II. Globally Engaged U.S. Companies Are Fundamentally American

U.S. companies with worldwide operations are fundamentally American companies. As a group, they have long performed large shares of America's productivity-enhancing activities — capital investment, R&D, and international trade — that create tens of millions of well-paying jobs. They foresee maintaining a major U.S. presence well into the future. This group, like much in America, is richly diverse in size, employment, industry and customers.

It is sometimes claimed that globally engaged U.S. companies — that is, companies in America that engage the world via connections such as international trade or international investment — retain little activity in America because they locate abroad most of their employment, capital investment and other key activities.

This claim is incorrect. In particular, both U.S.-headquartered multinational companies and foreign-headquartered multinational companies that operate in America are fundamentally American. They have long performed large shares of America's productivity-enhancing activities — capital investment, R&D, and international trade — that create tens of millions of well-paying jobs. And the global operations of U.S.-based multinationals are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates.

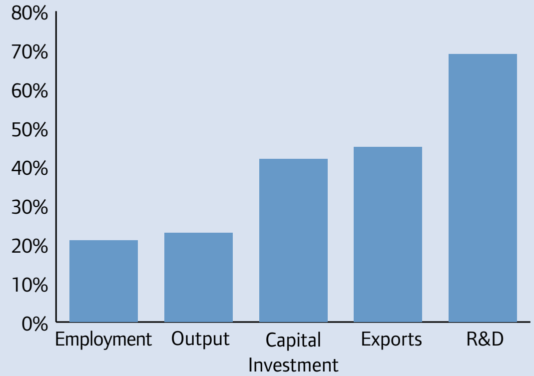
Globally engaged companies maintain a large presence in America, both relative to the overall U.S. economy and, for U.S.-based firms, relative to the size of their foreign affiliates. And within this set of companies there is rich diversity in their overall size, employment opportunities, industries of operation, and blend of customers here and abroad.

Globally Engaged U.S. Companies Are a Large Part of the Overall U.S. Economy

As a subset of globally engaged U.S. companies, U.S.-headquartered multinational companies perform large shares of America's productivity-enhancing activities — capital investment, R&D, and international trade — that create tens of millions of well-paying jobs for their American workers. Each year the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce conducts a survey that, by legal mandate, tracks all multinational companies headquartered in the United States — for each multinational both its U.S. "parent" operations and also the operations of each of its foreign affiliates (see Appendix for definitions and details). Figure 1 reports the share of important activities in the overall U.S. private sector accounted for by the U.S. parent operations of U.S.-headquartered multinationals in 2010, the most recent year of available data.[1]

Figure 1

U.S. Parents' Share of U.S. Private Sector, 2010



The parent operations of U.S.-based multinationals perform large shares of America's innovative activities that lead to millions of high-paying American jobs and support overall growth.

- **Output:** Parent companies produced 23.0 percent of all private-sector output (measured in terms of GDP) — nearly $2.9 trillion.

- **Capital Investment:** Parent companies purchased $438.8 billion in new property, plant and equipment — 42.3 percent of all private-sector capital investment.

- **Exports:** Parent companies exported $573.3 billion of goods to the rest of the world. This constituted 44.8 percent of the U.S. total.

- **R&D:** To discover new products and processes, parent companies performed $212.5 billion of R&D. This was approximately 68.8 percent of the total R&D performed by all U.S. companies.

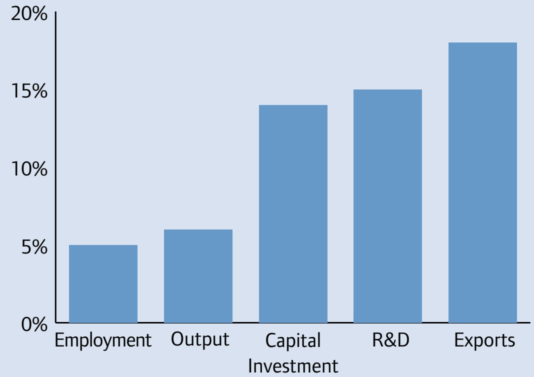
All these innovative activities contribute to millions of well-paying jobs in America. In 2010, U.S. parent companies employed more than 22.8 million U.S. workers, 20.5 percent of total private-sector payroll employment. Of these jobs, 30.3 percent — more than 6.9 million — were in manufacturing, far higher than manufacturing's 10.7 percent share of all jobs in the overall U.S. private sector today. Total compensation at U.S. parent companies exceeded $1.6 trillion — a per-worker average of $70,682, about a third above the average for the rest of the private sector.

