TNCs

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Workers in the Wrigley factory in Poland, owned by Mars (top), and Mars' US HQ (bottom)

The geography of ownership, profit and identity

Geography students sometimes write that TNCs are based in 'rich' countries 'where all the profit goes'. In the era of global business, how much truth is left in this statement? This article analyses the geography of ownership of some of the world's largest TNCs and examines whose pockets the profits actually fill

You need to know something about 'the costs and benefits' associated with transnational corporations (TNCs) for A-level and IB geography, and it is useful to understand how TNCs 'build their global businesses' or 'contribute to financial flows'. Textbooks often focus on the productive activities of TNCs (where branch plants are sited and the human and environmental consequences of such actions). In contrast, this article looks at who owns, and profits from, the earnings of TNCs.

- Some major TNCs are still owned by private individuals or small groups of people. Examples are Cargill (owned by the Cargill family) and Mars, another family-owned business (Table 1).

Table 1 Comparing the 'top five' (by revenue) privately owned and shareholder-owned companies with headquarters in the USA

Top five privately owned	Revenue 2011 (US$ bn)	Top five shareholder-owned	Revenue 2011 (US$ bn)
Cargill	109 (4.6. profit)	Exxon Mobil	453 (41 profit)
Koch industries	100	Wal-Mart	447
Mars	30	Chevron	245
PricewaterhouseCoopers	29	ConocoPhillips	237
Bechtel	28	General Motors	150

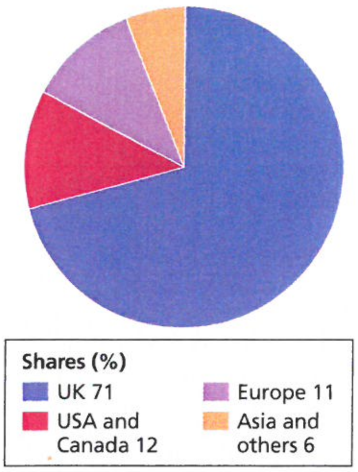

Figure 1 The geographical distribution of Royal and Sun Alliance (RSA) shares. RSA transferred call-centre jobs to India in 2004 to cut costs and increase profits. It is interesting to note that RSA now has growing numbers of shareholders in Asia

The NASDAQ stock market in Times Square welcomes Facebook to public trading

Many more have undergone a process called a **public offering**, or stock-market launch. This means that an estimate has been made of what the business is worth and that value has been has been divided into millions of small profit-yielding units called shares. These can be bought and later traded by any individual or organisation who wants to invest. Shareholders do not oversee the day-to-day running of the TNC. Salaried managers have to maximise profits for shareholders.

In 2012, Facebook sold shares in a public offering for the first time, resulting in a major change in the geography of its ownership. Until then, it had been privately owned by Mark Zuckerburg and just a few hundred small investors. The company was valued at $104 billion and a decision was taken to sell a part of this to the general public. Millions of people gained a minority stake in Facebook as 421 million shares were sold at $38 each. Did anyone you know invest?

Facebook has joined other TNCs that are owned by a global network of investors, who can be located anywhere in the world (Figure 1). However, because shares in individual companies are issued through local stock exchanges, such as the New York Stock Exchange (NYSE), patterns of ownership remain regionalised to some extent (Figure 2).

Place and corporate identity

Although it is common for TNCs to move production to overseas locations, the headquarters usually remain in the company's country of origin. Even the largest TNCs retain a physical foothold in the countries where they are domiciled. This provides them with a sense of national identity (Figure 3).

The national government of the country where a TNC is domiciled collects corporation tax on its profits . For instance:

Figure 2 Stock exchanges through which regional and global networks of shares are distributed

Apple's Upper West Side store in New York City. Apple pays a lot of corporation tax to the US government

Inset 1
New times, new TNCs

An increasing number of TNCs are domiciled outside the traditional core of the world economy: Europe, North America, Australasia and Japan. New large players often have homes in Asia, Latin America or Africa (Development Update in Geography Review Vol. 26, No. 1 profiles India's Tata, an example of a **conglomerate** TNC). This is an important aspect of the changing geography of TNC ownership (Table 2).

Some of the most interesting contemporary case studies are of Indian, Chinese or Brazilian TNCs investing in Africa (for instance, Bharti Airtel, India's largest cellular network operator, spent US$10.7 billion acquiring Sudanese telecoms company Zain in 2010).

- Apple, headquartered in California, owed US$3.3 billion to the US government in 2011.
- BP paid £1.7 billion in tax to the UK government in 2009, prior to the Gulf of Mexico oil spill.

So high-income nations that are home to many large TNCs benefit financially, irrespective of where shareholders live.

The level of corporation tax that TNCs pay varies from country to country. In recent years, some European-based TNCs have relocated their headquarters to Ireland, Switzerland, Luxembourg or the Netherlands where corporate taxes are lower than in the UK. (In 2012, the UK rate was 24%, around twice that of Switzerland.) In 2010, petrochemical firm Ineos moved its headquarters from the UK to Switzerland. This change in **corporate identity** will yield an estimated saving of almost half a billion pounds over 5 years.

