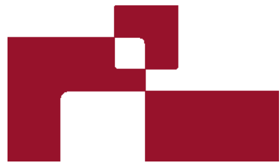

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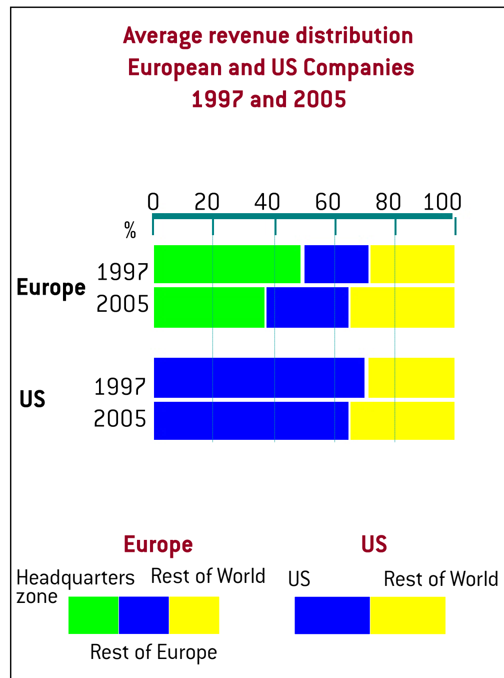
FAREWELL NATIONAL CHAMPIONS

by **Nicolas Véron**
Research Fellow at Bruegel
n.veron@bruegel.org

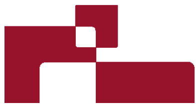
SUMMARY Controversies over "national champions" in Europe raise the question of where exactly is "home" for a modern corporation. This survey of Europe's 100 largest listed companies shows that their home market is increasingly Europe as a whole rather than any particular country within it. **The share of European sales in their total revenue is almost identical, on average, to the share of US revenue for the US Top 100, at 65%. The share of their national (or, for smaller countries, regional) base is on a rapidly declining trend and stands at 36.9% of global revenue in 2005 against 50.2% in 1997.** The geographical distribution of employees within the same companies appears to follow a similar pattern. In this group, German companies are among the frontrunners of both europeanisation and globalisation. Italian and, to a lesser extent, Spanish companies remain strongly biased towards their home market, though less than in the past. French companies have europeanised rather than globalised, while for UK-based companies, both trends have been simultaneously powerful.



Source: Bruegel estimates based on annual reports and regulatory filings for a sample of 55 out of the 100 largest European and US companies.

POLICY CHALLENGE

The trend towards europeanisation of Europe's largest companies calls into question policies that are based on corporate nationality. It undermines the effectiveness of policies aimed at national economic performance through the support of "national champions" – when this support takes place at group rather than plant level. Moreover, it lowers the obstacles to the mobility of corporate headquarters within the European space. This could set the stage for more regulatory competition in the future in areas which include securities law, taxation and corporate governance. European policymakers need to adapt to this new landscape.



WHAT alignment exists between the respective interests of companies and countries? The rhetoric of "national champions" is pervasive and has recently been given new prominence. However, the notion of "corporate nationality" is ambiguous. A company's culture, internal working language, and management may be strongly influenced by the place where it was initially created. But this link exists only to a certain degree which generally tends to decrease with time as the company gradually "internationalises", whether through internal growth or cross-border acquisitions, and as its behaviour is correspondingly influenced.

