IDENTIFYING THE FACTORS INFLUENCING THE NATIONALITY OF A COMPANY

Abstract: Today, the outstanding role of large companies is indisputable, thus it is essential to identify the nationality of international companies. It is important not just in economics but in management, too. There is no unified view of the definition of the nationality of a company. The concept of ‘nationality’ is used almost exclusively for individuals. Uncertainties had arisen with regard to the nationality of a company. Moreover, in our accelerated world, and concerning the growing connectedness among countries, markets and companies, to identify an international company’s nationality has become increasingly difficult.

The main objective of the research was to explore the main features which influence the nationality of a company. The work was based on a literature review and qualitative methods as it was a conceptual analysis. As a result the research identified seven main features which characterizes the nationality of an international company. These are: Human Resource, Finance, Governance, Suppliers, Innovation, Market, Culture and Perception. The outcomes can be useful for managers and also for academic people. Further research will examine international companies according to these features, and based on those data, the nationality of a company could be better defined.

Keywords: company, complexity, nationality.

JEL Classification: F21, F53, M10, M21

Introduction

The markets and enterprises have become complex and global which increases the managers’ burden. Anyone could experience the acceleration of outsourcing and offshoring. Firms are expanding internationally for the same reasons e.g. labour costs, market access and resources. Usually large companies employ more people and sell more products and services outside their home economies than within. Moreover, they operate under rules that are often more favourable than their own. Because of these features, there is not a single method how someone can identify the nationality of a company.

In the literature review, the author introduces some case examples where the factor in question is appeared in real life situations. This research could have important implications for managers for academics and also for policy-makers.

Methodology of research

An extensive literature review has been conducted in order to investigate the literature surrounding the nationality of a company and its influencing factors. The aim is to conduct a conceptual analysis, in order to systemise and create a framework for further examination. The research started with the collection of relevant literature and then conducted a qualitative analysis of the collected material.

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emergence of the question and with the gathering of relevant concepts (Figure 1). The strategy of research was based on keywords search for these concepts on the title, keywords and abstract in Scopus, Web of Science, EBSCOhost, JSTORE and ProQuest. In order to select the article, apart from the keywords, the author has sorted out the article by reading their abstracts. This has enabled her to ensure the appropriateness of articles. Author has also conducted backward strategy, i.e. finding articles from the references of main article. In total, the author has found more than 30 relevant articles in the research. The systematization based on the work of Reich (1990) and Lloyd, Koplyay and Sanchez (2012), but it was extended and complemented by the opinions of many.

3.1. Identifying the factors influencing the nationality of a company

Before World War I entrepreneurs could easily cross frontier and there were innumerable businesses that crossed national borders. After the World War II people began to be interested in nationality (Geoffrey, 2006). Since then for various reasons, its importance is increasing.

In the next part of this section the author summarizes the results of her systematic research on corporate nationality.

In the next part of the section the author summarizes the latest publications on corporate nationality. He is interested in the question of affiliation, e.g. the relationship between a company and its shareholders. Since then trading made it possible for a corporation to own shares in different national markets. From the point of view of the investor the latter three are significant. The mutual ownership of shares is one of the main factors that determine the nationality of an international company. According to Hines (2007) international companies are importers and exporters, they have no investments abroad. Multinationals do have investments abroad. These companies want to adapt their products and services to local markets (e.g. restaurant chains). Global companies do not try to adapt their products, they offer a homogenous product (e.g. Coca-Cola), so they concentrate on economies of scale. Transnational companies are more complex companies. They give decision-making, R&D and marketing powers to different national markets. From the point of view of the investor these three are significant. The author has identified seven features that characterize the nationality of a company.

3.2. Human Resource

Mitchell (2011) describes that in America 200 years ago a corporation was considered as an "invisible, intangible and artificial being" (Mitchell, 2011 p. 38.). Those day the question of affiliation was determined on the basis of the citizenship of all the shareholders. Since then trading made it possible for a corporation to own shares in different national markets. From the point of view of the investor the latter three are significant. The mutual ownership of shares is one of the main factors that determine the nationality of an international company. The systematization based on the work of Reich (1990) and Lloyd, Koplyay and Sanchez (2012), but it was extended and complemented by the opinions of many. As a result of the systematic research the author identified seven main features that characterize the nationality of a company.

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In this section we examine the terms that many mix up: international, multinational, transnational and global firms. One may think they refer to a company doing business in different countries. According to Hines (2007) international companies are importers and exporters, they have no investments abroad however multinationals do have investments abroad. Multinationals want to adapt their products and services to local markets (e.g. restaurant chains). Global companies do not try to adapt their products, they offer a homogenous product (e.g. Coca-Cola), so they concentrate on economies of scale. Transnational companies are more complex companies. They give decision-making, R&D and marketing powers to different national markets. From the point of view of the investor these three are significant. The author has identified seven features that characterize the nationality of an international company.

