Foreign Multinationals in Norway

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Foreword

This report presents an analysis of foreign multinationals in Norway. The principal aim is to identify the economic contributions that foreign multinationals make to the Norwegian society. The report is aimed at policy makers, corporations, academics and interest groups.

The project was undertaken by BI Norwegian Business School on behalf of AmCham Norway, with Professor Torger Reve as head of research, Marius Nordkvelde as project leader and Karthik Gowda as field researcher. The authors would like to direct our special thanks to Mr. Jason Turflinger and Mr. Pål Rokke for valuable insights and contributions in the process of making this report.

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Introduction

This report analyzes the impact of foreign-owned business enterprises in Norway from an economic and industrial perspective. A total of 314 Norwegian divisions of foreign enterprises were registered during the third quarter of 2013, which was a 14% increase over the previous year (Statistics Norway). The corresponding growth figures for Norwegian private limited companies showed an increase of only 3.2%, emphasizing the increasing significance of foreign-owned players in Norway. The main parameters studied in this report are value creation, employment, productivity, and corporate taxation to provide a fair assessment of the economic impact of foreign-owned companies in Norway. The authors have utilized data provided within the annual reports submitted to the Brønnøysund Register Centre by all registered entities within Norway. Secondary data from Statistics Norway was also used.

"A foreign-owned enterprise is defined as a company that is controlled by an enterprise or other economic unit abroad through an ownership interest of more than 50%. The term enterprise and entity has been used interchangeably in this report."

(SOURCE: STATISTICS NORWAY)

Economic Outlook

Norway received a foreign direct investment (FDI) stock of about NOK 1,115 billion in 2012 (an 8% year-on-year growth rate). Equity capital accounted for 54% of this investment, with the remainder represented by other kinds of capital (such as intra-company loans). As can be seen in Fig. 1, Europe continues to dominate investments into Norway. Sweden is the largest investor, while the Netherlands shows the largest growth rate (27%) compared to the previous year.

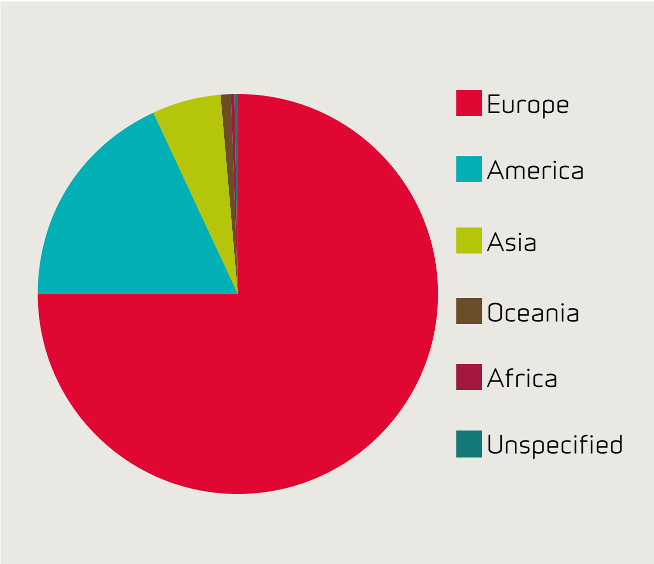

Fig. 1: Source of FDI by region (2012) (Source: Statistics Norway)

Fig. 2 compares Norwegian direct investment abroad with FDI in Norway on key return within the following equity parameters: dividend return, reinvested earnings as a share of equity, interest earnings as a share of equity and total return on equity. As illustrated, foreign investors in Norway receive better overall returns on investments than Norwegian investors do abroad. This can be attributed to several factors, including the stable Norwegian business climate, ease of doing business and productive industrial clusters. It is also worth noting that foreign investors reinvest their earnings in Norway considerably more than Norwegian investors do in other countries.