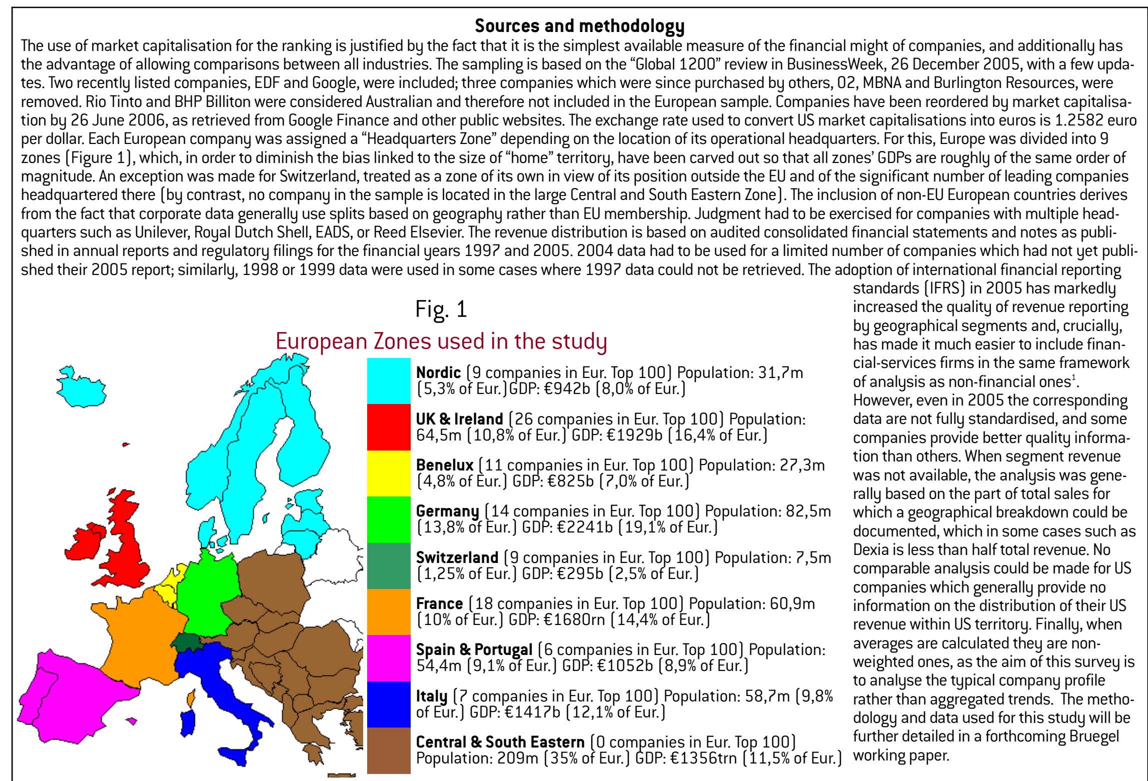
Internationalisation can primarily be measured with reference to any one of the three key markets a company taps into: clients, labour, and capital. This survey focuses on the first two, by looking at the geographical revenue distribution of Europe's 100 largest listed companies ("Europe Top 100" ranked by market capitalisation, see box), and the link between the location of revenue and of employees. A comparison is made with the 100 largest listed companies in the United States ("US Top 100") to assess the distinctiveness, or lack thereof, of Europe's large corporations. This forms part of an ongoing effort undertaken by Bruegel to analyse the interplay between globalisation and Europe's economic integration.

1. THE CHAMPIONS' LEAGUE

Even though they cannot be considered representative of the whole economy, the largest companies weigh heavily: a sketchy order of magnitude is given by the Europe Top 100 companies' cumulative revenue, which amounts to 34% of Europe's GDP – admittedly an inflated indication since it covers global operations, and value added only represent a fraction of sales. The estimated cumulative headcount of the same 100 companies in Europe alone amounts to nearly 5% of the continent's total business labour force. The average revenue of the Europe Top 100 companies is €39bn (and the median revenue is €29bn), while the largest European company by this measure, Royal Dutch Shell, has a revenue of €238bn.

Figure 2 shows the details of these companies and of the counterpart sample of US Top 100, with both samples sorted by market capitalisation. It is to be noted that the US Top 100 companies are generally smaller than the Europe Top 100 when measured by revenue at the current exchange rate (average €32bn and median €20bn), but are valued by the market at a higher multiple of sales with an average market capitalisation of €60bn, versus €45bn in the European sample.

For each European company, Figure 2 provides the respective shares of the "Home Base" where headquarters are located (see box), of the rest of Europe and of the rest of the world in total revenue. It also shows the comparable data for the US Top 100 companies (without intra-US split), and adds an indication of market capitalisation (black curves on both graphs). These company-specific data form the basis for the aggregate analysis which is developed in the next charts.



Sources and methodology

The use of market capitalisation for the ranking is justified by the fact that it is the simplest available measure of the financial might of companies, and additionally has the advantage of allowing comparisons between all industries. The sampling is based on the "Global 1200" review in BusinessWeek, 26 December 2005, with a few updates. Two recently listed companies, EDF and Google, were included; three companies which were since purchased by others, O2, MBNA and Burlington Resources, were removed. Rio Tinto and BHP Billiton were considered Australian and therefore not included in the European sample. Companies have been reordered by market capitalisation by 26 June 2006, as retrieved from Google Finance and other public websites. The exchange rate used to convert US market capitalisations into euros is 1.2582 euro per dollar. Each European company was assigned a "Headquarters Zone" depending on the location of its operational headquarters. For this, Europe was divided into 9 zones (Figure 1), which, in order to diminish the bias linked to the size of "home" territory, have been carved out so that all zones' GDPs are roughly of the same order of magnitude. An exception was made for Switzerland, treated as a zone of its own in view of its position outside the EU and of the significant number of leading companies headquartered there (by contrast, no company in the sample is located in the large Central and South Eastern Zone). The inclusion of non-EU European countries derives from the fact that corporate data generally use splits based on geography rather than EU membership. Judgment had to be exercised for companies with multiple headquarters such as Unilever, Royal Dutch Shell, EADS, or Reed Elsevier. The revenue distribution is based on audited consolidated financial statements and notes as published in annual reports and regulatory filings for the financial years 1997 and 2005. 2004 data had to be used for a limited number of companies which had not yet published their 2005 report; similarly, 1998 or 1999 data were used in some cases where 1997 data could not be retrieved. The adoption of international financial reporting standards (IFRS) in 2005 has markedly increased the quality of revenue reporting by geographical segments and, crucially, has made it much easier to include financial-services firms in the same framework of analysis as non-financial ones[1]. However, even in 2005 the corresponding data are not fully standardised, and some companies provide better quality information than others. When segment revenue was not available, the analysis was generally based on the part of total sales for which a geographical breakdown could be documented, which in some cases such as Dexia is less than half total revenue. No comparable analysis could be made for US companies which generally provide no information on the distribution of their US revenue within US territory. Finally, when averages are calculated they are non-weighted ones, as the aim of this survey is to analyse the typical company profile rather than aggregated trends. The methodology and data used for this study will be further detailed in a forthcoming Bruegel working paper.