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nearly impossible to establish the citizenship/location of all the shareholders. Sanchirico (2015) also highlighted the problem of enumeration, moreover he found that in America the reporting system was not designed to reveal the owners nationality and the author suppose if someone wants to remain anonymous, it can be possible. In most cases even the companies themselves do not know their foreign ownership share. Sanchirico (2015) well-founded opinion is that US multinationals are largely foreign-owned. But there are another questions. Are a corporation mere personal property of shareholders? Is it possible that a company's citizenship is more (or less) than the citizenship of every real person who owns the property?

An Economist (2014) article discusses exactly this problem, as it examines the nationality of large international businesses, based on the shares of sales (weighted 30%), staff (weighted 30%), owners (weighted 30%), and the boss's nationality (weighted 10%). For example the CEO of Coca-Cola and most of its shareholders are from America, but most of its sale and staff are from outside of the country. It turns out that the overwhelming majority of shareholders nationality provides for Coca Cola, in this calculation, that it is 62% American. But, is the nationality of a company equal to the stakeholder's nationality? According to the Barcelona Traction case the answer is: no. The Barcelona Traction was controlled by Belgian shareholders but incorporated under Canadian law. After a 12-year-long process the Court stated that the company did not possess Belgian nationality (Tams and Tzanakopoulos, 2010). Sanchirico (2015) agrees with this and claim nationality is not equal to the interests of shareholders, others should be taken into account e.g. employees and suppliers.

Another consideration, regarding human resources, is the nationality of key executives. Lakshman and Jiang (2016) had the same question in their research. They conducting interviews with 30 executives of French subsidiaries located in Singapore and China. Their findings revealed that most French multinationals use significant numbers of parent-country nationals (French) for key positions. But the average conceals the differences. In their research they pointed out that the aim can determine the selection. For example when a project is huge, or when the goal is transferring knowledge and take something under control they prefer parent-country nationals. And when they try to gain legitimacy and take something under control when they want to use the local market knowledge they prefer host-country nationals. This can be the reason why they employ more host-country nationals among middle managers. And loyalty can be a reason why they employ more parent-country nationals among top managers. And finally they can be a reason why they employ more parent-country nationals among top managers. And finally they can be a reason why they employ more parent-country nationals among top managers. And finally they can be a reason why they employ more parent-country nationals among top managers.

Another consideration is the nationality of R&D and manufacturing presence and its reliance on workers from around the world. This can also be mentioned in the context of human resource. According to Reich (1996) the location of R&D has a significant impact on the company's nationality. When they try to gain legitimacy and take something under control they prefer parent-country nationals. And when they want to use the local market knowledge they prefer host-country nationals. This can be the reason why they employ more host-country nationals among middle managers. And loyalty can be a reason why they employ more parent-country nationals among top managers. And finally they can be a reason why they employ more parent-country nationals among top managers.

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In the context of human resource it is essential to mention the importance of taxation. Baucus (2013) summarized the American situation as follows. As it's easy for corporations to shift profits to low-tax countries to avoid U.S. taxes, the number of foreign subsidiaries owned by U.S. corporations has quadrupled. And U.S. investment overseas has multiplied by 88, while

3.2. Finance

The next feature that can affect nationality is finances. First of all: taxation. Which is a salient question in developed nations. Baucus (2013) summarized the American situation as follows. As it's easy for corporations to shift profits to low-tax countries to avoid U.S. taxes, the number of foreign subsidiaries owned by U.S. corporations has quadrupled. And U.S. investment overseas has multiplied by 88, while...
aggregate investment in tax havens (such as Ireland, the Netherlands, and Bermuda) has multiplied by 570. The reason is the higher tax rate. The result – in long run - is lower competitiveness and slower economic growth in the US (Sanchirico, 2015; Baucus, 2013). To change companies' practice is not easy, so it is all central issue how they can solve the problem (Hatch, 2017). Some well-known examples are: Microsoft (61 billion USD), Apple (40 billion USD) and Google (33 billion USD) (Sanchirico, 2015) who shift their profits. Companies claim it is the intense globalised competition that force them to such movements (see Hopkins and Bowers, 2017 about Apple's case how lawyers found the next location with little or no corporation tax after Ireland). But it is just their short-run interest. Does it mean that a company with migration can change its nationality? If yes, then there is no question about that they are not any more belong to their former nation, and they do not pay tax there.