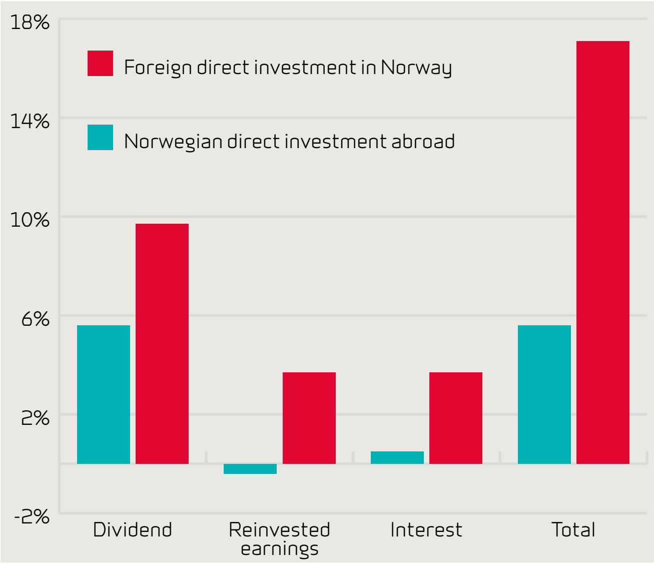

Fig. 2: Return on equity comparisons for dividend income, interest income and reinvested earnings (2012) (Source: Statistics Norway)

“Companies from the US, however, contribute by far the most (24.1%) to the revenue generated by all foreign-owned enterprises.”

Significant Countries

In 2011, 6,034 of a total of 271,018 enterprises in Norway were foreign-owned (2.23%). These foreign-owned enterprises generated close to 300,000 jobs (20.3% of the entire economy) and combined revenue of about NOK 1,200 billion (24.5% of the entire economy). Fig. 3 details a summary of contributions of the ten most significant countries with respect to influencing the Norwegian business environment in 2011. As can be seen, there are more Swedish-owned enterprises than by any other country, generating 22% of employment amongst all foreign-owned enterprises in Norway. Companies from the US, however, contribute by far the most (24.1%) to the revenue generated by all foreign-owned enterprises.

COUNTRY	% SHARE OF FDI	NO. OF ENTERPRISES	% SHARE OF EMPLOYMENT	% SHARE OF REVENUE
SWEDEN	17	1752	21,5	13,2
US	9,6	528	13,5	24,1
DENMARK	6,2	774	10,4	6,6
UK	7,6	637	9,5	10,1
NETHERLAND	11,2	367	9,4	8,8
GERMANY	4,4	321	7,6	6,9
FRANCE	5,5	190	5,6	9,8
FINLAND	1,7	230	4,7	3,6
SWITZERLAND	3	200	4,4	2,3
LUXEMBURG	3	78	2,5	1,1

Fig. 3: Top 10 contributing countries to Norwegian Economy in 2011 (Source: Statistics Norway)
Note: % change applies only to employment and revenue in foreign-owned enterprises

CISCO

California based Cisco, which specializes in network solutions and cloud applications has an inorganic history in Norway. With net sales of approximately $46 billion at the end of 2012, Cisco is a market leader within several of its service offerings. Therefore, when Cisco announced the $3 billion acquisition of Tandberg AS (a technology leader in video conferencing solutions) in 2009, the news made quite a splash in the technology world. Through the post-merger integration process, much of Tandberg’s organization maintained a fair degree of autonomy unlike most other Cisco acquisitions at the time. Today, Cisco operates in Norway as Cisco Systems Norway AS with about 600 employees.

Value Creation

Value creation is a good parameter to study how a firm adds value to a nation's gross domestic product. It is also a very apt indicator of the outputs of different industries, and a means to compare industries. It is measured as the revenue generated by a company minus the costs involved in generating that revenue. Payroll expenses are added to account for the direct benefit provided through employment. Thus, value creation is essentially EBIT (Earnings Before Interest and Tax) plus payroll expenses.

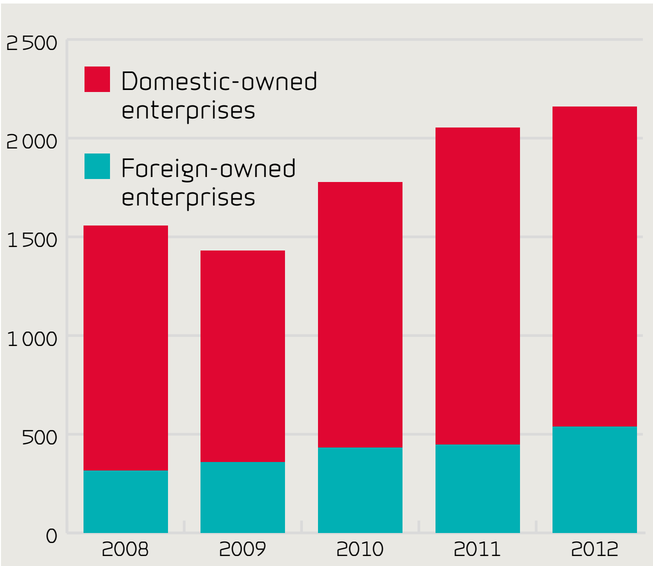

Fig. 4a: Value creation in billion NOK (Source: BI)