Going one step further, around 40 'off-shore' **tax havens** offer nil or nominal taxes. Some are sovereign states, such as Monaco. Another, the Cayman Islands, is an overseas territory of the UK that has its own tax-setting powers. Why don't all TNCs relocate their corporate headquarters to these places and avoid paying taxes too? Reasons against **corporate migration** include:

- **Brand origin and authenticity.** Many firms benefit from a strong branding association with their country of origin. Think of Coca-Cola, headquartered in Atlanta, or Fender Guitars, based in California. It is hard to imagine either of these established US firms announcing their intention to become Swiss.
- **Social responsibility.** Some privately owned TNCs, such as Dyson, are owned by individuals who are content to see a share of the profits given in tax to their native country.
- **Protection and support.** TNCs can look to the national government where they are headquartered for support if their overseas assets are threatened by conflict or nationalisation. The oil company Repsol sought support from its country of origin, Spain, when Argentina's government seized control of Repsol's Argentinian investments. During the financial crisis of 2008–09, General Motors and Chrysler looked to the US government for support, while the Royal Bank of Scotland was 'bailed-out' by the UK treasury.
- **Human resources.** Valued senior management may choose not to relocate for personal reasons. When the BBC moved from London to Manchester it lost many senior staff. Think how much damage an international move might do to a TNC's senior management team.
- **Complexity.** Transferring the legal domicile of a large TNC is time-consuming and expensive.
- **Reputational risk.** Using tax havens and avoiding taxes can harm a firm's reputation.

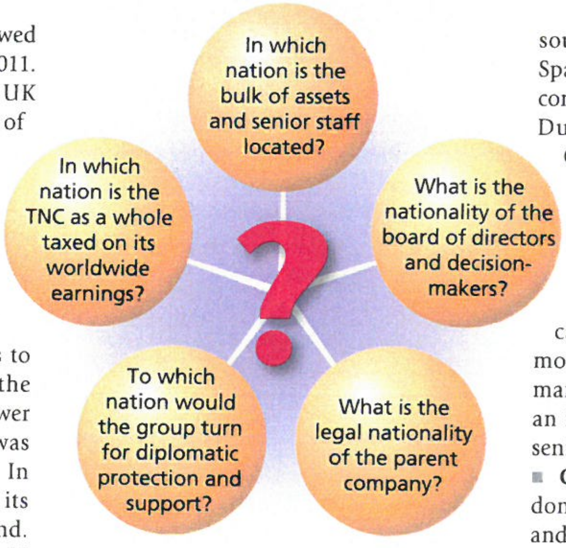

Figure 3 Where is a TNC based?

Mergers and acquisitions

Sometimes a TNC undergoes a change in national identity following its **takeover** by another company (which has purchased a controlling number of shares or persuaded a majority of shareholders, by varying means, to agree to the takeover).

Table 2 Some major TNCs headquartered in Africa, Asia and Latin America

Asia (excluding Japan)	Africa	Latin America
Tata, India	Bhp Billiton plc, South Africa	Petrobras, Brazil
Infosys Technologies, India	Standard Bank Group Ltd, South Africa	Telcel, Mexico
Sinopec, China	Orascom Telecom, Egypt	Bradesco, Brazil
SAIC Motor, China	Itissalat Al Maghrib, Morocco	Itau, Brazil
Bank Central Asia, Indonesia	Sabmiller plc, South Africa	Comcel, Colombia

A protest against the Kraft takeover of Cadbury

In 2010, Cadbury was subject to a hostile takeover. Before its **acquisition** by US food giant Kraft, Cadbury paid £200 million in UK corporation tax a year. Now, much of its profit goes to the US-registered firm Mondelez International (a new division of Kraft), via a subsidiary Swiss company, using a strategy called **transfer pricing**. Cadbury's profits, and the taxes paid on them, have migrated.

Cross-border **mergers** may result in a 'hybrid' geography of ownership when two firms join forces to create a single entity with two headquartered homes. The publishing TNC Reed Elsevier has been a dual-listed structure since 1992, maintaining headquarters and paying corporation tax in both the UK and the Netherlands. Royal Dutch Shell does the same.

Joint ventures

Joint ventures (JVs) are another cause of 'multiple identity' in global commerce. JVs are common in India. TNCs wanting to move into India are legally obliged to work in partnership with an indigenous company. In north India, McDonald's restaurants are jointly owned by McDonald's and Vikram Bakshi's Connaught Plaza Restaurants. The local success of this venture owes much to **glocalisation** strategies developed by the partnership, such as the introduction of the vegetarian McAloo Tikki Burger. A large share of the profit remains in India, so this is far from being a case of a 'rich' TNC exploiting a 'poor' country.

From a TNC's point of view, JVs often make sense. Doing business in a lot of different countries is complex. The legal framework for investment differs in every country, as do customer tastes, and local knowledge is useful. Entering into partnership is one way to gain a successful toehold in a lucrative new market like India (whose retail market will be worth $700 billion by 2016) or Brazil (105 million Brazilians, more than half the population, now earn between US$6,000 and US$27,000 a year).