Among financial questions subsidies have to be mentioned. Where major subsidies coming from to the company? Usually, there is a huge contradiction in this issue. Because national governments are generally subsidise the companies owned by a citizen. At the same time, it is necessary to analyse where the support is going to migrate in this case. According to Reich (1990) the multinational companies happily accept these subsidies and then spread it to their affiliates all over the world. In these cases the policy ignores the reality, so achieves an opposite effect.

The author assumption is that taxation could be one of the main influencing factors in formulation of nationality as it is strategic management question for the company concerning the top priority: profit making.

3.3. Governance

In America, in the mid-1800s, since those days the companies were considered as artificial entities, they announced that the place of incorporation should be the state of citizenship (Mitchell, 2011). That was the answer, that the "state of birth" determined the affiliation (Geoffrey, 2006). It did not even paid British tax in the previous year. Mitchell (2011) examined the principal place of business and introduced an American test called "nerve centre" for determining a corporation's principal place of business. True centre of control, the centre of direction and coordination (Geoffrey, 2006) claim that overseas subsidiaries often had few links to parent-company. For example, local subsidiaries may divide manufactured distinctive products. It is a very complex question since some corporations may divide their command and coordinating functions among managers who work at several different locations and activities are also problematic. Sawyer (2014) concluded in her paper that applying this test to typical corporate structures and governance issues would not work. A closer look at the case of Chinese investment in the United States (Sanchirico, 2015) who shift their profits. Companies claim it is the intense globalised competition that force them to such movements (see Hopkins and Bowers, 2017 about Apple's case). Some well-known examples are: Microsoft (61 billion USD), Apple (40 billion USD) and Google (33 billion USD) (Sanchirico, 2015) who shift their profits. Companies claim it is the intense globalised competition that force them to such movements (see Hopkins and Bowers, 2017 about Apple's case).
In 1990 Ohmae claimed that the place of incorporation and the place of headquarter does not matter, more over the products are denationalised, so the large corporations are 'placeless' (Ohmae, 1990. p. 94). But in many legal systems, the state of incorporation is still the main determinant of the nationality of a corporation (Mitchell, 2011).

The author assumption is that governance is not among the main influencing factors of nationality from the economic/management point of view.

### 3.4. Suppliers

The earlier mentioned 'Huawei-case' reflects to another nationality question. Whether a supplier can have an impact on the nationality of the original company. In 2009 the National Security Agency (NSA) told AT&T the world's largest telecommunications companies to exclude Huawei from its tendering procedure, if they wanted to maintain their contracts with the US government. And the same happened in the case of Sprint Nextel. Moran (2013) highlighted that most of the IT companies (e.g. Lucent-Alcatel, Samsung, Cisco, Siemens-Nokia) outsource the manufacture of components. It is because of economic rationality, namely cost-effectiveness. If they exclude suppliers can cause that the product in question became more expensive. For example – at the time of the article – in 2013, 4G wireless network for mobile phones in Europe cost about 2.50 USD/Gb; in the United States, the same service cost 7.50 USD/Gb. So excluding a Chinese supplier had negative effect on American consumers.

Can a company/a sector/a country remain competitive if it excludes certain suppliers? Does it really matter what is the nationality of a supplier? William (2005) and Fernández (2017) stress that with increased level of globalisation it is important that governments be able to maximise the impact which foreign direct investment (FDI) makes upon the economy of their countries.

### 3.5. Innovation

Firms are not black boxes responding to external factors e.g. government's policies. They are inventors, they create products, technologies and value. The management knows, that the high costs of innovations and the rapid change in technology make its activity critical. Reich (1990) claim the only thing is matter where the R&D activity is done i.e. where they are located because it supports the country where the employees are. So, within a country, government-financed help for research and innovation should be available to any corporation, regardless of the nationality of its owners, as long as the company undertakes the R&D in its home-country, because it supports the country where its employees are. Reich (1990) thought that in the 21st century a nation's primary assets would be its citizens' valuable skills, knowledge and experience. Today, any management is aware of the fact that a company depends on its ability to innovate. The author assumption is that innovation and new technology could determine the nationality.

### 3.6. Market

Markets are becoming more and more important as companies expand globally, a greater proportion of revenue arises from sources other than the country of incorporation. FTSE Russell (2017) found that firms have a higher degree of internationalisation is foreign sales divided by total sales. Bankart et al. (2011) found that firms with a higher degree of internationalisation are more satisfied with foreign sales, a higher percentage of foreign profits and market share. So firms may
see the internationalization strategy as a way to enhance foreign performance. But is this indicate that markets can influence the nationality of a company? The author assumption is that market is considerable, but it is not among the main influencing factors of nationality of international companies.

