

NATIONALITY OF A COMPANY WITHIN AN INTERNATIONAL FRAMEWORK

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Abstract: In today's globalized world nationality has become a dynamic concept. During the period of nation state stability the flag under which a firm operated was fairly stable, however with the advent of firm mobility, extensive cross border mergers and acquisitions and global supply chains along with equally multinational distribution channels, the colour of the flag becomes often blurred. Furthermore, the rise and the collapse of international trade treaties and the agglomeration and occasional fracturing of nation super states, such as the European Union (EU), makes the problem a critical one. This article proposes an encompassing framework for evaluating nationality of a firm and examines the contentious status of several well-known firms where the colour of nationality is rapidly changing.

Key words: nationality of a company, multinational company, international trade, globalization

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Introduction

According to Porter (1990), nationality is indeed important and even has a role in global competitiveness. Which firm can a nation state tax, which ones should it subsidize, and which ones should it protect, becomes an existential question both for the recipient and provider of support? If firms have multinational character they play the game of declaring costs in high tax countries and profits in low tax ones. Moreover, they are often using "transfer pricing" as the mechanism to export taxes from one country to another.

International law has developed the concept of "nationality" almost exclusively in the context of individuals. Concerning companies they try to define multinationals in terms where their "control" lies. But who controls modern firms - directors, managers, shareholders, national governments or other stakeholders (Jones, 2005). Moreover large firms are complex organizations in which decisions are taken in a number of places. For example geographical location of registration and the location of headquarter are often different. For both consumers and government policy makers, nationality is often intangible and ill-defined.

Root (1994) defined a corporation as multinational that has foreign production in

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several countries, has direct control over its international operations and also implements business strategies that transcend national boundaries. Multinational corporations have many dimensions and can be viewed from several perspectives and economists are not in agreement as to how they should be defined (Perlmutter, 1969).

Labels such as “Made in ...” tend to be misleading, because products may be made up of parts sourced from a dozen or more countries (Jones,2006a; 2006b). Reich (1990) claimed the only thing that matters is labour force. Therefore, one could then determine the nationality of a company by the nationality of employees, because this was seen as the most stable production factor. But this concept has now only a historical value in fluid globalized environment.

The issue of Brand and Nationality of companies has been addressed by the US Center on Public Diplomacy (2017). The report claims that “Brand nationality, which usually remains peripheral in the production and consumption process, is elevated to prominence in times of international frictions. It draws the attention to the case of McDonald’s, which is viewed as American despite its operational model of franchising and the fact that most of its revenue is now generated from international sales.

The unfolding dynamic of transformation of nationality will continue and the framework provided allows for the real time reassessment of firm citizenship to permit the development of policies that keep pace with the evolution of this citizenship. Like ocean going vessels of trade, firms will fly many flags of convenience and it is now imperative to track the changes through a block chain type mechanism. This article is the first step in that direction.

Seven Key Features Describing the Nationality of a Company

The question of Nationality of companies has been raised and discussed in-depth by Lloyd, Kopyay and Sanchez (2012). In their article, they have conducted an extensive research on the nationality of Canadian firms. Their approach has surfaced a totally new perspective and a whole new set of results concerning nationality of supposedly Canadian firms. Building on their findings, the authors are extending the research and its scope to international companies.

Today, it is becoming increasingly difficult to identify companies’ national colour. Factors mentioned below provide a comprehensive conceptual framework for defining the nationality of any global company. These factors have been grouped in 7 areas (Figure 1).

1) Geography and Human Resource

Where the shareholders; the top executives;the people employed are located and what nationality they are?

2) Geography and Governance

Where is the center of gravity of economic activity? Where is the legal jurisdiction where incorporation is posited?

3) Geography and Suppliers

Where are the location of key suppliers?

4) Geography and Innovation

Where the R&D activities are located?

5) Market

Where is the company's major market?

6) Geography and Finance

Which nation taxes first? From where the company has received funding?

7) Culture and Perception

What is the public perception about the company's nationality?