Fig. 1

European Zones used in the study

[1] In this respect, there is scope for concern in the recently proposed replacement of the current rule on "segment reporting" (IAS 14) by a new standard (coded ED8) which is based on an existing US accounting rule, which might lead to information of a lesser quality in this respect. It is to be hoped that the legitimate desire for convergence between IFRS and US accounting rules does not lead to lesser quality information, as can be feared in this particular case.

Fig. 2

Top 100 Companies in Europe and the US: Market Capitalisations and Geographical Distribution of Revenue

Top 100 European Companies

0% → 100%

€bn 0 25 50 75 100 125 150 175 200

Market cap.

BP
Royal Dutch Shell
HSBC
GlaxoSmithKline
Total
Sanofi-Aventis
Vodafone
Novartis
Nestlé
Roche
ENI
UBS
Royal Bk of Scot.
EDF
AstraZeneca
Santander
BNP Paribas
ING
Nokia
Telefónica
UniCredit
Siemens
E.ON
Barclays
BBVA
Deutsche Telekom
HBOS
Unilever
SAP
Allianz
Société Générale
Credit Suisse
Axa
Anglo American
L'Oréal
Statoil
Lloyds TSB
Deutsche Bank
Crédit Agricole
Telecom Italia
France Telecom
BAT
Enel
Diageo
Ericsson
ABN AMRO
DaimlerChrysler
Suez
Tesco
LVMH
BG Group
RWE
Generali
Fortis
BASF
Carrefour
Banca Intesa
Philips
KBC
BT
Vivendi
Endesa
Danone
Repsol YPF
Norsk Hydro
Aviva
Standard Chartered
Deutsche Post
Nordea
Zurich Fin. Services
Bayer
Munich Re
Iberdrola
National Grid
Renault
BMW
InBev
H&M
Dexia
SABMiller
Reckitt Benckiser
Swiss Re
TeliaSonera
Sanpaolo IMI
Prudential (UK)
Aegon
Saint-Gobain
KPN
Danske Bank
EADS
Reed Elsevier
L'Air Liquide
Richemont
Schneider Electric
Imperial Tobacco
Allied Irish Banks
Cadbury Schweppes
Volkswagen
Swisscom
Maersk

Top 100 US Companies

0% → 100%

€bn 0 25 50 75 100 125 150 175 200

274bn 279bn

Market cap.

ExxonMobil
GE
Citigroup
Microsoft
Bank of America
Wal-Mart
P&G
Johnson & Johnson
Pfizer
AIG
Altria
JPMorganChase
Chevron
Google
Cisco
IBM
Wells Fargo
Intel
AT&T
Coca-Cola
ConocoPhillips
PepsiCo
Verizon
Hewlett-Packard
UPS
Wachovia
Oracle
Merck
Amgen
Home Depot
Time Warner
Schlumberger
Qualcomm
Boeing
Comcast
American Express
Morgan Stanley
Goldman Sachs
Walt Disney
BellSouth
Abbott Labs
Merrill Lynch
United Technologies
Eli Lilly
UnitedHealth
3M
News Corp.
Medtronic
Sprint Nextel
Carnival
Wyeth
U.S. Bancorp
Tyco
Dell
Bristol-Myers Squibb
Apple
Motorola
Caterpillar
Lowe's
WellPoint
Texas Instruments
Fannie Mae
Yahoo!
Walgreen
Target
Washington Mutual
eBay
Occidental Petroleum
McDonald's
Freddie Mac
DuPont
Exelon
Valero Energy
MetLife
Prudential (US)
Dow Chemical
Halliburton
Anheuser-Busch
FedEx
Corning
First Data
Allstate
Lehman Brothers
Emerson Electric
Honeywell
St. Paul Travelers
Colgate-Palmolive
Lockheed Martin
Schering-Plough
SunTrust Banks
Kimberly-Clark
EMC
Cardinal Health
Viacom
ADP
Dominion Resources
Applied Materials
Hartford Fin. Services
Devon Energy
Aetna

HQ Zones of Europe Top 100

Nordic
UK & Ireland
Benelux
Germany
Switzerland
France
Spain & Portugal
Italy

Revenue Split

Europe Top 100

% by zone

HQ Zone | Rest of World

Rest of Europe

US Top 100

% by zone

US | Rest of World

Source: Bruegel estimates based on company disclosures; see box on sources and methodology

The sector-based analysis on Figure 3 shows that the "home bias" (share of the HQ Zone in total revenue) and "European bias" (share of Europe in total revenue) are lowest for tradable goods such as pharmaceuticals, chemicals, consumer products, industrial goods and technology. By contrast, heavily regulated industries such as banking and telecoms still remain predominantly national. The comparison with US companies in the same industries shows that the overseas dimension (i.e., non-European revenue for European companies, and non-US revenue for US ones) is generally at a comparable level in Europe and in the US, except in insurance and utilities where US companies have significantly less overseas activities on average than their European counterparts.

