be based on.

Company C

Company C is a strategy consultancy that supports companies through transformative shifts. The company was founded in Stockholm and established its operations in Singapore in 2013. Two interviews with Company C were conducted: the representatives are referred to as Interviewee C1 and Interviewee C2. Interviewee C1 is the firm's founder and was the head decision-maker in moving their operations to Singapore. Interviewee C2 is one of the expatriates involved in the transition process. Her title is Senior Client Lead, and she still lives in Singapore.

6.2 The Eclectic Paradigm

The following section applies the results to the theoretical framework; The eclectic paradigm (Figure 1).

6.2.1 FDI Motivation

Table 3: FDI motivation of interviewed entities (information extracted from interviews)

Company	**FDI Motivation**
Company A	Strategic asset seeking and market-seeking
Company B	Strategic-asset seeking and efficiency-seeking and
Company C	Strategic asset seeking and market-seeking
Sweden's Ambassador to Singapore	Strategic-asset-seeking

According to the eclectic paradigm, the first step in the decision-making process is to decide whether the company utilizes FDI for strategic, market, efficiency, or resource reasons (Dunning, 2000). All interviewees stated that they sought strategic assets. The Ambassador outlines that this most likely can be attributed to Singapore being a global hub with high establishing costs and a lack of natural resources. Swedish companies can thereby strengthen their strategic position in South East Asia and gain global recognition (Company A, B & C). This aligns with the argument made by Ellram et al. (2013) that companies start to move away from resource-seeking FDI to strategic asset-seeking over resource-seeking.

Despite strategic asset seeking, Company A and Company C were also established in Singapore for market-seeking purposes. Both Company A and C sought marketing assets as the companies wanted to increase market share and meet customer demand. More specifically, the latter can be attributed to both companies having customers based in Singapore before establishment, so making the direct investment was a beneficial strategy to meet customer demand. These motives align with Goerzen et al. (2013), who state that MNCs which engage in FDI to improve sales and market share are more likely to establish in a global city like Singapore.

Company B was motivated to engage in FDI for efficiency- and strategic asset-seeking purposes. The motivation behind establishing the regional office was to improve efficiency by reducing the time and costs associated with traveling from Sweden to their establishments, primarily in Asia and Australia. This motive contradicts a study by Alcantara and Mitsuhashi (2012), who found that efficiency-seeking MNCs are more likely to invest in countries with low GDP levels. This can be attributed to efficiency-seeking advantages usually corresponding to firms moving abroad to decrease costs associated with cheaper inputs (Benito, 2015). This was evidently not the case for Company B, as they sought to run their operations smoother and established in Singapore, a nation with high GDP and expensive production inputs (Prime, 2012).

6.2.2 Ownership advantages

Table 4: Ownership advantages of interviewed entities (information extracted from interviews)

Company	Ownership advantages
Company A	Yes
Company B	To some extent
Company C	No
Sweden's Ambassador to Singapore	Yes

The ownership advantages are divided between ownership assets and ownership transactions. OA refers to the firm's unique intangible capabilities, such as patents, brand image, and reputation. OT can be attributed to the firm's capacity to gain transactional benefits or decrease transaction costs through engaging in FDI (Dunning, 1988). However, one has to acknowledge that the ownership advantages are only analyzed using OA and not OT, as none of the interviewees mentioned ownership transaction advantages.

These ownership advantages are characterized by considering whether the firm has competitive advantages against local and international competitors (Cantwell & Narula, 2001). However, when the eclectic paradigm was first established, competitive advantages were only concerned in relation to domestic firms in the host country (ibid). If the latter had been the case today, Table 4 would instead have displayed "yes" in the ownership column. More specifically, all companies acknowledged possessing ownership advantages over local competitors but not over other international MNCs. However, as Cantwell and Narula (2001) explain that MNCs biggest competitors today most commonly are other international companies, and ownership advantages are not as local-market oriented as when Hymer (1960) published his dissertation.

Nielsen et al. (2017) acknowledge that MNCs with stronger intangible assets are more likely to engage in FDI and enter attractive markets such as global cities. This applies to Companies A and B as they both possessed intangible assets, such as patents and a strong brand image (Interviewee A & B), and entered a global city like Singapore (Goerzen et al., 2013).