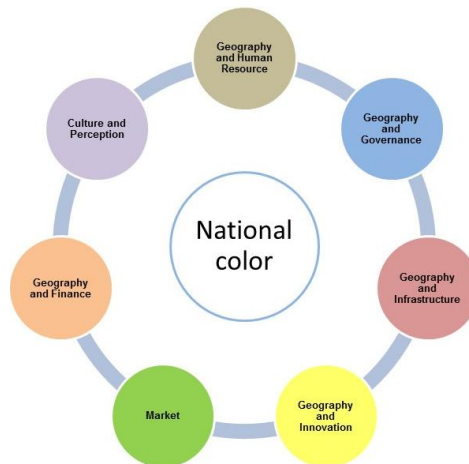


Figure 1. 7 key features describing the nationality of a company

Research Methodology

The aim is not to identify, but to point out some profiles. The authors have conducted a comprehensive and rigorous literature review in order to synthesize the prior literature and obtain a finer understanding of the conceptualization of nationality of companies that the authors have chosen. As a first step, they conducted a keyword search in the following data-bases, ABI/INFORM Complete, EBSCO, and Science Direct. The list of selected keywords comprises: Nationality of companies, name of companies, and international treaties. No time restriction was applied and the research was confined to scholarly journals, and peer-reviewed articles. The authors extended the scope to study protocols, research notes, short reports, cover stories commentaries, book reviews, and editorials.

All articles were then carefully examined in two consecutive rounds. First, the authors screened the articles based on their title and abstract. This led the authors to exclude some articles. They kept article that were relevant to the nationality of companies as key construct. Second a backward search (Webster and Watson, 2002) allowed them to identify additional articles. They also identified 7 key elements of nationality of companies.

As a result of this literature review, 10 cases were finalized. In order to analyse the nationality of companies based on these 7 elements, the authors developed a coding scheme which are identical to (1) Geography and Human Resource; (2) Governance; (3) Infrastructure; (4) Innovation; (5) Market; (6) Finance; and (7) Culture and Perception.

In order to conduct the study, the authors have chosen the companies that have dubious nationality or suffer from dual or multi nationality either from their own or others' perspective. These companies are Nokia, Nortel, Apple, IBM, Yahoo, GM, Daimler, Fiat-Chrysler, Samsung and Sony.

Results

In the following section the authors highlight some examples on the question of what factors influence the national colour on an individual case basis.

1) Geography and Human Resource

In the context of human resource: labour force plays an important role in large companies. If a company is operating with labour force located in different points of the globe, has it any impact on the company's nationality?

Nokia is one of the world's largest telecommunications company, it employs more than 110 thousand people across 120 countries, and manufacturing in Finland, India, China, France and it is present in more than 100 countries (Nokia, 2016).

Nortel was founded in Montreal, Canada in 1895 (Bloomberg, 2017). It was a telecommunications equipment manufacturer before its bankruptcy in 2009 (Hals, 2017). In 2008 Nortel employed almost 7 thousand employees in Canada and almost 12 thousand in USA and more than 13,5 thousand elsewhere (Figure 2).

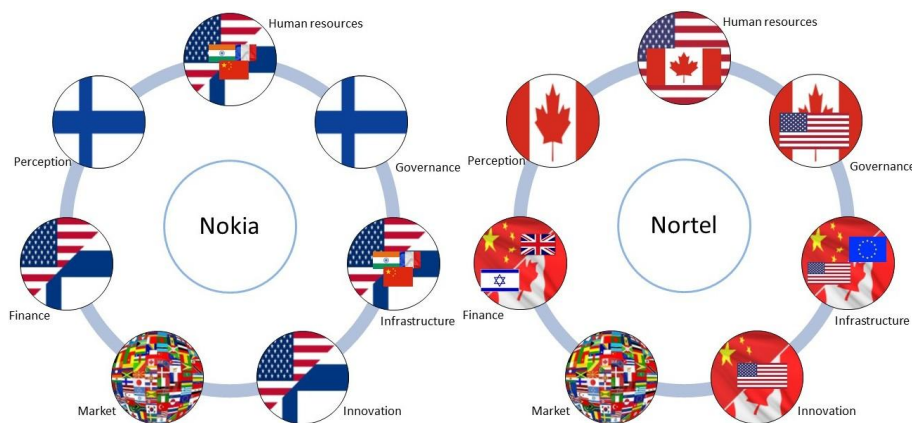


Figure 2. Company profile of Nokia and Nortel

IBM is a multinational technology company and it is one of the world's largest employers. One of IBM's major acquisitions were in 2008 when IBM acquired Cognos, the Canadian business intelligence Co. for \$5 billion. IBM has true

Canadian colours since then. However, today IBM has more employees in India than in the USA.