There is also a strong link between a company's home bias and the location of its headquarters, as shown by Figure 4. Unlike what might have been expected, the home bias is only weakly correlated to the size of the HQ Zone, except for Switzerland which is markedly smaller than all other zones. In particular, Germany's largest companies are remarkably internationalised in spite of being located in the largest of our European zones in GDP terms. There is no significant difference between the UK/Ireland zone and France as regards the home bias; however, as reflected by the same chart, UK and Irish companies have a privileged orientation towards the US (on average, 22% of their sales vs. 16% for the Europe Top 100). By the same token, Spanish companies lean towards Latin America (29% of their

Europe % by zone

HQ Zone | Rest of World

Rest of Europe

US % by zone

US | Rest of World

Fig. 3

Europe and US Top 100: average revenue structure by industry sector

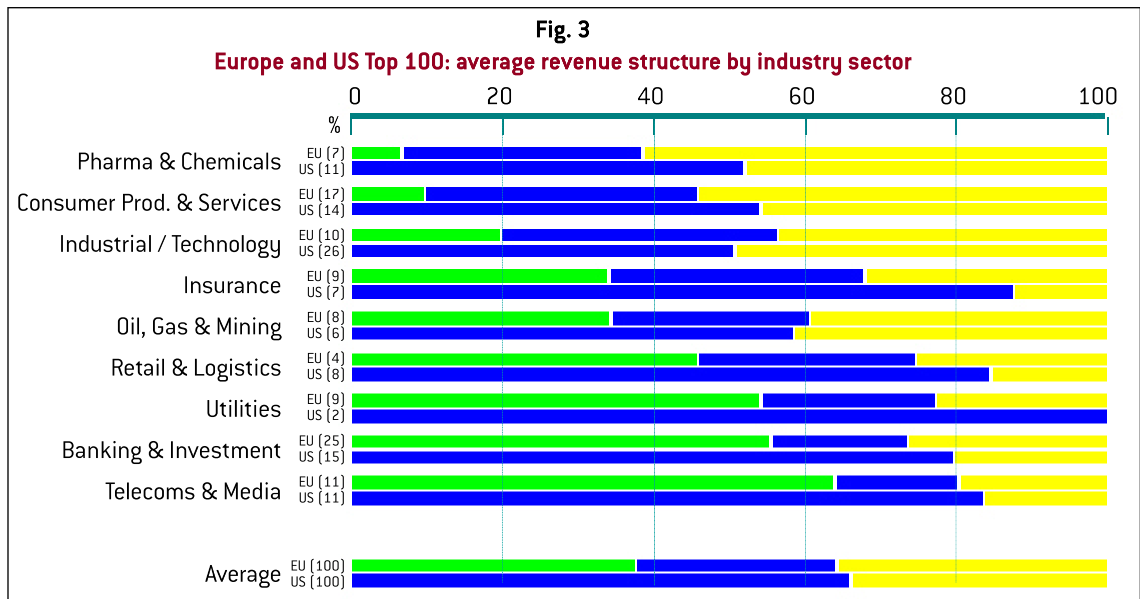
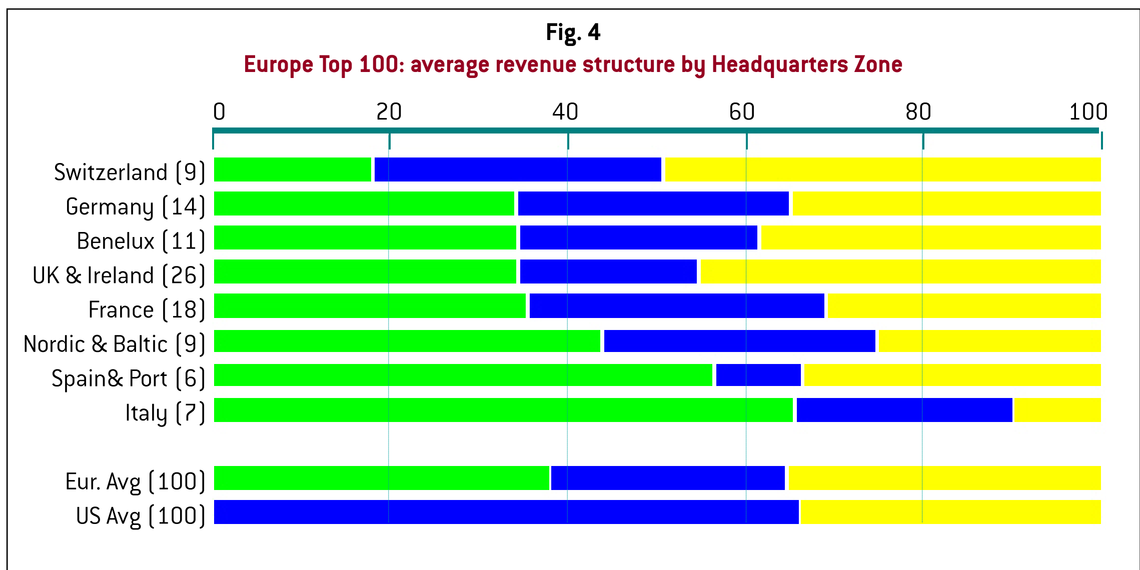
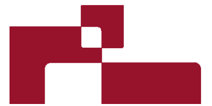


