Global or Stateless Corporations Are National Firms with International Operations

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The debate on American competitiveness in the world economy has recently been thrown into some disarray. Robert Reich asserts in his essay "Who Is Us?" that in a "borderless" world characterized by "stateless" corporations, it makes no sense to talk of American competitiveness in terms of American-owned corporations, but rather that American competitiveness should be defined in terms of the skills and experience of the American work force.[1] And as Kenichi Ohmae states: "It does not matter who builds the factory or who owns the office building or whose money lies behind the shopping mall or whose equity makes the local operation possible. What matters is that the global corporations . . . act as responsible corporate citizens."[2]

Since these aggressive assertions hinge on the concept of the "global" (or "stateless") corporation, the term deserves careful scrutiny. It has been preceded in the last 30 years by a string of synonyms such as: international, inter-territorial, multinational, transnational, and worldwide. The concept has evolved to the point where it connotes something that has gone beyond nations and has left them behind. Before this, economists talked of "direct foreign investment," which implied the existence of a home nation and "host" (i.e., foreign) countries. In 1960, David E. Lilienthal, who had achieved prominence as Director of the Tennessee Valley Authority and then as Director of the Atomic Energy Commission, launched the expression "multinational corporation."[3] Since then, exaggerated claims have been made about the nature of this newly discovered species and about the inevitable demise of the nation-state. MIT economics professor Charles

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Kindleberger wrote in 1969: "The international corporation has no country to which it owes more loyalty than any other, nor any country where it feels completely at home . . . The nation-state is just about through as an economic unit . . . The world is too small. It is too easy to get about."[4] What differs between the 1960s and the 1990s is the context of the assertions: in the 1960s, it was the Europeans who worried about U.S. multinationals; now it is the Americans who worry about Japanese and European multinationals.

This article addresses some difficult and fundamental questions.[5] What is the nature of the "global," "transnational," or "multinational" corporation? Is it "national" (albeit with foreign or international operations) or is it "stateless" or "global" (by which it is meant that the company has really transcended nations in the sense that it is indifferent as between different countries and has no home nation)? What are the strategic, overall implications for the firm's competitive position in the world economy? And finally, what are the analytical, conceptual implications—i.e., what difference does it make to the way in which we think about the issues, to public debate, and to the research agenda?

Nationality Versus Stateless Globalism in the MNC

The argument that MNCs have become stateless entities stems from the observation that their business operations cross national borders. General Motors makes the Pontiac LeMans in Korea to sell in the U.S., Honda makes cars in Ohio that it exports to Japan, and Boeing makes sections of its planes in China, Italy, and Canada for assembly in Seattle.[6] However, this argument is questionable on two counts. First, stateless operations do not necessarily mean stateless corporations; in addition to the geographical spread of the group's operations, there are other criteria that need to be considered before one can consider the group to be stateless—criteria such as the ownership, control, top management, and legal nationality of the group and its components. Second, it does not necessarily follow from the fact that operations cross national boundaries that the nations are of equal importance to the group or that there is no geographical center of gravity.

Some schools of thought label a firm as a "global" or "transnational" corporation simply because it adopts a "global" or "transnational" strategy. Earlier, it was the adoption of a global habit of mind that distinguished the "geocentric" company from the "ethnocentric" and the "polycentric" firm.[7] Apart from the fact that a global strategy has meant different things to different writers, the problem is that a strategy or a habit of mind cannot be quantified. Nor can it be measured unambiguously through its results, for the actual outcome depends not only on the strategy but also on the interplay of internal and external forces.

Geographical Spread and Scope—For a company to be stateless in the sense of being indifferent between nations, a necessary condition is that its

operations should be evenly distributed among these nations. This raises the question of what indicators should be used to measure the firm's operations. It seems clear that the distribution of sales or turnover cannot by itself be a satisfactory indicator—for example, a company may be deriving 80% of its total sales from foreign countries through exporting, without any foreign manufacturing, yet it would remain clearly anchored in its home nation. The distribution of profits is even more problematic, as this not only depends on the distribution of sales, but is further affected by inter-country transfer pricing.

The geographical distribution of value-added (or net output—i.e., the value of output minus the value of purchased inputs) would be an ideal indicator, but I have not come across a single multinational whose published accounts provide enough data for this to be computed. We therefore have to fall back on the distribution of a firm's assets (total or fixed assets) and of its number of employees as approximate indicators. Table 1 illustrates this for a few of the best-known U.S. multinationals. Many of the German and Japanese multinationals also have less than 50% of their operations abroad. On the other hand, many of the British MNCs and MNCs from the smaller European nations such as Switzerland have more than 50% of their operations located abroad; this is because of historical reasons or because of economic necessity (i.e., the need to reap economies of scale and scope). At the extreme is Switzerland's Nestlé, which has 95% of its assets and 96.5% of its employees located outside the home nation.