General Motors employs 225 thousand people in different countries of the world, it has manufacturing, assembly, distribution, office or warehousing operations in 61 countries. GM is present in the six continents but lost its EU colours since selling Opel, and the 'Brexit vote' could slow down or even stop the company's European march (Anthony, 2016). At the same time it is still considered a global automotive company.

Samsung, a technology giant, has more than 92,5 thousand employees in Korea, and more than 200 thousand elsewhere (Samsung, 2016).

Sony is one of the biggest electronics and information technology companies. 37% of Sony's production takes place in Japan, 42% in China, 19% in other Asian countries, and the rest (~2%) is in America and Europe (Sony, 2016).

These companies are rational in their decision making, and because of cost-benefit or profitability reasons, they employ people in different locations that affect their national colour.

2) Geography and Governance

A few decades ago place of incorporation and headquarter was significant in judging the nationality. Is it still relevant?

Nokia's headquarter is near Helsinki, Finland, however Nokia is operating its business worldwide (Nokia, 2016).

Apple is one of the world's largest technology companies, in fact the largest now by capitalization, and mobile phone manufacturer. The headquarter is the Silicon Valley, Cupertino, California, USA, but for Europe, the Middle East and Africa there is another headquarter in Cork, Ireland, and since February 2015 it has a headquarter in Herzliya, Israel (Apple, 2017a).

IBM headquartered in Armonk, New York, United States, but it is operating in over 175 countries (IBM, 2016) (Figure3).

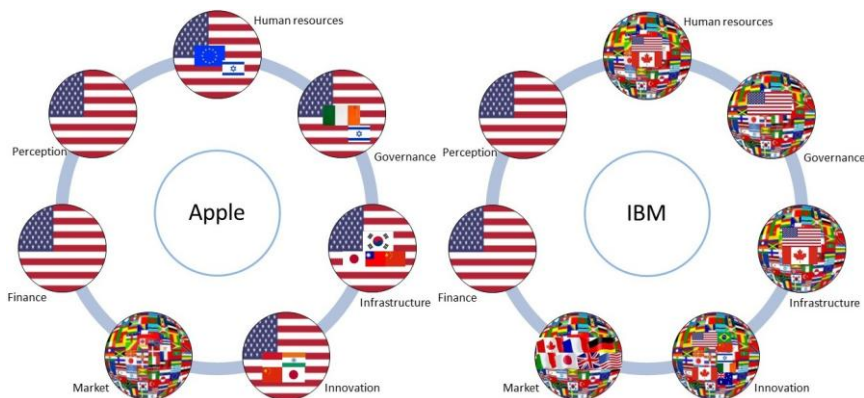


Figure 3. Company profile of Apple and IBM

Daimler is the largest truck manufacturer in the world, and one of the largest car-manufacturers. The company headquartered in Stuttgart, Baden-Württemberg, Germany. Most of its shareholders are also German (34,7%), it is followed by other Europeans (29,1%), then Americans (25,8%), Kuwaiti (6,8%), Asian (2,9%) and others (0,7%) (Daimler, 2017).

In 2014 by the merger of the American Chrysler and the Italian Fiat automaker an Italian-controlled corporation was created (Fiat-Chrysler) which incorporated in the Netherlands. The headquarter is in London, but the Italian-Canadian CEO, Sergio Marchionne, and the whole management work mainly in Auburn Hills, Michigan, USA and in Turin, Italy (FCA, 2016).

Samsung is headquartered in Suwon, South Korea. They operate 20 subsidiaries in Korea, 44 in America, 31 in Europe, 29 in China, 23 in Asia and 22 across Africa, the Middle East and the CIS regions (Samsung, 2016).

Through these examples one can conclude that the state of origin and headquarters location are fast changing and may be no more than nominal administrative locations.

3) Geography and Suppliers

Next influencing factor is the nationality of suppliers. Where is value added to the final product? What degree can they change the nationality of a company?

Apple is very much Korean, since Samsung supplies a lot of iX parts, so is Sony and Toshiba. But among the main suppliers there are China, Japan, and Taiwan also (Apple, 2017b). In an interview Cook said America and China needed each other in order to win (Balakrishnan, 2017).