However, Interviewee B outlines that many other MNCs possessed the same intangible assets as they did. As the eclectic paradigm asserts that these ownership advantages are unique (Dunning, 1988), it can not be considered an advantage to the same extent if other firms possess the same competitive edge. Nielsen et al. (2017) explain that ownership advantages are connected to location factors as MNCs tend to move to locations where they believe they can utilize these competitive advantages to the fullest. However, this part of the eclectic paradigm fails to outline why Company A established in a competitive environment like Singapore, where other strong international competitors were located. Similarly, as the eclectic paradigm primarily considers ownership advantages from a host country perspective, it fails to outline how Company B had competitive advantages from a South East Asian perspective but not in Singapore to the same extent.

The Ambassador additionally mentioned how firms operating within, for instance, digitalization, can gain advantages by collaborating with other recognized brands, such as the Singaporean telecommunications company SingTel. He outlines that; *"If you make a good deal with SingTel in Singapore, you can have your product in so many other countries, so, therefore, if your company is into digitalization, you can gain a huge competitive advantage."*

This applied to Company A as they collaborated with Singtel before the financial establishment in 2000. The company, hence, had strong ownership advantages to a large extent because of its contract with Singtel. For instance, Interviewee A highlighted that Singtel and Company A's partnership pioneered the 5G industry and enabled global connectivity across multiple industries.

While ownership advantages usually are considered from a firm-specific perspective (Nielsen et al., 2017), the Ambassador outlines that from a generalized perspective, Swedish firms are highly regarded by Singapore's Economic Development Board (EDB) and thereby have intangible assets in the form of reputational benefits. More specifically, the Ambassador outlines that the EDB has had a representative stationed in Stockholm to scout companies that are *"... up in the ladder in regards to innovation, which have made EDB want to attract more Swedish knowledge".* The companies EDB selects can receive incentives and a personal invitation to Singapore.

Company C was, contrary to the other companies, a relatively unknown brand that entered an attractive market. The vast literature focus on how firms with strong intangible assets engage in FDI (Dawar & Parker, 1994; Nielsen et al., 2017) but fail to explain why medium-sized firms with less established trademarks, like Company C, operating in Singapore with the strategy to develop a strong brand image over time. Interviewee C1 stated that the company struggled with competing with other big consultancy firms with more credibility in Singapore. More specifically, in the event of something going wrong, if they hired Company C, he states that *"people would say why did you hire that small consultancy firm no one knows about instead of McKinsey."*

Company C mentions that back in Sweden, they had many direct competitors; meanwhile, there were many strong consultancy brands in Singapore, but none specialized in strategy consulting. Additionally, the company did not possess ownership advantages in line with the eclectic paradigm as it asserts that these are attainable to intangible assets (Dunning, 2000). However, the company did, according to Miller et al. (1989), who explored the competitive advantage of pioneering. He argued that the company that establishes first within an industry could decide the rules, which is an ownership advantage (ibid).

6.2.3 Location advantages

Table 5: Ranking of location factors by interviewed entities (information extracted from interviews)

Interviewed entity	**Ranking of location advantages**	**Location advantages**
Company A	1. Political and legal environment 2. Geographic location 3. Psychic distance	Yes
Company B	1. Geographical location 2. Political and legal environment 3. Psychic distance	Yes
Company C	1. Geographical location 2. Political and legal environment 3. Psychic distance	Yes
Embassy of Sweden in Singapore	1. Geographical location 2. Political and legal environment 3. Psychic distances	Yes

The following section will be structured accordingly with the theoretical framework using the subsections of location advantages, political and legal environment, and geographic location.

Geographical location

All companies possessed location advantages in Singapore. Additionally, Company B, Company C, and the Ambassador ranked geographic location as the most prominent location factor, while it was second most important for Company A. One must acknowledge that the ranking can be considered oversimplified as all interviewees considered these factors in combination. For instance, while Singapore's geographic location was the most prominent factor, it can not explain why the companies did not choose neighboring countries. This can be described by Singapore's geographical location in combination with a stable political and legal system (Daude & Stein, 2007; Nielsen et al., 2017; Wheeler & Moody, 1992). The Ambassador also acknowledges that Singapore has become a prominent location for FDI for Swedish MNCs. This supports the hypothesis by Nielsen et al. (2017), who found that a location is more likely to be chosen if many MNCs from the same home country are established in the host country.

The Ambassador outlined that the Swedish companies he worked with considered Singapore's strategic location vital. He states the following about the geographical advantage;

"If you look at Singapore geographically, we used to say that within a six-hour flight, you reach two-thirds of the world's population, more or less."

Singapore's airport has been vital in this regard; *"The government works hard to be a global hub, and this becomes apparent when looking at rankings of the world's best airports, where Changi Airport has topped the list for many years."* This argument was additionally outlined by Interview B, who explains that a driver to Singapore was their agile airport with direct connections and multiple flight options.