In cases where less than half of a group's operations are abroad, the home country operations are of overwhelming importance to the MNC. Such a firm cannot escape the influence of the home nation's environment. If it is based in a stagnant, declining, or otherwise unfavorable nation, it will be at a disadvantage in relation to competitors based in more dynamic nations. For example, imagine the case of two electronics companies, one American and one Japanese, both of which have 60% of their total operations in the home nation. If the Japanese electronics industry grows at 10% a year compared to 5% a year for the U.S. industry, and if each firm

Table 1. The International Scope of Some Multinationals

Company	Percent of total assets outside home country	Percent of total no. of employees outside home country
IBM (1989)	46	44
General Motors (1989)	24	31
Du Pont (1989)	35	24
General Electric (1989)	9	17
Sample Nonbank U.S. MNCs (1988)	22	26

Sources: Computed from company annual reports; U.S. Department of Commerce, Survey of Current Business, June 1990.

maintains its share of its national industry, the Japanese firm will have a higher overall rate of growth than the U.S. firm if the overseas operations of both grow at the same rate. If the overseas operations grow at 10% per annum, the Japanese firm will grow at 10% overall, the U.S. company at 7%. If the U.S. firm wants to match the Japanese rate of growth, it has to achieve a higher rate of growth of its overseas operations than the Japanese firm achieves on its overseas operations; thus if the Japanese firm's overseas operations grow at 10%, the U.S. firm's foreign operations have to grow at 17.5% if it is to attain the same overall rate of growth (10%). This is a tall order, especially if the U.S. firm has to defend its home market against Japanese competition at the same time. This dependence of the corporation's fortunes on the home nation, depending on the relative weight of home operations, results from the fact that the operations of the global enterprise have a center of gravity or home nation.

What if the group's foreign operations exceed 50% of the total? It may be thought that this would put foreign operations on the same footing as domestic operations in the eyes of the headquarters. However, although overseas operations exceed 50% in aggregate, this 50% is divided between a number of foreign (host) nations. Thus, any individual host nation is likely to account for a much smaller percentage of the corporate total than the home nation. This is illustrated in Table 2.

ICI's case is typical of most MNC's in the world, regardless of their national origins: the home nation is more important, in sheer quantitative terms, to the group than any single foreign country. Furthermore, since governments, civic and business associations, labor unions, and pressure groups are organized and act most effectively within the limits of the nation, the global firm is more susceptible to pressure, persuasion, or requests for cooperation coming from the home nation than from any other country. To put it simply, the home government has within its jurisdiction a much bigger chunk of the group's assets than any individual foreign government. Given that the MNC is a political as well as an economic phenome-

Table 2. International Spread of Imperial Chemical Industries, 1989

	Percent of total net operating asset	Percent of total no. of employees
Overseas operations	62.6	59.1
UK (home base)	37.4	40.9
Continental Europe	15.4	12.5
The Americas	27.5	25.3
Asia Pacific	15.8	12.5
Other countries	3.9	8.9

Source: company annual report

non, this differential susceptibility and receptivity is of great importance to the nations concerned. It often is not true, as Kindleberger stated, that the MNC has no country to which it owes more loyalty than any other: self-interest dictates otherwise. It should be noted that the issue here concerns the MNC's differential susceptibility; the fact that the home government may choose not to exert pressure is another matter.

There are two exceptions this rule. First, there are companies from small nations, companies like Nestlé, for which a single foreign country (e.g., Germany) may represent a higher percentage of total operations than the home nation. Second, there are "binational" companies which have two home nations or centers of gravity: Shell and Unilever are both based in the UK and the Netherlands, and Asea Brown Boveri is based in Sweden and Switzerland. These two exceptions represent, in this day and age, the most advanced form of internationalization of the corporate entity.

Ownership and Control—A global enterprise is normally made up of a parent company, located in the home nation, and a number of subsidiaries in host nations. A subsidiary is like any local company in that it is a legally incorporated entity and has its own legal identity; its distinctive characteristic is that it is owned and/or controlled by another corporation. A subsidiary can be wholly or partly owned by the parent company. Nowadays, partly owned subsidiaries usually involve joint ventures with another parent company or situations in which host-country laws require the presence of local shareholders. There seems to have been a tendency on the part of many MNCs to eliminate shareholdings by the public in their overseas subsidiaries, holdings which owed their existence to historical legacy. In 1959, IBM bought out the 38% minority holdings in its UK subsidiary and in 1961 Ford bought out the 46% minority shareholdings in Ford England.[8]

At the level of the parent company, ownership and control remain national rather than multinational. Although foreigners may owns shares in the publicly quoted parent company, in most cases the majority of the shares are held by individuals and legal entities from the home nation.[9] Control naturally follows, so that both top management and governance rest in national hands. Thus, in terms of ownership and control, there is no doubt that a company like Siemens is German, a company like IBM is American, or a company like Toyota is Japanese. In the case of Nestlé (which has less than 5% of its total assets and employees in Switzerland), it is noteworthy that Swiss law allows Swiss companies to exclude foreigners from holding registered shares (which alone carry voting rights) and that Nestlé limits non-Swiss voting rights to 3% of the total.[10] In this respect, even a firm such as Nestlé is firmly national rather than transnational or stateless.