Fig. 4a and 4b show the comparative contributions of Norwegian-owned and foreign-owned enterprises in Norway and their respective growth rates. In 2008, foreign enterprises constituted about 20% of the total value created within Norway. By the end of 2012, this figure had increased to 25%.

It is also worth noting the year-on-year growth of value creation. While overall value creation has dipped in 2009 compared to 2008 (likely owing to the global recession), foreign-owned enterprises continued adding value at 14% during the same period.

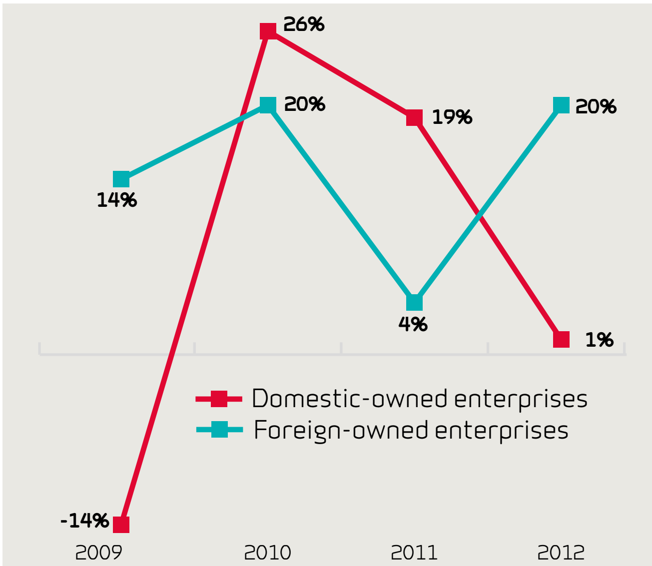

Fig. 4b: Annual growth rates of value creation (Source: BI)

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"Foreign-owned enterprises account for a vast share of the total value created in Norway across key sectors."

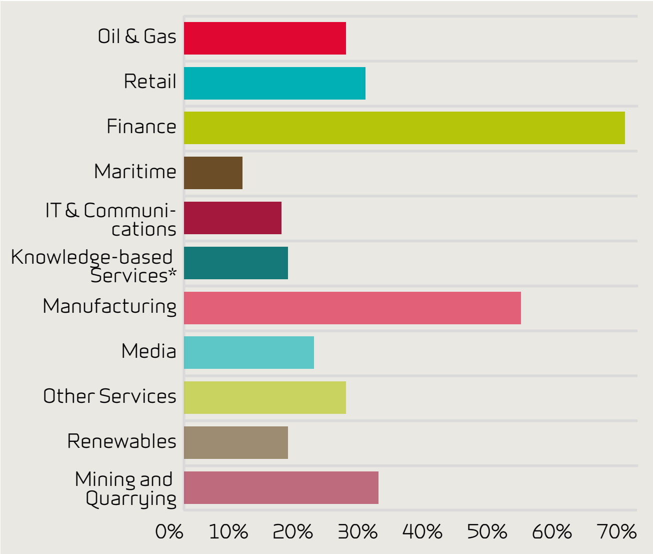

Fig. 5: The contribution of foreign-owned enterprises to key industries in terms of % value creation (2012) (Source: BI)
** Includes the Health (Biotech-Pharma) sector*

The next chart (Fig. 5) shows the key sectors within which foreign-owned enterprises have been most active during 2012 in terms of the percentage of total value creation. The chart is organized in descending order of sector size with oil and gas as the largest. Foreign-owned enterprises account for a vast share of the total value created in Norway across key sectors.