IBM has an extensive integrated supply chain, procuring materials and services globally. IBM invests in markets around the world: India, China and Southeast Asia; Eastern Europe; the Middle East and Africa; and Latin America (IBM, 2016). GM's main suppliers are from Japan and from America (GM, 2016) (Takata airbag crisis reached GM too) (Figure 4).

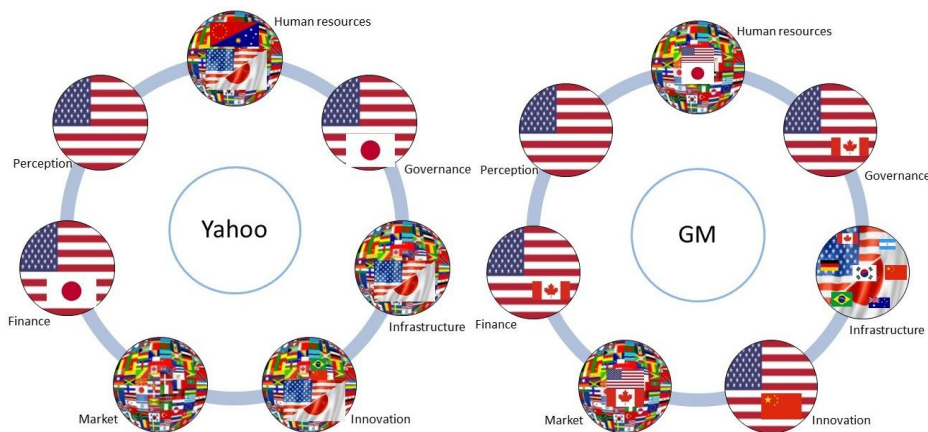


Figure 4. Company profile of Yahoo and GM

Through these examples one can conclude that suppliers have a growing influence on national colour.

4) Geography and Innovation

Innovations are critical for the companies' life. Can the place of innovation determine the nationality of a company?

Nokia (headquartered in Finland) has its research and innovation head quarter in Bell Labs, New Jersey, USA (Nokia, 2016). Apple (headquartered in USA) opens new R&D centers in China, Japan, Indonesia and India (Apple, 2017a). IBM (headquartered in USA) annually invests 6 to 7 percent of total revenue for R&D and it has labs on 6 continents (IBM, 2016).

Daimler (headquartered in Germany) has almost 290 thousand employees from which more than 24 thousand employees in research and development units. The most important research locations are in Germany and in North America precisely in Sunnyvale, California; Long Beach, California; Portland, Oregon; and Redford, Michigan. Also, there are important locations in Asia for example in Bangalore, India; the Global Hybrid Center in Kawasaki, Japan; and in Beijing (Daimler, 2016). Daimler was always seen as the epicenter of innovation in the auto industry and most innovative features in modern cars were introduced by this firm.

In 2016 Fiat-Chrysler's research and development expenditures mainly related to SUV production in China, and in the previous year mainly related to the NAFTA region (Figure 5).

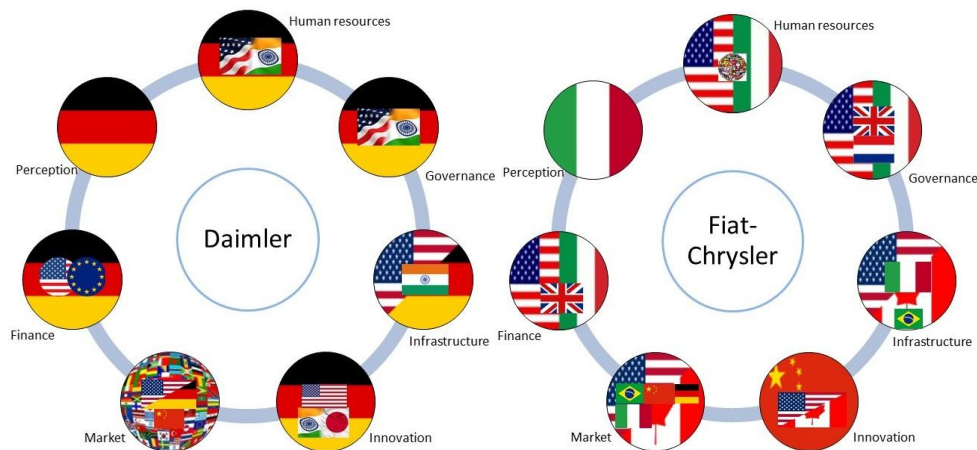


Figure 5. Company profile of Daimler and Fiat-Chrysler

Samsung (headquartered in South Korea) spends 7,3% of its sales for R&D expenses. The Company operates R&D organizations in the US, the UK, Russia, Israel, India, Japan and China (Samsung, 2016). Most of Sony's innovation take place in Japan (where it has its headquarter), China and in the USA (Sony, 2016).