The furthest extent to which a group's ownership and control have been internationalized is the case of the "binational" companies, in which the

group has two parent companies. The Royal Dutch/Shell Group is 40% owned by the Shell Transport and Trading Company PLC (UK) and 60% owned by the Royal Dutch Petroleum Company (Netherlands); the two parent companies are owned mainly in their respective home nations. Similarly, the Unilever Group has two parents, Unilever N.V. and Unilever PLC, and Asea Brown Boveri is owned, in equal parts, by ASEA AB (Sweden) and BBC Brown Boveri Ltd (Switzerland).

The multinationalization of shareholdings in the parent companies of global enterprise groups cannot be ruled out for the future. However, many nations will continue in the tradition of viewing the enterprise as much as a community as a commodity.[11] In this tradition, ownership of important chunks of a nation's wealth-producing capacity is seldom left to the vagaries of the market. If foreign shareholdings in a parent company begin to exceed 50%, it is often a sign that the firm is losing its status of parent company and becoming the subsidiary of a foreign corporation.

Whatever the ownership and control of the parent company, at the level of the subsidiaries the relationship is crystal clear. Control and ownership rest firmly with the parent. GM controls and owns 100% of Opel (Germany), Vauxhall (UK), and all its home and overseas subsidiaries. Ford controls and owns 100% of all its overseas subsidiaries except Ford Canada, in which the Canadian government has a minority shareholding. All IBM foreign subsidiaries are wholly owned and controlled by IBM World Trade Corporation in New York, which is wholly owned and controlled by IBM Corporation (also headquartered in New York). European and Japanese multinationals have, by and large, been adopting the same pattern, except where the host government mandates a local partner and/or local shareholdings.

Why do ownership and control matter? Ownership has several important implications. First, the subsidiary's profits accrue to the parent, an entity located in another nation. These profits represent a continuing foreign liability for the host country, and these liabilities increase over time through the reinvestment of earnings. When the profits are remitted to the parent as dividends, usually year after year, the outflow is a substraction from the host nation's GNP and a debit item in its balance of payments. In relation to the initial investment (part of which may have been financed locally through local borrowing), these profits may be substantial. In the famous case of General Motors-Holden Ltd., the Australian wholly owned subsidiary of General Motors, it was found that the 1953-54 profits after taxes amounted to 560% of the original dollar investment and that the dividend declared to the parent, at 46% of profits, represented about 8% of the dollar export receipts in the Australian balance of payments for 1954-55.[12] While this outflow does not constitute a complete picture of the balance of payments effects of foreign investment for the host nation,[13] it is noteworthy that such outflows are a distinctive feature of MNC subsidiaries: locally owned companies do not accrue profits for a foreign parent.

Second, the fact that a multinational group is owned in a home nation means that the company is normally committed to pay dividends in the currency of the home nation and usually presents its consolidated accounts in that currency. This means that it has a home currency. Assets and cash flows labelled in other currencies carry a risk premium compared to those labelled in the home currency.[14] This may affect the firm's behavior. Everything else being equal, the MNC will prefer to keep its liquid assets in its home currency, and will also prefer to locate new facilities in its home nation.

Third, host nation citizens and institutions, should they wish to, cannot participate directly in the ownership of the local subsidiaries of MNCs based elsewhere, since the shares of the subsidiaries will be entirely in the hands of their parents and will not be traded. This deprives host nation interests and the host government of the possibility of exercising an influence, through local shareholders, on the local subsidiaries of the MNCs. Host nation people can buy shares in the parent company, but they are unlikely to have much voice at that level.

The implications of control are no less important. First, although a subsidiary will have, like any local company, a board of directors, the members of the board are selected by, or with the active involvement of, the parent company. The subsidiary's board may contain some of the host nation's most prominent citizens, but their role can only be minor, given that the company is owned and controlled elsewhere. Often the parent company does not expect the local boards to take initiatives, and in many cases half of the board is composed of people from the parent company.

Second, like any local company, a subsidiary will have a CEO and senior executives, but they will have been selected and appointed by the parent company. Where the CEO is not an expatriate from the parent company, he or she will often be a local who has won the confidence of the parent company by, for example, having worked at the headquarters. Often, alongside local managers, expatriates will be holding important positions and, with direct lines of communication to the headquarters, will be making or overseeing important decisions.

Third, even where a subsidiary has been assigned a "global mandate" (i.e., responsibility for a business segment or product line not just in the host nation but throughout the world), certain powers are reserved by the parent and often include: authority to commit capital expenditure above certain limits; borrowing or raising of money; senior appointments; and major new commercial developments.[15]

Fourth, where there are regional headquarters to coordinate and oversee the national subsidiaries in the region, these tend to be headed by home country nationals from the parent company.