Fig. 4

Europe Top 100: average revenue structure by Headquarters Zone



Source for Figs 3, 4: Bruegel estimates based on company disclosures

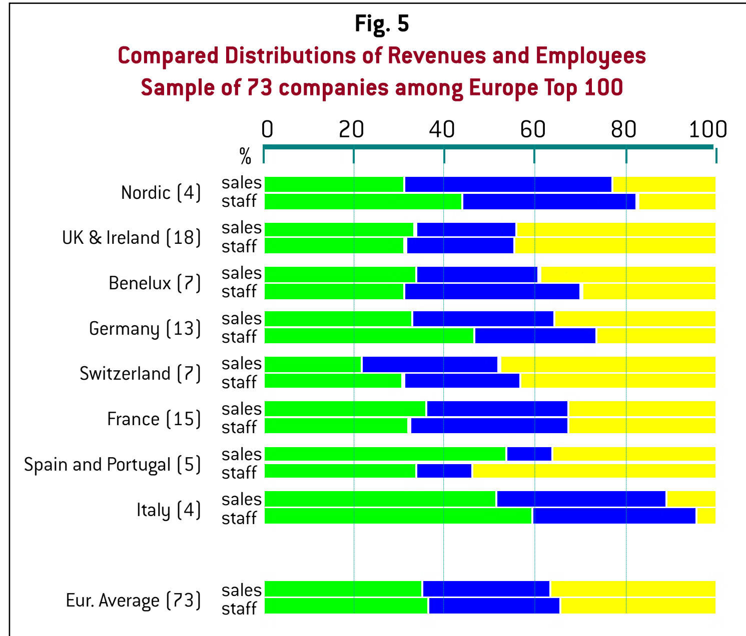


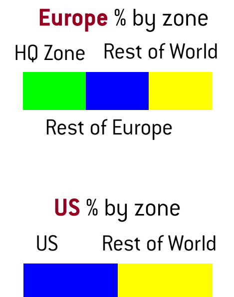
sales vs. 6% for the Europe Top 100). Italian companies, and to a lesser extent Spanish ones, still have a strikingly high home bias.

A question of significant economic and political relevance is whether there is a correlation between the location of customers (the geographical revenue split) and that of employees. At individual company level, discrepancies between the two can be significant. For example, Nokia has 49% of its workforce but less than 5% of sales in the Nordic zone; Roche has almost 12% of its workforce but less than 1% of its sales in Switzerland. However, on average the difference is much less marked. Figure 5 shows the corresponding comparison for those companies for which the breakdown of employees by regional zones is sufficiently documented, namely 73 European companies.

Those differences that remain on average between the "sales" and "staff" splits can be explained by various factors: for example, Nordic, German and Swiss companies tend to be strong exporters, and Spanish companies have large numbers of employees in Latin America. But on the whole, sales and staff are distributed along broadly similar patterns.

Fig. 5
Compared Distributions of Revenues and Employees
Sample of 73 companies among Europe Top 100