3.7. Culture and Perception

Nachum (2003) attempted to identify the impact of nationality of ownership on the competitiveness of multinational companies in the service industry. The author's findings show that the impact of nationality does not disappear, as a set of home-country characteristics possesses a certain explanatory power. Furthermore, in most of their analyses, the variation in competitiveness between the firms studied is explained mostly by these variables. Their findings have implications also for the analysis of competitors and suggest a need to distinguish between competitors of the same nationality and those of different nationalities. Positive conceptions can have a positive effect on the realization of business attempts (e.g. FDI), or dislike based on nationality may lead to a perception of higher risk and ultimately the failure of attempted business movements. Bandelj (2011) has an example when an American investor AmeriCo, was trying to acquire a Slovenian electronics appliances manufacturer, Slovan, but people were so strongly against the acquisition that they withdrew from their attempt. An interesting twist happened in less than a year later, when a third of Slovan was acquired by a German multinational. The source of the negative impact was the presence of an Italian manager from AmeriCo. So the result can be traced back for historical conflict between Slovenians and Italians, and because its manager AmeriCo was perceived as Italian. If cultural perceptions work in this way in micro level and have direct link to economic and management actions, we should not ignore the manifestations at macro level also.

The author assumption is that culture and perception is considerable, but they are not among the main influencing factors of nationality.

4 Discussion

The author in the beginning of her paper noted that the concept of nationality is used almost exclusively in the context of individuals. However, we are more and more often encountered with expressions like 'corporate citizenship' or 'nerve centre' which is pointing in that direction that a company also needs to have a nationality like an individual do. But corporate citizenship is different from humanoid status as it may an everlasting life right on earth. Moreover, this personalization of companies raises more questions (e.g. Can have a company the right of freedom of speech?) (Mitchell, 2011).

In the 1990's authors claimed that large multinational firms were becoming shapeless global webs. However, the presence of an Italian manager from AmeriCo in Slovenia shows that size and structure do not eliminate the influence of nationality. The authors also introduce the concept of 'corporate citizenship', which is a shadowy electron where the field of corporate citizenship is located in a more or less informal area, but which can influence the opinion of business partners and stakeholders. Positive perceptions can have a positive effect on the realization of business attempts, while negative perceptions can have a negative effect on the realization of business attempts.

To sum up, it is important to deal with the question of nationality, because nationality can influence the course of business interactions and negotiations by contributing, or not, to cultural matching and sympathy-building. Positive conceptions can have a positive effect on the realization of business attempts (e.g. FDI), or dislike based on nationality may lead to a perception of higher risk and ultimately the failure of attempted business movements. Bandelj (2011) has an example when an American investor AmeriCo, was trying to acquire a Slovenian electronics appliances manufacturer, Slovan, but people were so strongly against the acquisition that they withdrew from their attempt. An interesting twist happened in less than a year later, when a third of Slovan was acquired by a German multinational. The source of the negative impact was the presence of an Italian manager from AmeriCo. So the result can be traced back for historical conflict between Slovenians and Italians, and because its manager AmeriCo was perceived as Italian. If cultural perceptions work in this way in micro level and have direct link to economic and management actions, we should not ignore the manifestations at macro level also.

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According to Reich (1990, 1991) the only thing that matters is highly skilled labour force. This former idea leads to a very interesting result in the 21st century: new technology (e.g. artificial intelligence) could determine the nationality. Europe and USA have a terrible backlog in this area behind China. According to IEEE (2017), the world’s largest technical professional association in the field engineering, computing, and technology information, they have 423,000 members in over 160 countries. At the same time China had 4,7 million science, technology, engineering and mathematics graduates in 2016; India, another academic powerhouse, had 2,6 million while the U.S. had 568,000 (McCarthy, 2017). So the centre of gravity of knowledge and innovation has moved from the West to the East. Thanks to China’s efforts in the field of science and technology, China is now the world’s second-largest economy after the U.S. The Chinese government has set a goal to become a high-tech nation by 2020. China is investing heavily in research and development, and the country is now producing world-class technology. From the economic and management point of view the question is which nation’s competitiveness is increased by a certain company? The author identified not one, but seven dimensions in relation with nationality. These are: Human Resource, Finance, Governance, Suppliers, Innovation, Market, Culture and Perception. According to the current state of the research the author can state that there is no single way of determining the nationality of a company; it depends on what patterns and aspects one choose to emphasize. Moreover nationality can depend on different factors among different circumstances. The relative importance of these factors needs further investigation.

5. Conclusion

It is hard to specify the nationality of a company. One may say that as it was two hundred years ago, in terms of nationality, the companies are still invisible. Maybe there are not national product, national technology, national company, national industry and national economy any more. But somehow we have to characterize a company.

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