Fifth, non-expatriate managers and employees at a subsidiary may have a feeling of second-class citizenship. If a high proportion of a nation's economy is controlled outside, and if this includes strategic or key sectors

(i.e., sectors which are quantitatively important, which affect many other sectors or which are key to the future because of high income elasticity of demand, rapid technological progress, and fast growth in labor productivity),[16] it becomes questionable to what extent the nation can really maintain its integrity, coherence, and political independence. Finally, if one accepts that a nation's most important resource is its human resources and that "the power to create wealth, for an enterprise, is the power of decision,"[17] it follows that a nation cannot develop its potential to the fullest if there are not enough nationally based enterprises in which its citizens can exercise the power to make final and integrated decisions.

Global companies are far from being international, multinational, or transnational when it comes to the locus of their ownership and control. If they are viewed by host nations as foreign entities rather than as manifestations of a new world order that transcends national divisions, it is not without justification. It is perhaps for this reason that global enterprises stress "good citizenship" in host nations. However, good citizenship seldom goes so far as the home base giving up any of its control or ownership.

The People—A corporation is not only its assets and operations, but also its people. For a global enterprise to have "no country to which it owes more loyalty than any other," its management and workforce must be multinational. What is the reality?

Except for companies such as Nestlé and Shell, the majority of the total number of employees in the corporation is employed in the group's home nation and are home nation citizens. When it comes to positions in senior management or on the parent company's board of directors, the percentage of foreigners (non-home-nation citizens) is not only significantly lower than the percentage of foreigners in the total number of employees, it is minuscule. GM and Ford do not have foreigners on their boards. IBM has only two foreign nationals (one Swiss and one German) sitting on its main board. Only two non-Americans have made it to the top of IBM's managerial hierarchy and they have become famous because of that.

Due to the close geographical proximity of European nations, the EEC's integration, and the fact that educated people in Europe speak a number of languages, European-based global companies tend to be more internationalized in their senior posts. German companies, which have a dual board structure, often have one Swiss and one Dutch national as members of their supervisory boards. Nestlé has an all-Swiss board but a number of non-Swiss senior managers. ICI has one German, one Japanese, and two American (non-executive) directors, and claims that 40% of the top 170 executives are not British. Even so, this still means that ICI's home nation (the UK), with 40% of the total number of employees, fills 60% of the top posts.

The national character of top management is even more pronounced in Japanese companies. Sony is the only major Japanese manufacturer with

foreigners on the main board. Local managers in Japanese subsidiaries have a much more "subsidiary" role than those in other MNCs. In Japanese subsidiaries in the U.S., the CEO is often Japanese, the American managers hit the promotion ceiling quite soon and are excluded from the inner counsels, and the senior American managers rarely call the shots and are frequently relegated to playing a high-profile public-relations role.[18] There is nothing surprising in all this, since he who pays the piper calls the tune. The global enterprises of today are usually national or binational at best, especially at the senior management level. The few foreigners admitted to the parent board or top posts are admitted precisely because of their compatibility with the national style and character so that their presence should have little disruptive impact on the national character of the firm.

Legal Nationality and Taxation—In legal terminology, there is no such thing as a multinational or global company. At present, there is no international law under which a transnational or supranational company can be formed and have legal existence in several nation-states. Even the European Community, arguably the most integrated group of nations in the world, has so far, after many years of discussion, failed to agree on the legal basis for a European company. Companies can only be formed under national law, and they acquire the nationality, citizenship, or domicile of the country under whose law they are incorporated. The parent company has the nationality of the home nation, the subsidiaries of the respective host nations in which they were created. Each is subject to a different national law, which determines the legal limitations on its behavior. Thus legal nationality affects corporate behavior, since what is legal in one nation may be illegal in another (e.g., a company's buy-back of its own shares or the creation of "floating charges" on its assets as collateral for borrowing); and what is mandated in one nation (e.g., codetermination in German law) may not be required in another.

The separate legal personality of the parent and its subsidiaries means that the parent is not automatically held liable for its subsidiary's liabilities. The concept of limited liability applies to any shareholder, whether that refers to a private individual or a parent corporation. This means that the global enterprise is able to hide behind the legal principles of separate legal personality and limited liability to avoid taking responsibility for the actions of a subsidiary that it owns and controls. In a limited number of cases (such as the Bhopal disaster), the courts have been able to "lift the veil" and to hold the parent or the group responsible. In general, however, this is exceptional and the law on corporate groups is not well-developed.[19]

Under international law, legal nationality is a necessary condition for obtaining the diplomatic protection of the State concerned; however, it may not be a sufficient condition.[20] In order to rule out tax havens and flags of convenience, international law seems to require, in addition to legal nation-

ality (which is simply a matter of place of incorporation), a real and effective link between the corporation and the State. Evidence of such a link can be constituted by control or ownership.

The case of MNCs raises an interesting question for which there is no clear legal answer. If, for example, IBM Germany needed diplomatic protection in Eastern Europe, to whom should IBM turn to for such protection: the U.S. Government or the German Government? Much would depend on the circumstances. The company would probably prefer protection by the more powerful nation's government. MNCs from small nations may prefer U.S. diplomatic protection if they have significant operations in the United States. It is significant that in the case of exports of automobiles from Japanese "transplants" in the U.S. to the EEC, the Japanese have apparently left the matter of their diplomatic representation in the EEC to the U.S. Government.