Through these examples one can conclude that the location of innovation is important from the nationality point of view.

5) Market

Markets are becoming more and more influential as companies grow globally. Therefore, it is important to know where the clientele is and from where the revenue is coming.

IBM earns 47% of its revenue from the USA, 31% from Europe/Middle-East/Africa and 22% from Asia (IBM, 2016). At the end of 2016; 7,7% of Yahoo's revenue came from EMEA ((Europe, Middle East, and Africa) and 11,6 from Asia Pacific region, the rest from US (80,7%) (Yahoo, 2017).

GM has the largest market share in North America and South America (GM, 2016).

10,5% of Samsung's sales are from Korea, 32% from America, 24% from China, 21% from Asia and Africa, and 12,5 from Europe (Samsung, 2016).

26,3% of Daimler's revenue is from US, 15,5 from Germany, 20,3% from other western Europe, 10,3 from China and 27,6 from elsewhere (Daimler AG, 2016).

10% of Samsung revenue is from Korea, 34% from America, 17,6% from China, 19,4% from Asia and Africa, and 19% from Europe (Samsung, 2016).

28,6% of Sony's sales are in Japan, 23,2% in Europe, 21,4% in USA, 11,8 Asia-Pacific, 6,7% in China and 8,3% elsewhere (Sony, 2016) (Figure 6).

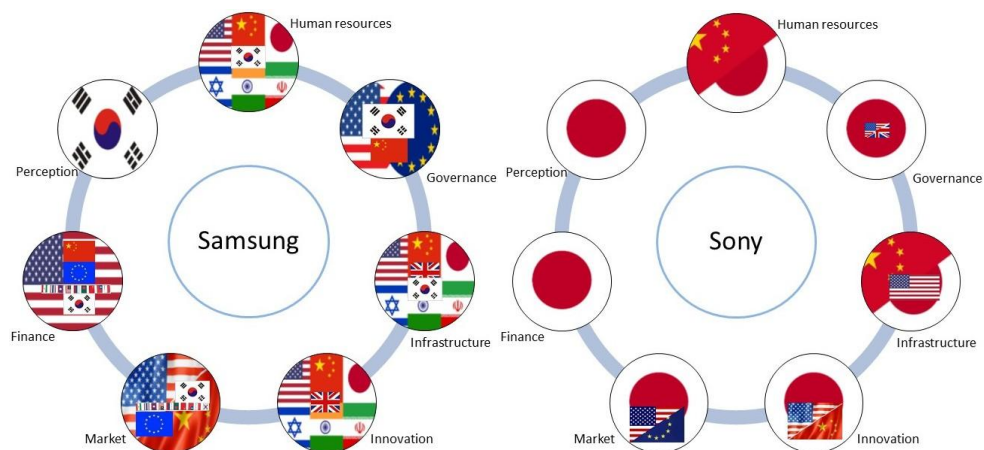


Figure 6. Company profile of Samsung and Sony

Through these examples, one can conclude that there are critical centres where a company's revenue is coming from. If a company concentrates on a specific market, it can affect its colour.

6) Geography and Finance

Of course, profit is central issue in a company's life. Where they pay tax and how

much is the tax rate is vital. Relative tax rates are an important decision factor in the location of operations. Today, America is lowering its tax rate so companies are slowly returning, recently Chrysler decided to refocus on America and curtail its Mexican operations.

Apple had and has interest in low-tax places for example in Ireland, the British Virgin Islands and lately in Jersey to cut the taxes it pays around the world (Hopkins and Bowers, 2017). Yahoo paid 87% of their income tax in the US in 2016 (and 91% in 2015) (Yahoo, 2017). IBM paid \$449 million income tax in 2016, from which \$ 38 million were paid in the US (8,5%) and \$411 (91,5%) elsewhere (IBM, 2016).