Interviewee A describes that before they located in Singapore, they interviewed several Swedish companies and other European firms to understand their business experience in Singapore. The consistent response was the ease of doing business and that it was significantly agile to do cross-border transactions in and out of the country. In line with this, Interviewee C1 and Interviewee B outline the importance of Singapore's geographical location for a getaway into other markets and a branding perspective. This can, however, not be explained by the eclectic paradigm to the full extent and will be further elaborated in section 6.3.

Political and legal environment

Political environment

As can be seen in Table 4, all interviewees ranked political and legal environment in second place or first place. These results correspond to the voluminous literature examining that bureaucracy, political instability, poor institutions, and a flawed legal system corresponded negatively with FDI inflows (e.g., Daude & Stein, 2007; Nielsen et al., 2017). For instance, Company B outlined that they considered establishing in other countries such as India but thought it was too *"..bureaucratic, and many people are involved in getting through the decision, which makes everything a slow process.*". All companies considered Singapore's developed institutions and infrastructure of utmost importance. This result is consistent with Nielsen et al. (2017), who outline the importance of advanced societal infrastructure for FDI.

The view that MNCs favor politically stable locations (Nielsen et al., 2017) is supported by the Ambassador, who highlights that most Swedish companies he worked with decided between establishing in Hong Kong or Singapore. However, Hong Kong has struggled with political tension and protests, so more Swedish companies went to Singapore instead. This can also be attributed to the argument by Nielsen et al. (2017) that a location is more likely to be chosen as a destination if MNCs from the same home country are established there. Hence, when a few Swedish companies switched from Hong Kong to Singapore, it most likely triggered other Swedish firms to do the same (Ambassador).

Interviewee C2 outlines that despite Singapore having some struggles with democracy, the fact that PAP has stayed in power for approximately 60 years has created *"political longevity in a way which is not the case in Europe where politicians are more incentivized to make short-term decisions to win the next election, but with PAP they know that they are going to win so they can make less popular decisions which benefit the country the long term."*

Another political factor is tax rates, where Nielsen et al. (2017) found that MNCs are more attracted to host countries with low taxes. Meanwhile, both companies A and B viewed tax incentives as a valuable supplementary addition but not a prominent determinant to choosing Singapore. For instance, Interviewee A states that the low corporate tax rate " *was an additional benefit, but not the main reason for establishing."*

Legal environment

Steigner et al. (2018) found that legal origin had a prominent effect on FDI inflows. There is, however, narrow literature examining the importance of legal origin (ibid). More specifically, Steigner et al. (2018) concluded that MNCs are more likely to establish themselves in a country with a familiar legal environment. This is consistent with the results in this case study, as all interviewees outlined the importance of Singapore's legal system being rooted in British Commonwealth laws, which was highly important in the event of an adverse outcome. For instance, *"being in Singapore, which had a predictable legal system, was important…where for instance, in China, things could go against you because the law is designed in a disadvantage for foreign operators... so Chinese operators would always have an advantage over us."* (Interviewee B)

Interviewee C1 asserts that Singapore's strict laws have also been crucial to ensuring that companies are of high quality and legitimate. This was vital as a consultancy company depends highly on the skills of the companies they work with. Interviewee C1 stated the following;
"In Singapore, you can almost assume that companies that are not serious… cannot survive as they either cannot do it financially, or they will be stopped legally. So almost all companies are of high quality, which you can not assume in other parts of Asia."

Psychic distances

Before deciding on the specific location, MNCs consider the psychic distance between the potential host and domestic countries in culture, language, and business perception (Dunning & Lundan, 2008, p.92; Johanson & Vahlne, 1977). In terms of business perception, Companies A - C outline that the business culture differed between Singapore and Sweden. For instance, Interviewee C1 explains that *"[Swedish business culture] is very different from Singaporean culture."* Interviewee A states that Singapore has much more transparent leadership in general than Sweden, where Swedish leaders usually try to phrase feedback *"to make it sound nice"* instead of being upfront, as in Singapore. In line with this, the Ambassador outlined that;

"And if the [Swedish companies] don't know the culture, then it becomes even bigger hurdles, then it's easier to go to Germany or France, which have similar business culture, even though you will not make as much money as if you go to Southeast Asia." (Ambassador)

Additionally, the Ambassador highlighted that adapting to the business culture was more important for Swedish companies operating in an industry where most competitors were local firms. This can be attributed to it being essential to know the decision-makers in Singapore within several sectors, which gives the local firms a prominent advantage over foreign MNCs.