Another interesting question arises in cases where a company changes its legal nationality for tax or political reasons (usually by creating, in a country with a favorable tax and/or political regime, a holding company which then owns the former parent company and/or its subsidiaries—as was the case with the "moves" by Tetra Pak to Switzerland, by Jardine Matheson to Bermuda, and by the Hong Kong Bank to Britain). To which government will it turn to for diplomatic protection in case of need? The government of the country where its holding company is now incorporated (and where its head office may, but need not, be located) or the government of the former country where the bulk of its assets, operations, and people are still located? In the case of moves from Hong Kong to Britain or Bermuda, the problem is masked by the fact that the sovereign power remains the same (Hong Kong and Bermuda being British colonies). Tetra Pak, cited by Ohmae as an example of the freedom to move, is a company which achieved fiscal emigration from Sweden to Switzerland. It is now facing a very large fine (US$85 million) by the EEC Commission for anti-competitive behavior.[21] Will it get diplomatic protection from the Swedish or from the Swiss government, or neither?

The extra-territorial application of U.S. laws in the territorial jurisdiction of other sovereign nations results partly from the problems surrounding the definition of corporate nationality. For the purposes of certain laws, the U.S. has adopted the position that the law should apply to all U.S. nationals, and U.S. nationals have been defined to include not only U.S. corporations but also their subsidiaries abroad. This has led to conflicts with nations which define corporate nationality in terms of the place of incorporation. Where a clear conflict of laws can be demonstrated, the host nation has been able to intervene and to prevail by invoking the principle of territoriality. It should be noted, however, that, in the absence of such conflict of laws, there is little that the host nation can do about the fact that instructions and decisions flow one way in any hierarchical system.

Taxation is a key interface between the State and the business corporation. From the point of view of a nation's tax authorities, there are key differences between a home-based company with foreign operations and a company which is a subsidiary of a foreign parent corporation. In nations that adopt the worldwide principle of taxation (the U.S., Britain, and most OECD countries), the home government can *de jure* tax the home-based MNC on its worldwide earnings by virtue of the fact that the subsidiaries' earnings accrue to the parent. Tax deferral (whereby foreign subsidiaries' earnings are not taxed until remitted to the parent as dividends) and foreign tax credits (whereby tax paid abroad can be credited against home country tax liabilities) are concessions with regard to the principle of worldwide taxation. With regard to a foreign-based MNC, the tax authorities can, as a rule, only tax the locally generated earnings of the local subsidiary, since the parent and sister companies are not owned by the local company and hence their earnings do not belong to it. *De facto*, there are also important differences. The home government has access to the consolidated accounts of the home-based MNC, can require additional data through the head office, and can tax the group accordingly. With the local subsidiary of a foreign-based MNC, the problem of determining what the local earnings are is clouded by the problem of inter-country transfer pricing[22] and various charges (royalties, license fees, etc.) payable to the parent and sister companies. Consolidated accounts are of little help since there is no right to tax the worldwide earnings of the group, and access to the head office is more distant. With a home-based group, transfer pricing may alter the inter-country allocation of declared profits, but as long as there is no leakage out of the system, it does not alter the group's total profits and hence its potential tax liability to the home government.

In sum, with home-based MNCs, not only is the tax potential higher, the scope for tax avoidance or evasion is smaller. It is important to note that most advanced nations have tax rules or Treasury regulations designed to prevent fiscal emigration, the transfer of assets to foreign entities, and other moves where gaining a tax advantage is the main objective, with unauthorized moves resulting in severe tax liabilities on hidden reserves or deemed gains and/or criminal penalties.

Although the global firm is exposed to many jurisdictions, it usually has a home government and a home tax authority. It therefore has a legal and a fiscal nationality that matters to it more than others.

The International Competitive Advantage of the Firm

Consider the German chemical industry, the Swiss pharmaceutical industry, and the Japanese computer industry, which are world-class leaders in their fields. Assume that the American chemical industry, or pharmaceutical industry, or computer industry is in danger of losing its international com-