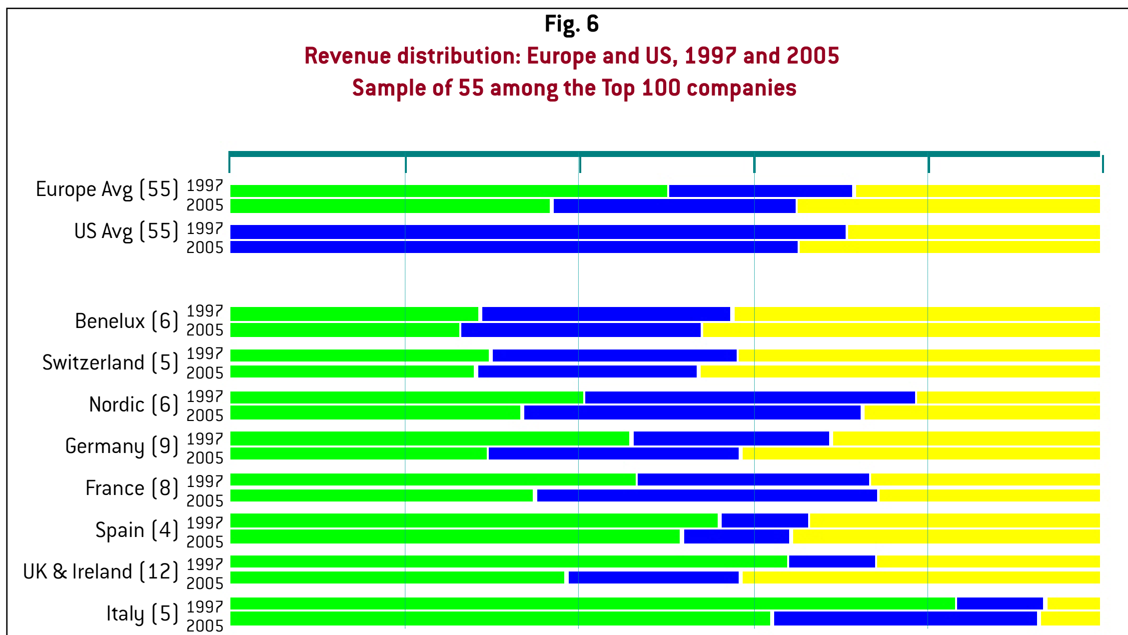




2. EUROPEANISATION TRUMPS GLOBALISATION

To assess the trends of internationalisation in recent history, data for a little more than half (55) of the companies in each sample, European and US, were analysed for the financial year 1997 and compared to 2005. Within a relatively short time span, these companies have significantly grown in size, with an average growth of revenue of 50% for the 55 European companies. This trend includes both components of external and internal growth, of which it has not been attempted here to identify the respective effects. It also incorporates the effects of different patterns of outsourcing and/or offshoring which, even within the same sector, may vary widely from one company to another[2].

Fig. 6
Revenue distribution: Europe and US, 1997 and 2005
Sample of 55 among the Top 100 companies



Source for Figs 5,6: Bruegel estimates based on company disclosures

[2] See Suzanne Berger, How We Compete: What Companies Around the World Are Doing to Make it in Today's Global Economy, Doubleday, 2005.

Strikingly, the overseas dimension has increased in almost exactly parallel ways for European and US companies in the past eight years (Figure 6 on previous page). They start from a comparable level in 1997 (28.4% and 29.3% respectively) to reach 35% and 34.8% respectively in 2005. This increase appears measured when compared to the high growth rate of some overseas markets (as in Asia) and to the prominence of globalisation in corporate strategy and collective representations over the past few years. A recent study of US firms by Goldman Sachs Economic Research comments that *"the impact of globalization in the corporate data is so limited that it reminds [one] of the late-1990s joke [or what passes for one in economic circles] about the impact of technology on productivity—you see it everywhere but in the productivity statistics."* [3]

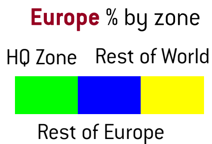
For European companies, the share of the HQ Zone in total activity has sharply declined, from 50.2% of global sales in 1997 to less than 37% in 2005. For these companies, europeanisation trumps globalisation in the sense that expansion out of their home base takes place comparatively faster in Europe than overseas. This can be attributed only in part to expansion in Central and Eastern Europe, which represents 28% of the average increase in the "rest of Europe" sales. Actually, expansion in Western Europe out of the home base also takes place at a more rapid pace than overseas expansion. The economic integration within the European area (EU internal market policies, economic and monetary union) may have played a role in this trend.

"The average home bias has most decreased for companies headquartered in the UK, Italy, Germany and France."

The interplay between the twin trends of europeanisation and globalisation varies somewhat with the location of a company's headquarters (also on Figure 6). The average home bias has most decreased for companies headquartered in the UK, Italy, Germany and France, by 25, 21, 16.5 and 11.5 percentage points respectively. For companies in France and Italy, this has been mainly due to europeanisation, while the proportion of overseas revenue has remained stable. In Germany and the UK, europeanisation and globalisation have occurred simultaneously. Further analysis shows that the US has been the area of fastest expansion overseas for both UK and German companies.

The evolution sector by sector (Figure 7) highlights the significant impact of market opening policies in Europe, especially in the areas of telecoms and utilities (but only to a limited extent in banking). It also hints at significant changes in the structure of the markets for consumer goods, retail and logistics in Europe, which could perhaps be linked to the EU's single market policies.

Employee data were not sufficiently documented for 1997 to allow a meaningful analysis of the geographical split of headcounts for that year. However, anecdotal evidence suggests that the link between revenue split and headcount split was comparable in 1997 with what it was in 2005 as presented in Figure 5 above.