ROLLS ROYCE

Rolls Royce established a significant presence within the Norwegian maritime industry through the acquisition of fellow British group Vickers plc in 1999. Earlier that same year Vickers had acquired west coast-based Norwegian family-owned Ulstein Verft. Rolls Royce Marine AS, the Norwegian subsidiary of Rolls Royce has its offshore headquarters in Ulsteinvik and its merchant headquarters in Ålesund. It is one of the largest enterprises in Møre and Romsdal. Rolls Royce employs around 3,100 personnel in Norway and delivers equipment to 32,000 vessels with more than 3,000 customers worldwide. They also provide maintenance and after-sales service for their global market.

Employment

A very direct benefit of business activity within any society is employment. As mentioned earlier, foreign-owned enterprises accounted for nearly 20% of all employment in Norway despite constituting just 2.2% of all registered enterprises. Fig. 6a shows the overall employment generated by foreign-owned enterprises compared with Norwegian-owned enterprises.

Fig. 6b shows the average employment generated by key sectors from 2008 to 2012, and Fig. 6c shows the average rate of employment growth in these sectors for foreign-owned enterprises versus Norwegian.

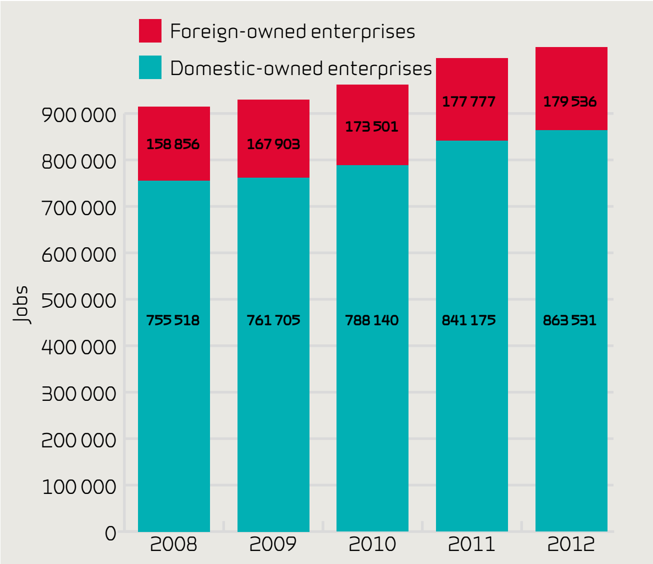

Fig. 6a: Jobs (full-time) generated (Source: BI)
Note: Data excludes public sector

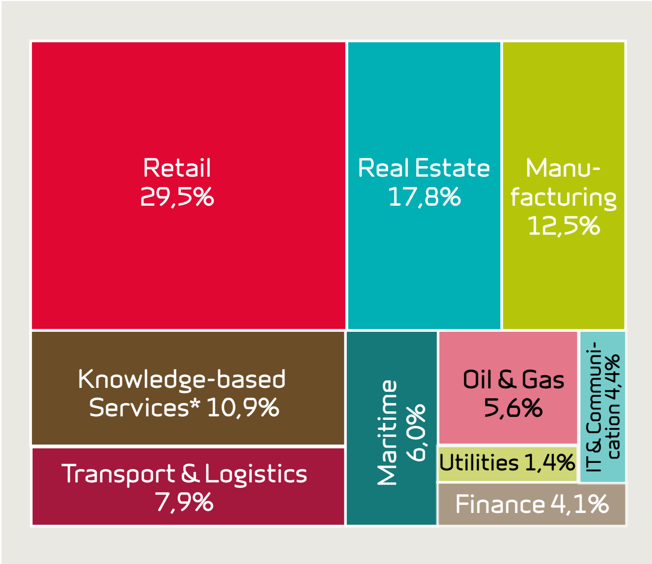

Fig. 6b: Average employment generated by key industries (2008-2012) (Source: BI)
** Includes the Health (Biotech-Pharma) sector*

> *"...foreign-owned enterprises accounted for nearly 20% of all employment in Norway despite constituting just 2.2% of all registered enterprises."*

Fig. 6c: Average employment generated by key industries (2008-2012) (Source: BI)
** Includes the Health (Biotech-Pharma) sector*

As can be seen in Fig. 6c, foreign-owned enterprises add jobs at a higher rate than Norwegian-owned enterprises in certain industries, while the opposite is true for others. It should be noted, however, that within the industries which contribute the most to the employment economy in Norway (ref. Fig. 6b), foreign-owned companies are adding jobs at a faster rate.