petitive advantage because the environment in the home nation has become unfavorable. Couldn't a U.S.-based company, by establishing a local presence in Germany, Japan, or Switzerland, tap into the foreign nation's competitive advantage and so offset its own, home-based disadvantage? The problem lies in the relativity of competitive advantage. Although tapping into German, Japanese, or Swiss innovations, ideas, skills, aptitudes, attitudes, dynamism, or other sources of advantage would probably add to the U.S.-based firm's advantage, it is likely that the German, Japanese, or Swiss companies would benefit even more from these sources of advantage. They are, after all, operating in their own environment and system. They have been there for a long time and are expected to remain there for a long time. The companies are staffed, managed, and owned by citizens who are members of the same national community. Their self-respect, as well as the esteem in which they hold each other, is intimately connected with this membership, and loyalty to the nation is a paramount commitment of all citizens.[23] Social memory, as a system for ensuring serial equity among groups by remembering who made sacrifices in the past,[24] works only if there is long-term (if not permanent) membership and involvement; it works better if there is a multiplicity of ties and networks. Social memory functions in a nation but not between nations. Foreigners and foreign entities may never gain full acceptance into a national community and its social memory—or even if they do, it requires a very long time. Moreover, top people like to deal with top people, and the local head of a foreign-based group may be perceived as a subordinate who has to report elsewhere. Thus, irrespective of whether explicit "discrimination" exists or not, it is unlikely that a U.S.-based firm can, even with a local presence, plug into a foreign nation's sources of advantage as effectively as competitors who are based, owned, controlled, and managed locally. Furthermore, competitive advantages that can be derived from locating in third countries (e.g., low cost locations) are equally available to the German, Japanese, or Swiss companies; they cannot, therefore, represent a source of *differential* advantage for American firms. Thus: *The primary source of a company's international competitive advantage lies in its home nation; foreign sources of advantage can supplement national sources but cannot be sufficient as a substitute.*

The possibility of joint ventures or strategic alliances with world-class competitors does not alter the thrust of this argument. To get a possible partner interested in cooperating with one, one must have something to offer, i.e., one must possess a competitive advantage. In industries characterized by rapid technological progress, the nature of this advantage will be intimately linked to continuous innovation, improvement, and investment; and hence it is likely that competitive advantage will be generated in the home nation. In sectors with slow technological developments, competitive assets such as distribution networks or market shares erode less quickly with time; and hence they may be more independent of the current status of

the firm's home base. Thus: *In industries with rapid technological progress, strategic alliances are no substitute for creating and sustaining competitive advantage at home.*

What about companies like Nestlé which has 95% of its total operations located outside the home nation or Philips with an estimated 85% of assets abroad? These companies may be owned, controlled, and managed from the home nation, but surely the home base, with such a small weight in total operations, is not central to the maintenance of competitive advantage? The competitive advantage of Nestlé may be based partly on its national qualities, real or perceived: Swiss quality, Swiss standards, Swiss thoroughness or meticulousness, Swiss management, and the reputation of all things Swiss in the eyes of foreigners. If so, severing the links with the home nation and with Swiss people and attitudes would severely disadvantage the company. The impact of the home nation's reputation is likely to be more pronounced in some service industries than in manufacturing industries. In buying services, which are "experience" goods rather than "inspection" goods, reputation can be of decisive importance, and reputation is often national. In banking, moreover, the home nation's performance affects its banks' ability to raise funds in international markets and the price they have to pay. Thus: *The reputation and qualities of the home nation may be an important source of advantage for a firm operating internationally, in spite of the fact that the home nation may account for only a small percentage of worldwide assets and operations.*

It is noteworthy that almost all of the so-called MNCs (for which such data is available) do the bulk of their R&D in the home nation. For example, a 1983 survey of 23 German MNCs showed that 83% of their R&D personnel was concentrated in the home nation (which accounted for only 65% of total employment).[25] Du Pont has 90% of its R&D personnel in the U.S. in 1989 (compared with 65% of its total assets and 76% of its total employment).[26] The same tendency appears to be more pronounced in small country "multinationals": for Philips, 40% of R&D is said to be concentrated in the home nation, which accounts for only 15% of total assets. Another way of saying this is that, within the MNC, the R&D intensity is higher for the parent company at home than for overseas subsidiaries. Thus, for the sample of German MNCs mentioned above, R&D intensity (in terms of manpower) was 9.6% in Germany compared to 3.6% abroad. This is nothing new. The nation where the bulk of a company's R&D takes place indicates where the strategic core of its innovative effort lies. Innovation requires integrated and strategic decision making. In innovative activities, the home nation is the locomotive, assuming a leading role out of proportion to its weight in total operations. Thus: *The home nation is the center of a firm's innovative efforts, and it is where strategic and integrated decisions are made.*

Consider the case of "multinationals" who suffer from an unfavorable

home environment but who have "strong" overseas operations established at a time when the home nation was more dominant and dynamic. Couldn't the group maintain its overall strength by relying on its overseas strength to compensate for its domestic weakness? The problem again lies in the relativity of competitive advantage. The overseas subsidiaries in Germany or Japan may indeed be strong in relation to the parent company, but this does not mean that they are necessarily strong in comparison with their local (German or Japanese) competitors. What happens then? A senior executive of the Japanese subsidiary of a foreign chemicals company commented: "Twenty years ago I spent every night at the best restaurants in Tokyo, being entertained by the chief executives of major Japanese companies, who wanted to gain access to our technology through joint ventures or licensing. . . . Today . . . no one asks me out to dinner anymore."[27] It becomes only a matter of time before profits and market shares tumble.

It is possible that, at some point in time, an overseas subsidiary may show a better profitability than the parent company. This may be the result of the home and host nations being in different phases of the business cycle. It may be due to the fact that the subsidiary is the global home base for a segment or product line that is going through good times. More commonly, however, it may simply be the consequence of the particular foreign market being more protected that the home market; for example, in the 1980s, the European automotive markets were more protected against Japanese competition than was the U.S. market. Whatever the case, this differential profitability is likely to be a temporary phenomenon and will not contribute to the competitive advantage of the parent or the subsidiary unless the profits are reinvested in continuous improvement and innovation.