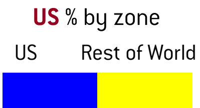
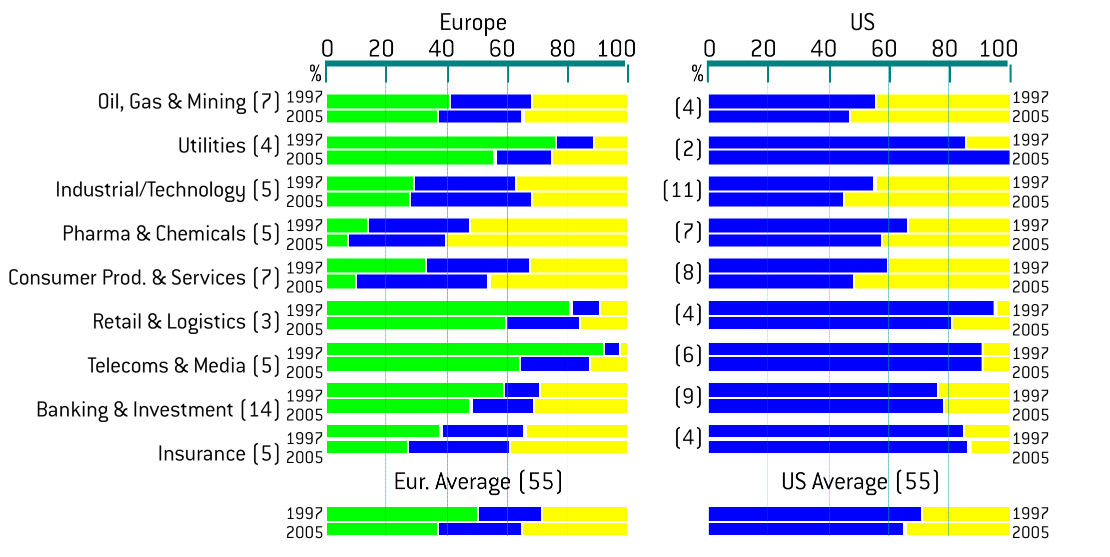


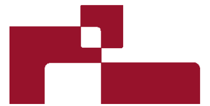
Fig. 7

Changes in Revenue Structure by Industry Sector, Europe and US, 1997 and 2005



Source: Bruegel estimates based on company disclosures

[3] Goldman Sachs Economic Research, Global Economics Weekly #06/06, 15 February 2006.



3. A EUROPEAN BUSINESS IDENTITY?

If current trends are extrapolated, more than half of large companies' average activity within Europe will be done outside of their home base as early as 2009. However, caution is required before concluding that these companies are becoming European more than they are national. As previously mentioned, all depends on how one tries to define corporate nationality.

Some argue that, in the coming age of global interdependence, this notion is becoming irrelevant, a point of view which was forcefully expressed recently by IBM's Chairman and CEO, Samuel J. Palmisano[4]. Others tend to think that in spite of cross-border expansion, the national character of companies will always remain an essential fact of life[5]. Others still think that the trend towards "post-national" companies is real but should be countered by a reassertion of national sovereignty[6].

"Some argue that, in the coming age of global interdependence, the notion of 'national' companies is becoming irrelevant ."

At this point, our data suggest that large companies both keep a strong national bias and grow to be more global, but that simultaneously their European identity is becoming just too significant to be ignored. In terms of location of their activities, Europe's large companies are as European as US ones are American, and within Europe the share of their national or regional home base will soon on average be exceeded by the share of other countries. In other words, by this measure the equivalent of US large companies' "American" identity is the European identity, not the national one, and increasingly so.

Whether the europeanisation of Europe's large companies results from conscious strategies may be disputed. What anecdotal evidence suggests is that many companies in Europe still have to adapt their internal structures, processes and references to their activities' shifting geographic pattern. To take a simple indicator, the nationalities within executive committees generally by no means reflect the diversity of companies' customers and employees. Given the trends highlighted in this survey, it is likely that some features of national business identities all around Europe will be increasingly called into question. Whether a distinctive European business identity will emerge, however, remains an open issue.

"Many companies in Europe still have to adapt their internal structures, processes and references to the shifting geographical pattern of their activities".

4. ADAPTING POLICIES TO A NEW REALITY

Policymakers are no less challenged by the europeanisation of large companies than are corporate managers. The perception of a convergence of interests between "national" companies and their respective nations is deeply ingrained in many senior policymakers' world view. French Prime Minister Dominique de Villepin has encapsulated this perception in his advocacy of a new *patriotisme économique.* The same attitude is present all around Europe, even when less colorfully expressed, as illustrated by recent stories about Spain's Endesa, Italia's Autostrade, Poland's PKO BP, or the UK's Centrica and London Stock Exchange (not to mention Unocal or P&O operations in the US), even though the specific nature of the issue varies greatly from one case to another.

"The logical consequence would be for governments to focus their efforts on competitiveness policies at local level".