SCHLUMBERGER

Schlumberger is the largest oilfield service provider in the world with global revenues of $42.15 billion (2012) and employs approximately 3,900 employees within Norway. Schlumberger, which has French origins, was incorporated in the Netherlands and has its operational headquarters in Texas. Simply stated, the company operates in all sectors of the petroleum value chain including exploration, drilling, production, and completions. Schlumberger has acquired quite a few niche Norwegian firms in seismic, subsea, and drilling fluids sub-sectors. These acquisitions have enabled global outreach of these technologies originally developed in Norway. The Norwegian Continental Shelf provides a venue for these cutting-edge technologies to be tested on a continuous basis. In 2008, Norwegian subsidiaries of Schlumberger received more than 10% of the company's global R&D budget.

> *"…foreign-owned entities create significantly higher value per employee and are more productive than domestic-owned entities."*

Value Creation per Employee

Value creation per employee is a suitable indicator of a firm's productivity. As discussed earlier, value creation sheds light onto how much value a firm generates through a business activity in a particular location (output minus input). Divided by employment, value creation then essentially tells us the value created by each individual employee. It is therefore a good measure of that firm's productivity.

Fig. 7a shows that foreign-owned entities create significantly higher value per employee and are more productive than domestic-owned entities. It should be noted that these figures include all sectors – also the large Norwegian public sector – which has perhaps negatively impacted domestic-owned entity productivity results. It is appropriate to study productivity on a sector-by-sector basis as entities are compared against entities with similar production characteristics.

Fig. 7b shows the average value created per employee for the period 2008 to 2012 within key Norwegian industrial sectors. The chart shows the largest industries to the left, with oil and gas as the largest. As indicated, Norwegian-owned enterprises are more productive in certain industries (oil, maritime, technology, etc.), whereas foreign-owned enterprises are more productive within others (retail, finance, real estate etc.). The former group of industries comprises the major cluster industries of Norway, while the latter group contain the non-cluster industries.

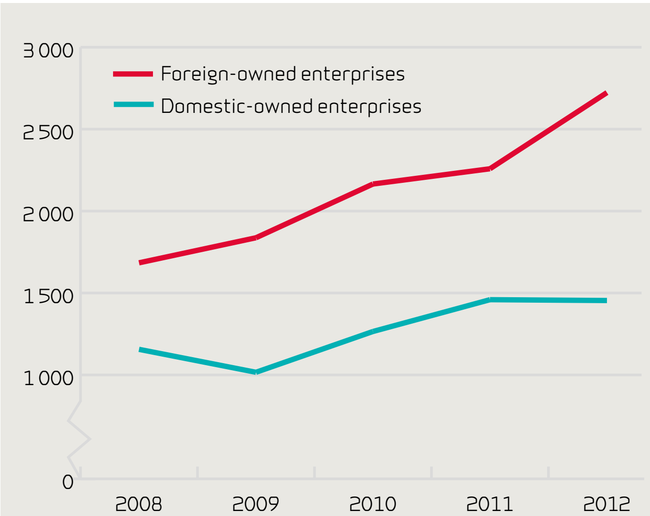

Fig. 7a: Value creation per employee in 1000 NOK (Source: BI)

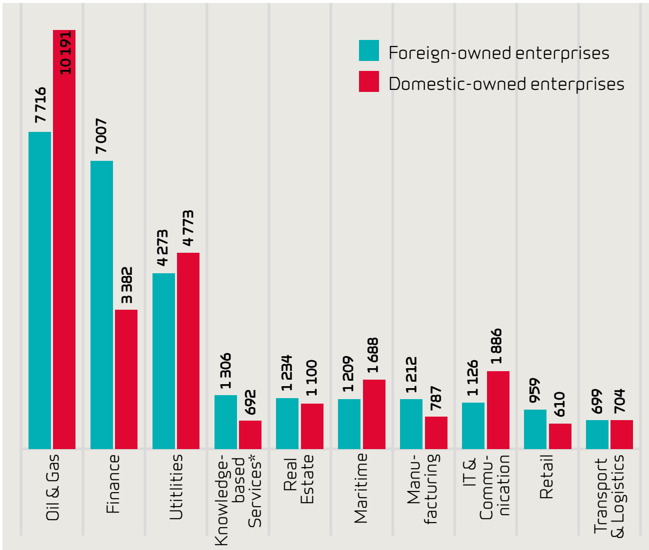

Fig. 7b: Average value creation per employee across industries in 1000 NOK (2008-2012) (Source: BI)
** Includes the Health (Biotech-Pharma) sector*