All companies do, however, outline that it was vital that Singapore is an English-speaking country. Concretely, language similarities were considered the most prominent psychic distance factor. These results align with a study by Cuervo and Pheng (2003), who found that language similarities were the most crucial home-host country factor. This view is also supported by the Ambassador, who worked as the Swedish Ambassador of Taiwan after Singapore, where language differences were a significant hindering factor for Swedish MNCs. He outlines that *"as only a few people spoke English in Taiwan, it was much more challenging for Swedish companies to operate in everyday business life."*

The results on psychic distance in this case study are inconsistent with the results by Johanson and Vahlne (1977) and Mansfield (1988), which state that MNCs invest when the psychic distance is narrow. All interviewed entities outlined that there was a psychic distance between Sweden and Singapore in terms of business culture. This could explain why all interviewees ranked the psychic distance factor third (Table 5).

6.2.4 Internalization advantages

Table 6: Internalization advantages of interviewed companies (information extracted from interviews)

Company	Internalization advantages
Company A	Yes
Company B	Yes
Company C	Yes

The internalization advantages are the company's benefits from direct investments over other entry modes such as exporting, licensing, and franchising (Dunning, 2000). This is most often attributed to the transaction costs which arise with other entry modes than a subsidiary (ibid). All interviewed companies outlined internalization advantages and did not consider another entry mode other than a direct investment. More specifically, all MNCs outline that a prominent factor was promoting the company and establishing a stronger brand image. This aligns with the argument made by Itaki (1991) that firms make direct investments to utilize the market advantages of selling their own products. For instance, while Company A could have outsourced using an external bank to do foreign exchange transactions, making a direct investment was essential for marketing. Similarly, Interviewee B acknowledges that they had distributors in other locations in South East Asia. However, they decided that Singapore was an advantageous location for growing their operation which could only be done by making a direct investment as a subsidiary would not put in the same effort to sell their products.

Dunning (2000) outlines that highly specialized firms, such as electronics like Company A and consulting companies like Company C, are more likely to make a direct investment because it is harder to use another entry mode when the operations are less standardized. This can be attributed to the transaction costs of negotiating contracts to ensure that the product was marketed efficiently were considered more extensive than the costs associated with establishing in Singapore.

Steigner et al. (2018) argued that internalization factors are highly associated with the legal and political climate. For instance, sometimes, the legal environment hinders the entry mode which the MNC can choose. This aligns with Interviewee B, who argued that "in other countries, we had to do joint ventures because the local laws will prevent us from doing 100% our own [establishment]".

Table 7. Summarizing findings of the eclectic paradigm

Company	FDI motivation	Ownership advantages	Location advantages	Internalization advantages
Company A	Strategic asset & market-seeking	Yes	Yes 1.Political & Legal environment 2.Geographic location 3.Psychic distance	Yes
Company B	Strategic-asset- & efficiency-seeking	To some extent	Yes 1.Geographic location 2.Political & Legal environment 3.Psychic distance	Yes
Company C	Strategic asset seeking & market-seeking	No	Yes 1.Geographic location 2.Political & Legal environment 3.Psychic distance	Yes
Sweden's Ambassador to Singapore	Strategic-asset-seeking	Yes	Yes 1.Geographic location 2.Political & legal environment 3.Psychic distance	Not applicable

6.3 Adding the Global City Theory to the Eclectic Paradigm

The following section will analyze factors that could not be explained using the eclectic paradigm. The section is of utmost importance to contribute to the existing studies within the FDI field. The eclectic paradigm fails to explain the dimensions of Singapore being a global hub, which was a prominent driver for the Swedish MNCs seeking to establish in Singapore (Interviewees A-C). Therefore, the Global cities theory will be applied to fill this research gap (Goerzen et al., 2013). Additionally, the concept of global cities has been overlooked when aiming to explain the decision-making process of MNCs (ibid). Goerzen et al. (2013) acknowledge that Singapore is a global city and explain that these locations possess the following characteristics; 1) a high linkage of local and global markets, 2) a cosmopolitan atmosphere, and 3) Knowledge-intensive production service.

There are three dimensions of the decision-making process of the Swedish MNCs explored in this case study which the OLI framework omits to describe but which can be explained using the global city theory.