Further reading

Miller, G. (2012) 'Development Update: Tata: a giant family firm', Geography Review Vol. 26, No. 1, pp. 32–34.

Oakes, S. (2010) 'Guitar geographies' Geography Review Vol. 24, No. 2, pp. 2–5.

Oakes, S. (2012) 'Globalisation: a risky business', Geography Review Vol. 25, No. 4, pp. 36–41.

Indian joint ventures for McDonald's: **www.mcdonaldsindia.com/pdf/aboutus.pdf**

Managing corporate mergers and migrations

In reality, strategies such as public offerings, corporate migration and mergers are regulated by national governments (which may want to keep well-known brands in national hands) and multi-governmental organisations such as the EU (which has a legal duty to prevent powerful monopolies from emerging). There are plenty of political and legal obstacles for TNCs:

- The French and Italian governments monitor, and may stop, unwanted foreign takeovers in 'strategically important' sectors, such as energy, defence, telecoms and food.
- Takeovers by foreign companies are scrutinised by the Committee on Foreign Investment in the USA and by the Canadian and Australian governments
- India requires that TNCs work in partnership with Indian companies (though rules were recently relaxed for 'single-brand' retailers like Ikea).
- China's government blocked Coca-Cola's acquisition of Huiyan Juice in 2008 (although it recently allowed British TNC Diageo to buy Shui Jing Fang, a famous brand of spirits).

Glossary

Acquisition When a smaller TNC is bought by a larger TNC. The smaller company may be completely absorbed and senior staff may lose their jobs.

Conglomerate An amalgam of different companies under a common corporate 'banner' (such as the Indian TNC Tata, actually a vast empire of over 98 very different companies).

Corporate identity The national identity of a TNC, determined by where its headquarters are based and where it is domiciled for corporate tax purposes.

Corporate migration When a TNC changes its corporate identity, relocating its headquarters to a different country.

Glocalisation The local sourcing of parts by TNCs when establishing branch plants overseas to assemble products close to markets. They can also customise their products to meet local tastes or laws.

Merger When two TNCs join together as equal partners. The name of the company is likely to change following a merger (GlaxoSmithKline has merged several times). The new TNC is run by staff taken from each merged business.

Parent company The original business that a global TNC developed around and whose directors still make decisions that affect the organisation as a whole. For instance, the Walt Disney Company owns several television networks, animation studios (such as Pixar) and 11 theme parks.

Public offering When the public is given a chance to buy shares in a TNC that has previously been in private hands.

Transfer pricing A financial flow occurring when a division of a TNC based in one country charges a division of the same firm based in another country for the supply of a product or a service. It can lead to less corporation tax being paid.

Takeover When one TNC seizes control of another, having bought shares or persuaded shareholders to accept the acquisition offer.

Tax haven A country or territory with a nil or low rate of corporation tax.

Up to now, successive UK governments have had a relaxed attitude towards foreign direct investment, making Britain the world's second biggest market for foreign takeovers. Since the sale of Cadbury, Jaguar Land Rover has been sold on to India's Tata, while China's sovereign wealth fund, CIC, has acquired a stake in Thames Water. Recently, however, some UK politicians have argued for greater controls on foreign ownership of strategically important industries. Selling off our chocolate overseas is one thing. Selling off our water is another.

Conclusions

Geographies of corporate ownership, identity and profits are complex and difficult to map. When TNCs move their headquarters away from traditional sites national governments may be right to worry that globalisation is 'hollowing out' their economies.

An alternative, optimistic view is that customers link brand authenticity with national identity, especially for iconic US labels such as Levi's or Coca-Cola. At the same time, global financial and political risks provide a strong incentive for TNCs to choose powerful sovereign states like the UK and USA as their 'homes'. For these reasons, corporate identities often remain fixed.

It is likely though that companies will have growing numbers of shareholders in developing and emerging economies. We need to think critically about how TNC profits feed into global geographies of wealth.

GeographyReview*Online*

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Questions for discussion

1 What's wrong with writing: 'All the profits of TNCs go to MEDCs'? After reading this article, you should understand what a weak and inaccurate assertion this is. Discuss possible objections to the statement, focusing on themes such as emerging economies, the geography of shareholding and the growing trend for joint ventures.

2 Should TNCs be allowed to use the 'transfer pricing' strategy to avoid paying taxes in countries where they operate? Starbucks and Amazon have recently been criticised for paying very little tax in the UK as a result of transfer pricing. Conduct some research on this topic and try to arrive at a viewpoint based on the evidence you collect. A good starting point for investigation is: **www.bbc.co.uk/news/business-20288077**

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Key points

- A TNC may consider leaving its traditional home if tax regimes elsewhere look more attractive. However, there is a range of objections against making such a move.
- While many TNCs have a fixed national identity they have an increasingly globalised geography of shareholding.
- Developed countries that are home to many TNCs benefit from corporation taxes, but TNCs may use strategies such as transfer pricing to try and reduce their tax burden.
- The geography of mergers and acquisitions brings sudden changes in TNC ownership. Sovereign states can suffer losses or enjoy gains in corporation tax when this occurs.
- TNCs increasingly set up joint ventures to enter new markets, for legal reasons and because there are other benefits.