Another problem is that when the parent company is under siege, it will milk or sell its overseas subsidiaries to save itself. Faced with falls in earnings in the short term, the likelihood of hostile raids, criticism by shareholders, and a generally short-term mentality, U.S. companies have been selling their stakes in Japan.[28] For example, faced with the need to reduce borrowing and with a quarterly loss, Avon Products sold its Japanese subsidiary for $408 million in February 1990. In 1991, Chrysler sold half of its stake in Mitsubishi Motors for $592 million to smooth over a third-quarter plunge in profits. Honeywell sold half of its stake in Yamatake-Honeywell for $407 million in 1989. And in Britain, the engineering group Davy Corp., faced with a half-year loss and a collapse in its share price, sold its German subsidiary, the jewel in the crown, Zimmer AG, to the Metallgesellschaft group for DM 228 million in cash, in February 1991.[29] Thus: *Lack of international competitiveness at home is unlikely to be compensated by overseas operations, but may result in the harvesting of the latter.*

Finally, what about the possibility of shifting the home base to take advantage of a more favorable environment? If a company has 60% or more of its assets, operations and people in one country, it is hard to see how it

could transfer the 60% wholesale to another country. Shifting the home base is not the same thing as shifting a *divisional* headquarters or changing the registered office (i.e., the legal address) of the holding company for political or tax reasons. What can be located abroad is the home base for a particular segment, business or product line, especially when it is new to the company and/or the group's involvement results from the acquisition of an existing company abroad, which then becomes the home base for that business. Despite its global mandate, however, the subsidiary would still have to report to a parent company. Moreover, the shifting of the registered office for tax avoidance purposes is severely controlled. As for *corporate* headquarters, it is simply not effective to have it far removed from the nation where most of the operations are located. Thus: *The company as a whole cannot easily move its home base; it needs its home nation and has a strong interest in contributing to make it a dynamic and competitive base.*

Implications and Conclusions

Well-known companies such as IBM, General Motors, Sony, Honda, Matsushita, Philips, Unilever, Nestlé, Thomson, Hyundai, Daewoo, Tatung, and so on have been variously called by many names—the international, multinational, transnational, global, or stateless corporation. Are these companies national or are they what these adjectives suggest, something that transcends and is separate from nations? To answer this question, the following criteria should be applied:

- In which nation or nations is the bulk of the corporation's assets and people located?
- By whom are the local subsidiaries owned and controlled, and in which nation is the parent company owned and controlled?
- What is the nationality of the senior positions (executive and board posts) at the parent company, and what is the nationality of the most important decision makers at the subsidiaries in host nations?
- What is the legal nationality of the parent company? To whom would the group as a whole turn to for diplomatic protection and political support in case of need?
- Which is the nation where tax authorities can, if they choose to do so, tax the group on its worldwide earnings rather than merely its local earnings?

The relevance and significance of corporate nationality are revealed as one goes over the questions. These criteria usually produce an unambiguous answer: that it is a national corporation with international operations (i.e., foreign subsidiaries).

There are two exceptions to this answer. First, there are, as noted earlier, the binational companies which are owned, controlled, and staffed in two

home nations, and whose assets have two centers of gravity. Secondly, there are the firms from small nations, for whom the home nation accounts for a small percentage of total assets and operations; however, companies such as Nestlé, Philips, and Ericsson satisfy all the other criteria for being Swiss, Dutch, or Swedish, and it is noteworthy that the Swiss, Dutch, or Swedes have no doubt in their minds as to the national character of these enterprises.

Thus, apart from the binational companies, there are no multinational, transnational, or global enterprises, only national firms with international operations.

Who Is Us?—If we think in terms of MNCs, TNCs, or global firms, the power of associations and connotations will draw our attention towards the imagery of a single world economy, in which Reich's question "Who is us?" becomes irrelevant. In this borderless world, the behavior of the global corporation is said to be driven solely by pure economic rationality on a global scale. If a nation loses out in, say, the global firm's location of new investment, the possibility of bias or discrimination is *ex hypothesi* ruled out, because of this assumption of "rationality." If, on the other hand, we recognize these firms to be national firms with international operations, we will ask whether they are American, Japanese, German, Swiss, Dutch, British, or what? If corporations are no longer transnational or global, then depending on who we are, they are either national or foreign.

What about foreign companies that undertake manufacturing, even R&D and design, in the U.S. and that provide employment to American workers and managers? Reich implies that these firms may be more American than American corporations that have international operations.[30] To address his question "who is us?" we can apply the criteria of corporate nationality and compare Toyota, Nissan, and Honda (which have production facilities in the U.S.) with Ford and GM (which have extensive international operations).