Firstly, the eclectic paradigm asserts that ownership advantages are utilized in the host country (Dunning, 1988). It thereby fails to outline how companies establishing in Singapore seek ownership advantages from a regional, South East Asian perspective rather than limited to Singapore. This can, however, be explained by the global city concept, where Goerzen et al. (2013) explain that a prominent theme is that global cities are hubs providing MNCs with access to markets other than the host country. This was highly applicable to Company B, which had a brand regional office in Singapore but had ownership advantages to a larger extent in Vietnam. Interviewees A-C outlines that access to the global market and a cosmopolitan atmosphere was advantageous to gain market share, brand image, and customer creation. For instance, Interviewee B outlined that Singapore was advantageous as the country is culturally, internationally, and religiously diverse, and the company thereby could; *"try to find commonalities and differences between different backgrounds which could be utilized from a branding perspective.*" This is also highly applicable to the internalization factors as it adds a new dimension to the fact that the advantages of making a direct investment allow companies to utilize the three characteristics of a global city in a way that could not be utilized through other entry modes.

The second aspect which can be supplemented using the global city concept is why the Swedish MNCs explored in this study could overlook the expensive establishing costs (Goerzen et al., 2013). As the OLI framework is more adapted to companies that aim to utilize FDI for low labor and establishment costs (Dunning, 1980; Benito, 2015), it fails to observe the modern shift from cost-reducing FDI to customer value-creation FDI (Ellram et al., 2013). Hence, the disadvantage of global cities is that it usually comes with the rise of agglomeration diseconomies, such as high costs. Interviewee A outlines that the fact that Singapore was politically stable made the high costs worth it. Company C did, however, view the expensive trait as an advantage;

"*Singapore is a great national brand in its own right, so being established in Singapore gives you a quality stamp about your business to other countries in the region... it also concerns the fact that you can afford to have an office in Singapore".* (Interviewee C1)

Similarly, Interview A stated that the following about the high establishing costs;

"Singapore's political stability, legal system, and low corruption levels are almost insignificant compared to other countries… outweigh the fact that it is so expensive".

Thirdly, while the eclectic paradigm considers the importance of institutions for the companies which aim to devote resources to the host country (Buckley et al., 2007), the global city theory expands this point of view to this importance for expatriates. There are, however, a limited number of studies that examine the importance of location factors for expatriates (Nielsen et al., 2017). All interviewees outlined that it was essential to be established in a country that provides high-quality characteristics for all expatriates living on-site. Nielsen et al. (2017) assert that expatriates seek global cities with a cosmopolitan setting and global connection. This is consistent with the results in this study as interviewee C1 outlines that;

"The life that you live as an [expatriate] in Singapore,.. is unbeatable; there is no other country in the region that offers the culturally dynamic environment, which.. also makes it easy to attract people from Sweden"

Along similar lines, Goerzen et al. (2013) outline that global cities tend to have a high skill level as it consistently is a high movement of talent. This aligns with the standpoint of Interviewee B, who stated that; *"As there is significantly skilled labor in Singapore, we could replace our expatriates out of Europe with local staff over time." (Interviewee B)*

All in all, there are several dimensions of the geographical characteristics of being a global city that the eclectic paradigm fails to outline. The concept of global cities can thereby fill this research gap and outline how global city characteristics provide globalized competitive advantages, how companies can overcome the expensive establishment costs in Singapore, and these characteristics for expatriates living in Singapore. When adding the concept of global cities, Company B´s ownership advantages transform from "to some extent" (Table 7) to yes (Table 8). Therefore, the theoretical framework has been updated (Figure 2) where location advantages are considered global city characteristics (Goerzen et al., 2013) instead of host country characteristics (Cuervo & Pheng, 2003).

Table 8. Adding the global city theory to the eclectic paradigm

Company	FDI motivation	Ownership advantages	Location advantages		Internalization advantages
Company A	Strategic asset & market-seeking	Yes	Yes	1.Political & Legal environment 2.Geographic location 3.Psychic distance	Yes
Company B	Strategic-asset- & efficiency-seeking	Yes	Yes	1.Geographic location 2.Political & Legal environment 3.Psychic distance	Yes
Company C	Strategic asset seeking & market-seeking	No	Yes	1.Geographic location 2.Political & Legal environment 3.Psychic distance	Yes
Sweden's Ambassador to Singapore	Strategic-asset-seeking	Yes	Yes	1.Geographic location 2.Political & legal environment 3.Psychic distance	Not applicable