Tax Generated per Employee

Using the same per employee criteria, the tax created per employee by enterprises (both foreign and domestic) gives us an industry-wide picture as shown in Fig. 8. Within the two highest tax generating (per employee) sectors, domestic-owned enterprises seem to pay significantly more taxes than foreign-owned enterprises. Within the oil and gas sector, one explanation is the extent of special taxation warranted by the Petroleum Taxation Act. The oil and gas sector consists of operators (companies that own production licenses for oil and gas blocks) and suppliers (specialized contracting companies working for the operators, performing activities ranging from drilling to facility management). The Petroleum Act establishes a tax liability for "exploration for and exploitation of subsea petroleum deposits and connected activities and work, including pipeline transportation of produced petroleum" (www.regjeringen.no).

This tax is designed to secure the resource rent due to the Norwegian state and by design targets the holders of oil and gas licenses on the Norwegian continental shelf (i.e. the operators). Since most of the activities that incur this special tax are carried out by Norwegian companies, they naturally pay more taxes in comparison to foreign-owned entities.

When it comes to financial services, Norway has proven expertise in this industry, and Oslo is a popular financial cluster for the maritime and oil and gas industries. This explains the high tax contributions by domestic-owned entities.

INDUSTRY	FOREIGN-OWNED ENTERPRISES	DOMESTIC-OWNED ENTERPRISES
OIL & GAS	4 311	7 685
UTILITIES	878	2 269
FINANCE	868	652
IT & COMMUNICATION	306	217
KNOWLEDGE-BASED SERVICES*	184	36
MANUFACTURING	152	107
RETAIL	107	49
REAL ESTATE	104	104
MARITIME	88	87
TRANSPORT AND LOGISTICS	18	35

Fig. 8: Tax paid per employee in 1000 NOK (Source: BI)
** Including the Health (Biotech-Pharma) sector*

Fig. 9 and Fig. 10 show the tax paid, the value created and the ratio between these two parameters for both foreign-owned and domestic-owned entities across all industries. The ratio of tax generated to value created should be treated as an adjusted percentage tax (tax over value creation) rather than the conventional tax percentage (tax over EBIT). Value creation is the sum total of EBIT and payroll expenses, and it can be used to represent an industry more holistically than corporate income alone. It should be noted that both foreign and domestic-owned entities pay a similar percentage of tax (averaging about 30% of value created). This is expected, given that tax paid reflects the registered income of the company.

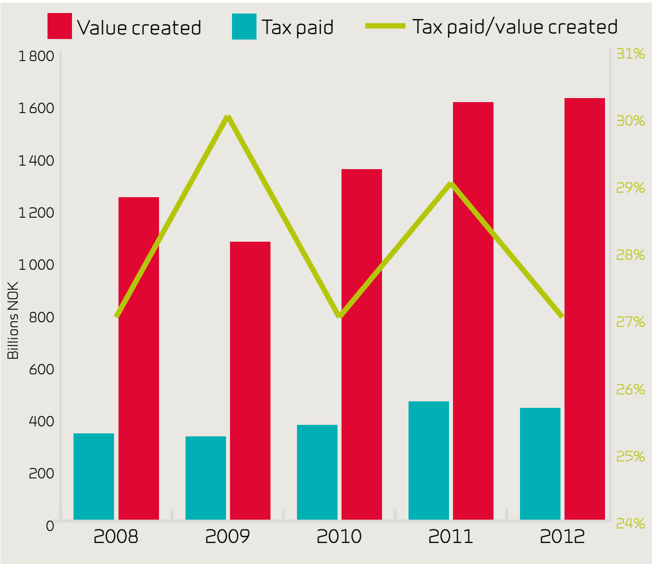

Fig. 9: Domestic-owned enterprises (Source: BI)