Moreover, the important contribution of U.S. parent operations to the overall U.S. economy has been quite stable for decades. In 1988, for example, U.S. parents' capital investment and R&D spending were 31.4 percent and 72.5 percent, respectively, of the economywide private-sector totals — very close to the 2010 shares. This stability over time demonstrates their ongoing contributions to the overall U.S. economy.

The other important subset of globally engaged U.S. companies operating in America is the U.S. affiliates of foreign-headquartered multinational companies (see Appendix for exact definitions and details). Like the U.S. parents of U.S.-based multinationals, the U.S. affiliates of foreign-based multinationals perform large shares of America's productivity-enhancing activities — capital investment, R&D, and international trade — that create millions of jobs and high average compensation for their American workers. Figure 2 reports their share of important activities in the overall U.S. private sector accounted for in 2010, the most recent year of available data.[2]

Figure 2

U.S. Affiliates' Share of U.S. Private Sector, 2010



U.S. affiliates of foreign-based multinationals perform large shares of America's innovative activities that lead to millions of high-paying American jobs and support overall growth.

- **Output:** U.S. affiliates produced 5.8 percent of all private-sector output (measured in terms of GDP) — $649.3 billion.
- **Capital Investment:** U.S. affiliates purchased $149.0 billion in new property, plant and equipment — 14.4 percent of all private-sector capital investment.
- **R&D:** To discover new products and processes, U.S. affiliates performed $41.3 billion of R&D. This was approximately 15.3 percent of the total R&D performed by all U.S. companies.
- **Exports:** U.S. affiliates exported $229.3 billion of goods to the rest of the world. This constituted 17.9 percent of the U.S. total.

All these innovative activities contribute to millions of well-paying jobs in America. In 2010, these U.S. affiliates employed nearly 5.3 million U.S. workers, 4.7 percent of total private-sector payroll employment. Their total compensation was $408.0 billion — a per-worker average of $77,409, more than a third above the average for the rest of the private sector. Of these jobs, 37.7 percent — nearly 2.0 million — were in manufacturing, far higher than manufacturing's 10.7 percent share of all jobs in the overall U.S. private sector today.

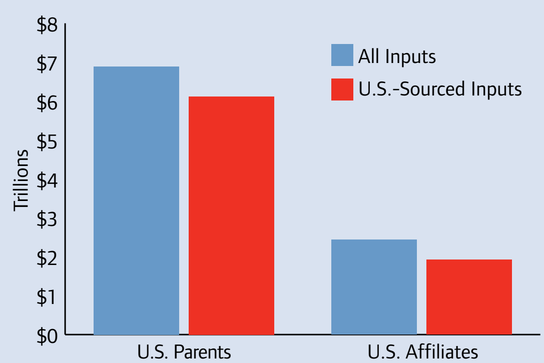
Globally Engaged U.S. Companies Do Substantial Business with Domestic Companies in America

Multinational companies also contribute to the U.S. economy through their interactions with domestic U.S. firms and, more broadly, with schools and many other American institutions that foster skills, jobs and overall productivity. The performance of domestic companies is enhanced by exposure to new techniques and practices of multinational companies, as an important part of the broader gains they realize from access to the global marketplace. The scope for these links from multinational companies to other domestic companies is very large. In particular, to make competitive goods and services, successful global companies rely on a wide range of intermediate inputs — i.e., of goods and services made by other companies and purchased for use by their own workers.

Just how much business is this for domestic companies supplying these American worldwide companies? Figure 3 answers this important question. For both U.S. parents of U.S.-based multinationals and the U.S. affiliates of foreign-based multinationals, it reports both the dollar value of all inputs purchased and also the dollar value of all inputs purchased from other U.S. companies (rather than from companies abroad). All data are for 2010, the most recent year available.[3]

Figure 3

Intermediate-Input Purchases, 2010



One striking fact of Figure 3 is the massive quantity of intermediate inputs purchased by these two groups of worldwide companies in America: nearly $6.9 trillion for U.S. parent companies and more than $2.4 trillion for U.S. affiliate companies — more than $9.3 trillion total. And an equally striking fact is that the large majority of these inputs are purchased from other American companies, not from companies abroad. U.S. parent companies bought 88.9 percent — more than $6.1 trillion — of their inputs from other companies in the United States; U.S. affiliate companies bought 78.7 percent — more than $1.9 trillion — of their inputs from other companies in the United States. Moreover, as Section V discusses, the typical U.S. multinational buys more than $3 billion in inputs (goods and services) from more than 6,000 American small businesses, which is more than 24 percent of its total input purchases.