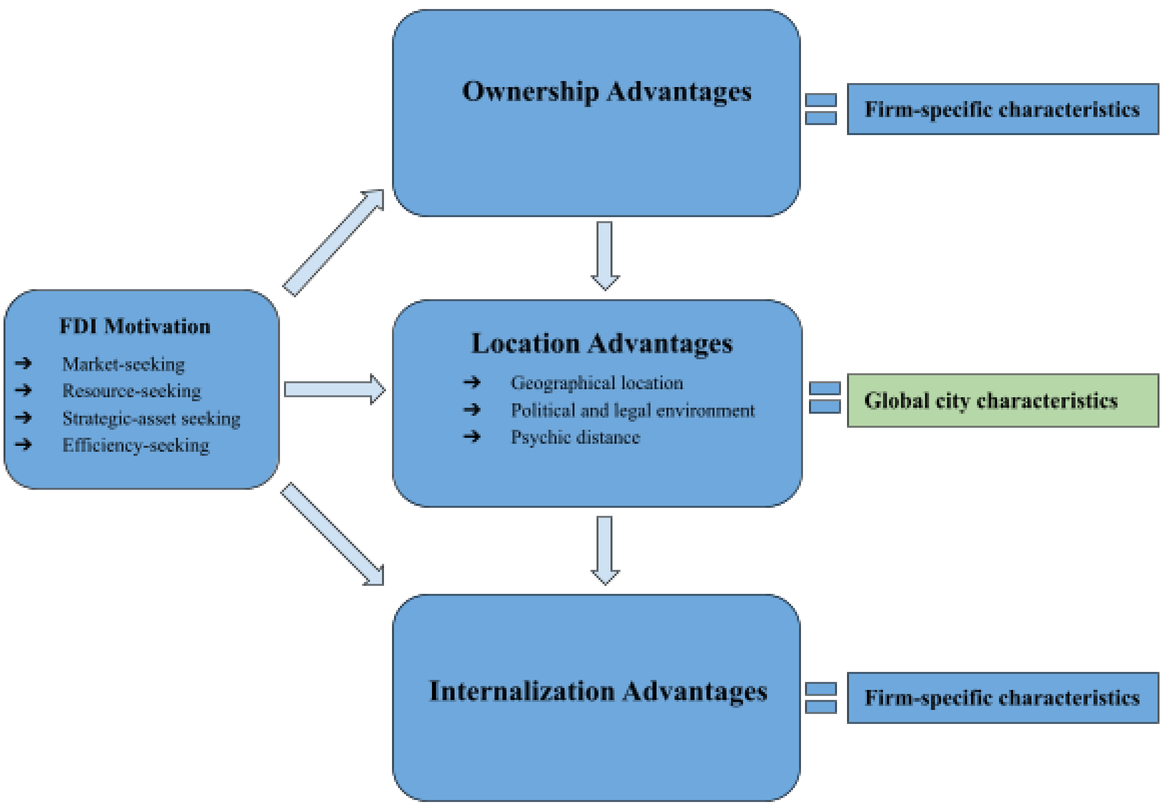

Figure 2: Updated theoretical framework: Adding global city theory (Author's own work)

7. Discussion

Based on the empirical analysis, the following section seeks to answer the following research questions:

Does Dunning's eclectic paradigm succeed in explaining the decision-making process of Swedish MNCs in Singapore?

The requirements for success in this context was as outlined in the introduction, if all companies, in this case, study possessed all three O-L-I advantages (Dunning, 1977; 1979, as cited in Nielsen et al., 2017), the framework was considered successful. With this in mind when analyzing Table 7, one can conclude that not all companies possess all three advantages, and the eclectic paradigm can, therefore, not successfully explain the decision-making process of Swedish MNCs. In other words, the conclusion is that firms can engage in FDI despite not possessing all three O-L-I advantages.

More specifically, the framework successfully explains the FDI motivation, location, and internalization advantages of the interviewed entities but can not explain how Companies B and C decided to establish in Singapore without possessing ownership advantages to the fullest. Company B did not acquire these advantages to the fullest extent, as other international brands possessed the same advantage. Similarly, Company C was an unknown brand without intangible assets.

One must, however, note the elements which the paradigm explained successfully. For instance, the FDI motivations of all companies in this case study were, among other combinations, strategic asset-seeking in the form of international recognition and branding (Meyer, 2015). As Ellram et al. (2013) outlined, companies move from resource-seeking FDI to strategic asset-seeking over resource-seeking. Additionally, the ownership advantages were highly attainable to the elements of intangible assets, such as a strong brand image for Company A and the reputational benefits of Swedish firms being innovative (Ambassador).