Fiat-Chrysler 68,5% of its net revenue is from NAFTA region (U.S. and Canada 64%, Mexico and Caribbean islands), 21,7% from EMEA (Europe – Italy 7,6%, Germany 3,7%, Middle East and Africa), 6,2% from LATAM (South – Brazil 4,5%; and Central America) and 3,6 from APAC (Asia Pacific region mostly China 4%, Japan, Australia, South Korea and India). But, because the head quarter is in London, they pay tax to UK (FCA, 2016).

Samsung paid 25,5% tax in Korea in 2016, because in Korea, resident corporations are taxed on their worldwide income, even though it generated only 10% of revenue from South Korea (Banjo, 2017).

Among financial questions subsidies have to be mentioned. National governments are generally subsidize the companies considered to be national. Finland's government helps Nokia to secure jobs and with the Finnish Subsidy system they support innovations. However, Nokia pays taxes not just in Finland, but also in the USA. Another interesting example is Samsung. The latest were left out from government subsidies in China (Ji-Hye, 2017).

7) Culture and Perception

It is a relative and also a very subjective factor. Mainly based on the knowledge of the respondent. The authors decided to form this data according to the open-access encyclopaedia, Wikipedia, as it is widely available to everyone, shaped by average people, and it supposed to reflect the opinion of the well informed lay person. The perception is that headquarter and nationality are the same, only in the case of Fiat-Chrysler is it different (Headquarter: UK; Perception: Italian-American).

Interesting question is what Cravino and Levchenko (2016) investigated, namely how multinational firms contribute to the transmission of shocks across countries. They found that the impact of shocks transmitted by all foreign multinationals combined is accounting for about 10% of aggregate productivity shocks.

Conclusions

The topic of this article is very important from many aspects. It is conceivable that the company sees itself from a perspective and others from another perspective concerning the nationality. However, who will determine the true nationality? The question of nationality is crucial for those who have financial interest in a company

and for those who have business relationships with it.

Reich (1990) had ideas 30 years ago that production was the critical factor, but now it's no longer applicable. For example Apple production is mostly in China, Japan and Taiwan, but apple is very American considering innovation and marketing, board of directors and somewhat Jersey colour in taxation. The authors posit that in the beginning of the 21st century, taxation is among the most important factors in the determination of nationality of a company, because this lets the national state play a key role in the decision making of the firm.

The aim of the research was to highlight an economic problem that, in our quickly developing world, changes rapidly and could affect international trade, mergers and acquisitions and outsourcing also. The authors aware of the fact that this research has limitations. Further investigation could specify where and when the firms pay tax. Where they have subsidiaries? How they use transfer pricing?

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NARODOWOŚĆ FIRMY W RAMACH MIĘDZYNARODOWYCH

Streszczenie: W dzisiejszym zglobalizowanym świecie narodowość stała się pojęciem dynamicznym. W okresie stabilizacji państwa bandera pod którą firma działała była dość stabilna. Jednak wraz z pojawieniem się mobilności, szerokich transgranicznych fuzji i przejęć, globalnych łańcuchów dostaw, także z wielonarodowymi kanałami dystrybucji, kolor flagi stał się często zamazany. Co więcej, wzrost i upadek międzynarodowych traktatów handlowych oraz aglomeracja i okazjonalne rozbitcie superpaństw narodowych, takich jak Unia Europejska (UE), sprawia, że problem jest krytyczny. W tym artykule zaproponowano obszerne ramy dla oceny narodowości firmy i przeanalizowano stan sporny kilku dobrze znanych firm, w których kolor narodowości szybko się zmienia.

Słowa kluczowe: narodowość firmy, firma wielonarodowa, handel międzynarodowy, globalizacja

公司的国籍在国际范围内

摘要：在当今全球化的世界中，国籍已经成为一个动态的概念。在国家稳定的时期，一家公司经营的旗帜相当稳定，但随着公司流动性的出现，广泛的跨国并购和全球供应链以及同样多国的分销渠道，旗帜的颜色经常变得模糊。此外，国际贸易条约的崛起和崩溃以及欧盟（EU）等国家超级国家的集聚和偶尔破裂，使问题变得至关重要。本文提出了一个评估公司国籍的综合框架，并考察了几个国籍颜色迅速变化的著名公司的争议状况。

关键词：公司国籍，跨国公司，国际贸易，全球化。