Out of every dollar spent by parent and affiliate companies on intermediate inputs, about 89 cents and 79 cents, respectively, is paid to other companies in the United States — not to companies abroad. And this heavy reliance on domestic suppliers has been quite stable for decades: In 1977, U.S. parents purchased 91.3 percent of their inputs from other companies in the United States.

Beyond sales, suppliers to globally engaged companies often gain a wealth of knowledge about technology, management and many other productivity-leading practices through formal and informal channels. Indeed, these connections can be critical for suppliers' long-term success.

The bottom line is that multinational companies have long played a substantial role in the U.S. economy. They employ tens of millions, invest hundreds of billions of dollars in R&D and capital, and buy from vendors and ultimately produce trillions of dollars in goods and services.

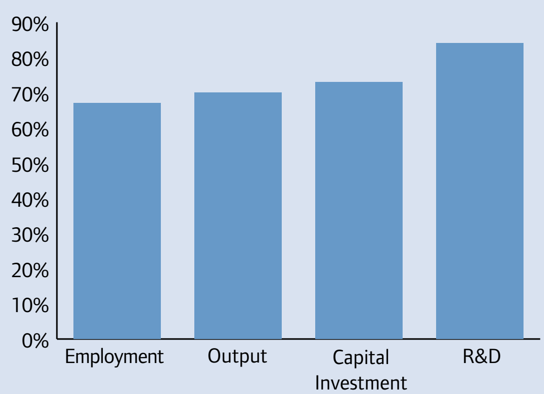
The case study on page 14 highlights how globally engaged U.S. companies partner with smaller U.S. companies to innovate — to the benefit of all involved.

The United States Remains the Anchor for U.S.-Based Multinational Companies

What about the magnitude of U.S. parent activities relative to the scale of their foreign affiliates? Figure 4 reports the share of U.S. multinationals' 2010 worldwide employment, output, capital investment, and R&D that was accounted for by their U.S. parent operations.[4]

Figure 4

U.S. Parents' Share of Worldwide Activity, 2010



CASE STUDY: ExxonMobil and Lokring Technology

Global companies do substantial business with and create jobs in America in other companies as well as in their own. In particular, they create jobs in small and medium-sized enterprises (SMEs) within their global supply networks. Many SMEs thrive because their partnership with large global companies in America allows them to reach new customers in international markets, boost their revenue, and generate new ideas and best practices that enhance their competitiveness. A concrete example of the two-way benefits of such partnerships is ExxonMobil's commitment to finding technical solutions to its global business challenges through mutually beneficial partnerships with key suppliers like Lokring Technology, which employs just under 100 workers at its Cleveland, OH, headquarters.

ExxonMobil plays a leading role in providing the energy the world needs for economic growth and well-being. This role is clearly reflected in its 2011 revenues of $486.4 billion and in its 82,100 employees across dozens of countries. Integral to ExxonMobil's success is continually seeking new ideas and business solutions through innovation incubators such as its Maintenance Efficiency Venture (MEV), which was created in 2005 to evaluate new technologies in the market and identify products from suppliers that could improve efficiency and lower operating costs in its 37 worldwide sites for refining and chemical manufacturing.

In 2007, MEV was examining options for piping in these 37 sites. Refining and chemical sites regularly need to have pipes installed, repaired and replaced due to new construction, modification or corrosion. The longstanding approach for such work — "hot-work" welding — carries several important challenges. First and most important is safety: The heat of welding must be carefully managed to minimize the risks of injury, fire or explosion. The second is efficiency: Welders worldwide are in dwindling supply (in many countries the average age of welders now exceeds 55), and thus costs were quickly rising. Third is productivity: Plant up-time is critical, and pipe-work installation can cause delays.

As an alternative to hot-work welding, in 2007 MEV identified a pipe-fitting technology made by Lokring Technology, an ISO-9001-certified firm that, since the late 1980s, has been designing and manufacturing patented technologies for fluid and gas piping for a wide range of industries, including marine, refining, petrochemicals, and offshore oil and gas. At the time Lokring was already a supplier to ExxonMobil. This relationship deepened with the MEV decision to support use of Lokring's pipe-fitting technology, which requires no heat, is quick to install and can be used by properly trained technicians without any welding experience. The gains have been large: productivity and overall cost savings of about two-thirds in many settings and much lower safety risks thanks to no hot work.