Out of the three elements in the eclectic paradigm, the location advantages were the most comprehensive and paramount. Therefore, the interviewees were asked to rank the most essential location advantages (Table 7). One must acknowledge that the ranking is oversimplified as the location factors to a large extent were considered in combination. More specifically, all interviewees outlined that Singapore's geographical location was important as it provided a strategic gateway into other Asian countries. For instance, the Ambassador stated, "*If you look at Singapore geographically, we used to say that within a six-hour flight, you reach two-thirds of the world's population, more or less…*". As can be seen in Table 7, the political and legal environment can be summarized as secondary importance for all interviewed entities. This was highly attributed to Singapore's low levels of corruption, political stability and legal origin (Daude & Stein, 2007; Nielsen et al., 2017; Wheeler & Moody, 1992; Steigner et al., 2018). The latter, being a more unexplored area within FDI Steigner et al., 2018). Psychic distance factors were ranked in fourth or last place by all interviewees (Table 7), this can be attributed to all interviewees asserting that there is a significant gap as the business environment differs between Sweden and Singapore. These results did, however, conflict with previous findings, which found that MNCs invest when the psychic distance is narrow (Johanson & Vahlne, 1977; Mansfield, 1988), All companies possessed internalization advantages as they considered the advantages of gaining intangible assets from direct investment more beneficial than utilizing other entry modes (Dunning, 2000). For instance, interviewee B outlined that they established a direct investment because it was easier to respond and react to the market than if they had a subsidiary.

However, as outlined by Itaki (1991), the generalizability of the OLI framework also acts as a critique of the paradigm, as it is comprehensive to the extent that it loses its explanatory power. This leads to its failure to outline why companies establish in locations where they do not possess ownership advantages (Itaki, 1991). More specifically, the framework fails to outline changes that occur within globalization and that firms, in several cases, utilize FDI despite not possessing all three advantages (ibid). The results of this study are consistent with the critique put forward by Itako (1991), and it was, therefore, essential to add the component of global cities to fill this explanatory gap (Goerzen et al., 2013). The following paragraph, therefore, seeks to explain the elements which the OLI framework could not successfully explain in the decision-making process of Swedish firms. Hence, aiming to respond to the first research question in combination with the sub-research question;

Are there certain component(s) that could be added to make the eclectic paradigm more applicable for Swedish MNCs in Singapore?

The interviewees outlined three main elements which were inapplicable to the OLI framework, and it was, therefore, essential to add the component of global cities to fill this explanatory gap. More specifically, the global city concept can first explain the importance of considering competitive advantages from a more global perspective (Goerzen et al., 2013). Secondly, it successfully expresses that the MNCs valued global connectivity and the cosmopolitan environment as paramount, causing the high establishing costs in Singapore to be worthwhile (ibid). These factors were vital for Companies A - C´s expatriates, market gateway, and brand image. After adding the concept of global cities, one can view a shift from Table 7 to Table 8, where company B now possesses ownership advantages, but more from a global perspective aligning with the global city theory. However, the updated theoretical framework can still not explain how Company C might have possessed ownership assets in the form of being first in the industry, as this is not explored by either the eclectic paradigm or the global city theory (Goerzen et al., 2013; Dunning, 1981; 2000).

A limitation of this case study is the generalizability and inability to conclude all Swedish companies established in Singapore. Hence, as this case study interviewed three companies and there are approximately 250 companies established (Team Sweden, 2022), the results can not be generalized. However, the interview with the ambassador, who has been directly involved in Swedish MNCs' establishment process for five years, provided a more comprehensive insight into this regard. As Dunning (2000) outlined, the decision-making process is context-specific and differs significantly between occurrences. For instance, firm-specific characteristics differed between the companies interviewed, such as the number of employees, industry, and multinational. The scope and time frame of the study did not allow for analyzing how these variation variables affected the decision-making process.

8. Conclusion

As the eclectic paradigm remains the leading framework for determinants of FDI, this study aimed to explore if the framework was applicable in explaining the decision-making process for Swedish firms established in Singapore. The topic is of importance as the last few decades have been characterized by a significant increase in MNCs engaging in FDI around the globe (Cantwell & Narula, 2001). However, there is a lack of qualitative studies analyzing what drives MNCs to engage in direct investment (Batschauer da Cruz et al., 2019).

When analyzing the findings in this study, the following conclusions can be deduced; the decision-making process for Swedish MNCs is more complex than just about possessing the three O-L-I advantages. However, by answering the research question based on the requirements in the instructions, the eclectic paradigm can not explain the decision-making process successfully. This is attributed to companies A and C lacking ownership advantage when first applying the theoretical framework (Table 7). However, all other components were fulfilled (Table 7). In other words, the results of this study find that firms can engage in FDI despite not possessing all three O-L-I advantages.