A first policy implication of europeanisation is that national governments' specific support to "national champions" is likely to become increasingly difficult to justify, even without taking competition concerns into consideration. Any form of support or protection that fosters the competitive position of a given company as a whole (as opposed to one particular plant or production site) is likely to primarily benefit the company's customers in the form of lower prices, and secondarily its employees (higher salaries) and/or its shareholders (higher profits). Thus, the decreasing average share of both customers and employees in the "home" area for large companies across Europe means that national support or protection is increasingly bound to end up enriching their "foreign" stakeholders rather than the national economy.

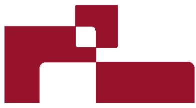
The logical consequence would be for governments to focus their efforts on competitiveness policies at local or employee level without any consideration of "corporate nationality", as was advocated by Robert Reich in a seminal article published 16 years ago[7]. By contrast, schemes where support is granted at group level, such as France's recently established Agency for Industrial Innovation (AII) and more generally national support for R&D spending by large companies, steadily lose relevance as companies internationalise. Such policies might increasingly be criticised for their use of taxpayers' money effectively resulting in a transfer of wealth to foreign stakeholders. The only rele-

[4] Samuel J. Palmisano, "The Globally Integrated Enterprise", Foreign Affairs, May-June 2006.

[5] See for example Robert Boyer, Une Théorie du capitalisme est-elle possible ?, Editions Odile Jacob, 2004.

[6] See for example Barry Lynn, End of the Line: The Rising and Coming Fall of the Global Corporation, Doubleday, 2005

[7] Robert Reich, "Who Is Us?", Harvard Business Review, January-February 1990.



vant level for such R&D policies applied to large companies would be the European one.

Moreover, the trends described in this survey could have indirect consequences on many other policies that apply at corporate (or group) level by calling into question their national framing within Europe. One paramount example is Mitbestimmung, the codetermination requirement applicable to large companies incorporated in Germany. It gives workers' representatives a special role in governance bodies – but these are the representatives of German, not European or worldwide, workers. The inherent tension between this provision and the realities of internationalisation was graphically illustrated when tyre maker Continental announced layoffs at its Hanover plant in November 2005. As Continental's German works council protested, CEO Manfred Wennemer justified the restructuring by stating: *"my duty is to my 80,000 workers worldwide"* – i.e., not only to the German ones[8] .

The europeanisation of large companies poses a specific challenge to regulations applicable at corporate level such as Mitbestimmung, because it may contribute to enabling an increased future mobility of head offices within the European space. When a company has two-thirds or more of its European activity in one country, there can be many practical, legal and political obstacles to shifting its headquarters across the border. By contrast, these obstacles tend to diminish as the home country represents less of the total European or global activity. Cross-border mergers have already led to several relocations of registered offices in Europe, such as EADS's incorporation in the Netherlands in 2000. Furthermore, HQ moves can also be disconnected from mergers, as Boeing did in the US by moving its head office from Seattle to Chicago in 2001. The prospect for headquarters mobility is further enhanced by recent case law of the European Court of Justice[9] and by legislation currently considered at EU level[10].

"Regulatory competition is likely to gain increasing prominence in Europe."

The possible prospect of more headquarters mobility inside Europe, including for large companies, may lead to an increased occurrence of regulatory competition, i.e. competition between different national regulatory frameworks in key areas such as securities law and regulation, corporate law, some tax issues, or corporate-level labour regulations such as Mitbestimmung. The debate whether regulatory competition leads to a "race to the bottom" or "to the top" in terms of regulatory requirements is a complex and often heated one in the US, as in the example of corporate law, which has remained in the almost exclusive remit of the States, with no federal legislation until the Sarbanes-Oxley Act of 2002. If the future confirms the scenario of increased cross-border mobility of headquarters of large companies made possible by their rapid europeanisation, then regulatory competition is likely to gain increasing prominence in Europe, with wide-ranging consequences on the nature and content of regulatory processes and legislation.

The author thanks Manuela Naessl for her outstanding work as research assistant for the preparation of this policy brief.

[8] The Economist, 18 May 2006.

[9] Most notably the recent decision on SEVIC Systems AG (13 December 2005) which clarifies the possibility to shift headquarters from one European country to another in the event of a merger. Earlier decisions such as Centros (9/03/1999), Überseering BV (5/11/2002) and Inspire Art Ltd (30/09/2003) have affirmed the freedom of establishment in the EU even when the country of incorporation is not the one in which the company has its operational activity.

[10] The project for the "14th directive" on cross-border transfer of registered office, envisaged as part of the action plan on corporate governance and company, and on which the European Commission carried out a public consultation in the spring of 2004.

IMPORTANT NOTE

This policy brief makes reference to individual companies, some of which are members of Bruegel. Though members play a key role in the choice of Bruegel's research topics, they have no influence neither on the conduct of Bruegel's research nor on the content of its publications. Therefore, this text should not be seen as reflecting in any way the views of such companies or of other members of Bruegel.

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Bruegel - Rue de la Charité 33, B-1210 Brussels - phone (+32) 2 227 4210 **info@bruegel.org**