- *Center of Gravity*—In 1989, GM had 76% of its assets and 69% of its employees in the United States. Ford and GM produce 55 to 65% (in units) of their worldwide output of cars in the United States. For Honda, arguably the most internationalized of all Japanese automotive manufacturers, the U.S. represented only 22% of total manufacturing workers worldwide as of March 1990 (63% of total assets and total employees being concentrated at home). Honda, Nissan, and Toyota produce 70% to 90% (in units) of their total output at home. Thus, the U.S. matters much more to U.S. firms than to their foreign rivals; the destiny of U.S. companies is more tied to that of the U.S., and they are likely to be particularly receptive to demands and pressures from the United States.
- *Ownership and Control*—Honda US, Toyota US, and Nissan US are owned and controlled by their parent companies in Japan, which themselves are owned and controlled in Japan. The subsidiaries' profits accrue to the parents. The home currency is the Yen. The U.S. subsidiaries are

not listed on U.S. stock exchanges and so cannot be owned directly by Americans. The important decisions are made by the Japanese. GM and Ford are majority owned by U.S. citizens and institutions, and are controlled from the U.S. by Americans. Their worldwide profits accrue to the United States. The home currency is the dollar.

- *People*—There are no non-Japanese on the parent company boards of Honda, Toyota, and Nissan or in their top management positions. The U.S. workers and managers of these companies are a minority compared to their counterparts in Japan. With Ford and GM, top management and the parent board are American, and the U.S. workforce is the majority.
- *Legal Nationality*—Toyota US is a U.S. corporation because it is incorporated in the U.S., but the parent company is Japanese. In the event of a conflict of interest, Toyota may ask the Japanese government or the Japanese lobby to intervene in the United States. Ford or GM could never call on a foreign government to intercede with the U.S. government.
- *Tax Domicile*—Ford and GM pay U.S. taxes on a worldwide basis; Honda, Toyota, and Nissan pay U.S. taxes on a local basis, i.e., on the basis of the income in the United States.

Thus, because of the special nature of the links between the corporation and its home nation and because of the citizenship of the majority of its owners, managers, and workers, a "national" company with international operations is "one of us." It is entitled to support from its home nation, if only because it usually pays more tax to the home government than to any other government.

Corporate Nationality and National Competitiveness—Companies tend to concentrate their mainstream innovative efforts and strategic decision making in the home nation. This means that the most important and the most skill-intensive jobs will be located in the home nation, and that exports will be generated on the back of innovation. This process enhances the nation's standard of living.

Foreign companies may make the U.S. their home base for a particular business segment or product line, but their home nation remains their home base for the corporate group as a whole. Foreign companies may indeed provide jobs and carry out R&D, engineering, or design in the U.S., but it would be interesting to compare the R&D intensity of foreign-owned subsidiaries in the U.S. with that of their parents and that of U.S. corporations. It is also noteworthy that, even with such a localized manufacturer as Honda in the U.S., recent federal and private studies show that the "domestic content" or local valued-added of its cars is not as high as had hitherto been thought.[31]

Implications for Theory, Research, and Pedagogy—If, as I have argued, the multinational corporation does not exist, how would this affect the theory of the multinational corporation? The existence of the theory could

be preserved by arguing that the expression "MNC" is to be understood as merely a shorthand for national or binational firms with international operations. If so, uniformity will be replaced by diversity. The search for a universal theory will no longer be possible, once the umbrella term has been discarded. Instead, we will recognize that there are differences and similarities in the international operations of firms from different home nations, with regard to:

- Why do they go abroad? What are the differences and similarities in the motives for going abroad, and in the transferable competitive advantage that makes it possible to go abroad successfully?
- How do they operate abroad? Do firms from different nations show different patterns as between exporting, producing abroad, licensing, joint venture, subcontracting, and so on?
- Where do they do? Do firms from different nations have different geographical preferences?

Similarly, the search for universal, uniform recipes on how to manage the transnational or global enterprise would give way to a more complex and variegated view. Not only do parent companies from different home bases display different practices and values, but, within the same corporate group, there may be differences between the parent and each of its overseas subsidiaries, depending on the strength of local institutions, practices, and values.[32] And these differences may continue to exist as long as nations continue to be the focus of people's sense of belonging and identification as well as a major component of their personal identities. This view of the nation as "community" (but as national community, endowed with the attributes of independence, continuance for the future and sovereignty) to which people belong (and to which their forefathers belonged and their descendants will belong) may help to explain why the removal of barriers need not undermine the vitality of nations. This is confirmed by the experience of history, which shows that the world was more borderless in the period 1870-1913 than it is today, in the sense that the barriers to trade, capital movements, and migration were lower then.[33] Yet nations, and the frenzied nationalism that led to war, had not withered away.

Although this article has focussed on the concept of nationality, to recognize the existence of nations is not the same thing as to advocate nationalism. Nor is the sense of belonging to a national community incompatible with membership of both sub-national communities and of the world community. To quote the founding father of the national school of political economy: "As the individual chiefly obtains by means of the nation and in the nation mental culture, power of production, security, and prosperity, so is the civilization of the human race only conceivable and possible by means of the civilization and development of the individual nations."[34]

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