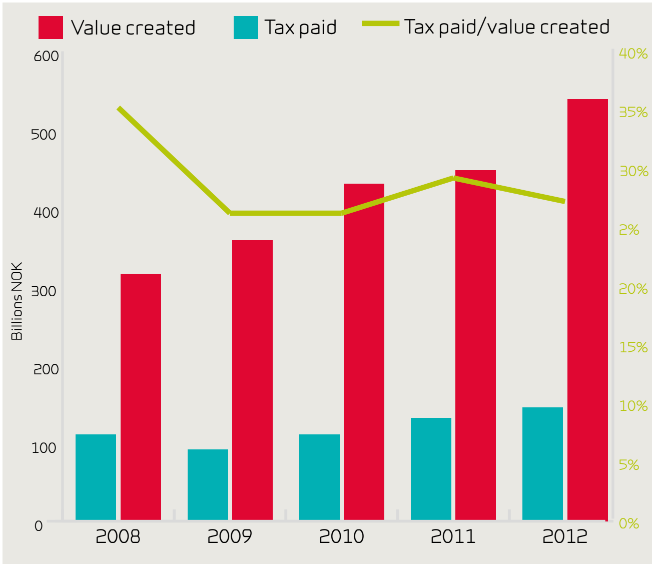

Fig. 10: Foreign-owned enterprises (Source: BI)

GENERAL ELECTRIC (GE)

GE operates in Norway chiefly within the healthcare and oil and gas business sectors. GE has actively employed acquisitions to expand into Norway. In 1998 they acquired the NTNU start-up Vingmed Sound, which produced Doppler instruments for cardiac imaging. GE acquired Norwegian-British Amersham Health in 2004 and established a broader footing in Norway within healthcare. Amersham Health was the result of a 1997 merger between Nygaard & Co and Amersham. GE has one of the largest production plants for contrast dye in the world, located in Lindesnes at Norway's southern tip. GE Healthcare today is a leading company in medical imaging, medical diagnostics, patient monitoring systems, drug discovery, and biopharmaceutical manufacturing technologies.

Within oil and gas, GE has about 750 employees and is headquartered in Sandvika, mostly catering to drilling and production. GE conducts its technology development in Trondheim, service and after sales in Stavanger, and its administration is spread across Norway's major cities. At present, GE continues to invest in the subsea subsector in Stavanger.

Conclusions

While much of the data presented within this report is summarized in tables and charts, the authors feel it pertinent to highlight the most important findings. *In absolute terms, we find that foreign-owned firms hire disproportionately more people, and contribute more in terms of revenue generation despite their small numbers in Norway.* This can largely be explained by recognizing that, generally, foreign enterprises in Norway are established corporations with stable operating models. The majority of Norwegian-owned enterprises, on the other hand, are private limited companies or sole proprietorships. What is more interesting, however, is the "complementarity" or "hedging" effect provided by foreign-owned and Norwegian-owned enterprises. *While the entire Norwegian economy declined in 2009, foreign-owned enterprises were still adding value at an annual growth rate of 14%. This "hedging" or "buffer" provided by foreign-owned enterprises during tough economic times is a crucial contribution to Norway's economy.*

The report also found that *foreign-owned enterprises added jobs at a faster rate within labor-intensive industries. Foreign-owned firms had almost double the value creation rate per employee compared to Norwegian-owned firms from 2008 to 2012, with an annual growth rate in value creation per employee of 62% and 26% respectively.* Some of these significant differences can be explained by the fact that the domestically-owned firms have a strong presence in low-productivity industries such as construction, tourism and other service industries. The proportion of foreign-owned entities operating within high-productivity (per-employee) industries is high, resulting in higher value creation per employee. However, these findings need further investigation.

While Norwegian-owned enterprises are highly-productive in industries such as oil and gas and maritime, there are industries like retail and finance where foreign-owned enterprises are adding more value than Norwegian-owned enterprises. *Based upon this, these are sectors in which Norway can expect future productivity spillovers that will strengthen overall productivity in the Norwegian economy.*

This report touched briefly upon the point of taxation, and in principle *there seems to be little difference between foreign ownership and Norwegian ownership in terms of taxes paid to the Norwegian state.* The differences that exist seem to have reasonable explanations.

The authors believe this report sheds light on the business activity of foreign-owned enterprises in contrast with Norwegian-owned enterprises. In this era of ever-increasing foreign investment into Norway, it is crucial for various stakeholders to understand the impact of globalization on Norway's society. This report also delves into industry differences which need further analysis.