Adding the concept of global cities to the eclectic paradigm makes the framework more applicable for Swedish MNCs established in Singapore as it not only explains the decision-making process to a larger extent, it also could explain how Company B possessed ownership advantage, just not in line with the original OLI framework (Table 8). Hence, the study has contributed with theoretical implications within the field of the eclectic paradigm and FDI. However, while Company C was the first firm to be operating within strategic consultancy, which according to Millet et al. (1989), is considered an advantage, this is not explored in any of the two frameworks.

Hence, the lack of literature on the decision-making process in expensive but seemingly unique countries like Singapore opens up exploring new aspects of FDI. Analyzing the eclectic paradigm in a case study has allowed for a more thorough analysis of the step-by-step process that Swedish firms follow before establishing in Singapore. Comprehending the relationship between FDI and the decision-making process from a modern perspective is essential for firms looking to expand in foreign markets and policymakers seeking to attract FDI. However, one must note that the decision-making process is highly contextual and based on five interviews in the field, and one can, therefore, not make any generalizations. Therefore, to fill the research gap within decision-making and global cities, future studies with a larger sample of interviewed companies are highly regarded to examine the generalizability to a larger extent.

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Appendix A: Interview guide

The following guide was utilized during the semi-structured interviews with the companies.

Introduction

1. Do you consent to this interview being recorded?
2. Can you tell me a little bit about yourself and your role at Company X?
    a. What were your different positions within the company?
3. What were your most determining decision factors to establish Company X in Singapore?
4. What were Singapore's main advantages versus other options that you might have considered?

Theme 1: Ownership

1. Do you think Company X has a competitive advantage against other local and or/ international competitors in Singapore?
2. Are there any competitors which offer a similar service?

Theme 2: Location

1. How important is Singapore as a gateway for Company X to expand into other markets in the South East Asian region?
2. To what extent do you think Singapore's geographic location affected your decision?
3. How did Singapore's political and legal environment affect your decision?
4. How did Singapore's societal institutions affect your decision?
5. Are there any specific government policies or initiatives in Singapore that have particularly appealed to you, for instance, the tax incentives?
6. How did you view Singapore's business environment and investment climate before establishing?
7. Do you think language barriers or differences in language or business culture affected the decision-making process?
8. Can you rank the following characteristics from most to least important; geographic location, political and legal environment, and the aforementioned social distance?

Theme 3: Internalization

1. Did you consider other entry modes, such as licenses or distributors, instead of establishing a base in Singapore?
2. Did Company X choose to keep production in-house or rely on outsourcing or other arrangements with local firms?
3. Did any legal rules and regulations affect your entry mode?

General questions:

1. What are some of the challenges you have faced when establishing your operations in Singapore, and how did you overcome these challenges?

Concluding

1. Is there anything you would like to add to help me understand the most determining factors corporations consider when establishing in Singapore?

Thank you for taking the time!

The following guide was utilized during the semi-structured interview with Sweden's Ambassador to Singapore:

Introduction

1. Do you consent to this interview being recorded?
2. Can you tell me about your day-to-day assignments as an ambassador?

Theme 1: Ownership

1. Do you think the Swedish companies you worked with have any company benefits against local companies in Singapore? Against other international corporations established in Singapore?
2. Do you think that the Swedish corporations you worked with have competitive advantages against international competitors?
3. Do you think that this was a determining factor before investing?

Theme 2: Location

1. To what extent do you think that Singapore's geographic location affected the decision for Swedish firms you worked with to move their base there?
2. Do you think that the Swedish corporations you worked with would have decided not to invest in Singapore if there was political tension, such as corruption?
3. Do you think language barriers or differences in language or business culture affect the decision process?
4. Can you rank the following characteristics from most to least important; geographic location, political and legal environment, and the aforementioned social barriers?
5. What factors do you think attracted Swedish MNCs to establish their presence in Singapore compared to other nations in the South East Asian region?

Theme 3: Internalization

1. Why do you think the Swedish companies you worked with decided to move their establishment instead of exporting or establishing distributors?

Theme 5: General

1. What challenges did the Swedish MNCs that you worked with phase when establishing operations in Singapore, and how do you think they can overcome these challenges?
2. Are there any specific government policies or initiatives in Singapore that have been particularly appealing to Swedish MNCs, and if so, what are they?

Concluding

1. Is there anything you would like to add to help me understand the most determining factors which Swedish corporations consider before establishing in Singapore?

- Thank you for taking the time!