This expanded partnership has benefited both companies: for ExxonMobil a safer, less-expensive technology for its facilities worldwide and for Lokring not just more business but also enhanced learning about and access to foreign markets. Indeed, one of the largest benefits has been ExxonMobil supporting Lokring's entry into new countries. Japan is one prominent example, where prior to the MEV partnership Lokring had no presence. MEV worked with Lokring to meet Japanese piping specifications to use Lokring product in ExxonMobil's Japanese facilities. In addition, ExxonMobil's Japanese subsidiaries drove Lokring to establish in-country distribution channels to service new customers in additional industries. Lokring President William H. Lennon says, "Our ExxonMobil partnership has been a catalyst for our international expansion. There is no doubt that this partnership allowed us to enter the Japanese market years earlier — and much stronger — than we would have if entering on our own. Our global expansion has created jobs in these countries and in Ohio as well."

The key message of Figure 4 is that the worldwide operations of U.S. multinational companies are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates.

- **Employment:** U.S. parents account for 67.3 percent of worldwide employment of U.S. multinationals — 22.8 million parent workers versus 11.1 million at foreign affiliates. This translates into a ratio of about 2.1 U.S. employees for every one foreign affiliate employee.

- **Output:** U.S. parents account for 69.9 percent of worldwide output (in terms of value added) of U.S. multinationals — nearly $2.9 trillion versus about $1.2 trillion by their foreign affiliates.

- **Capital Investment:** U.S. parents undertake 72.5 percent of worldwide capital investment by U.S. multinationals — $438.3 billion versus $166.3 billion by their foreign affiliates. For every $1 in foreign affiliate capital expenditures, parents invested $2.64 worth in the United States.

- **R&D:** U.S. parents perform 84.3 percent of worldwide R&D by U.S. multinationals — $212.5 billion versus $39.5 billion or $5.38 in parent knowledge discovery for every $1 by foreign affiliates.

The United States, not abroad, is where U.S. multinationals perform the large majority of their operations. Indeed, this U.S. concentration is especially pronounced for capital spending and R&D, which reflects America's underlying strengths of skilled workers and legal protections such as intellectual-property rights that together, as Section IV discusses, induce global supply networks to concentrate in America tasks that are intensive in human and physical capital.

This much larger scale of U.S. parents than foreign affiliates has been present for decades. A generation ago, the share of U.S. parents in the worldwide activity of U.S. multinationals was slightly higher. In 1988, U.S. parents accounted for 78.8 percent of U.S. multinationals' worldwide employment and 79.2 percent of their worldwide capital investment. So over the past generation, the foreign-affiliate shares of employment and investment have risen by about 0.5 percentage points per year. As this report will document, however, this rise has been driven mainly by ongoing expansion of parents that was outpaced by even faster expansion of affiliates, not by parent contraction. Faster affiliate expansion, in turn, has been driven mainly by faster economic growth abroad and thus, as Section III discusses, faster growth in customers there.

The bottom line is that the United States firmly remains where U.S.-based multinational companies locate the majority of their global operations.

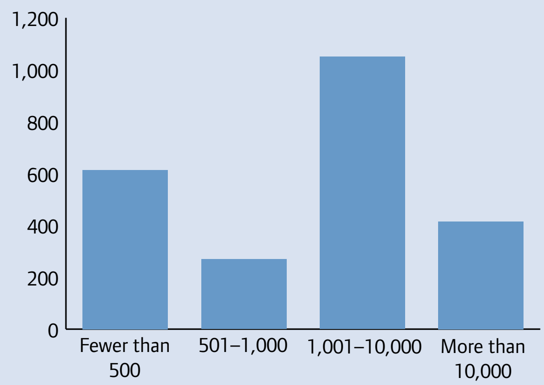
Globally Engaged U.S. Companies Are Richly Diverse in Size and Industry

As with much in America, within the group of American companies with worldwide operations there is rich diversity in their overall size, industries of operation, and relative reliance on customers here and abroad.

Clear evidence of this diversity in terms of size is well demonstrated by U.S.-based multinational companies. By virtue of having operations outside America, in scope and in aspiration all these multinationals are expansive. Yet there are striking differences in their size in terms of common metrics such as employment and sales. Figure 5 documents this wide range: For the most recent year of data available, 2009, it splits the 2,347 U.S.-based multinational companies into four groups measured by the number of U.S.-parent employees.[5]

Figure 5

Number of U.S. Parents by Employment, 2009

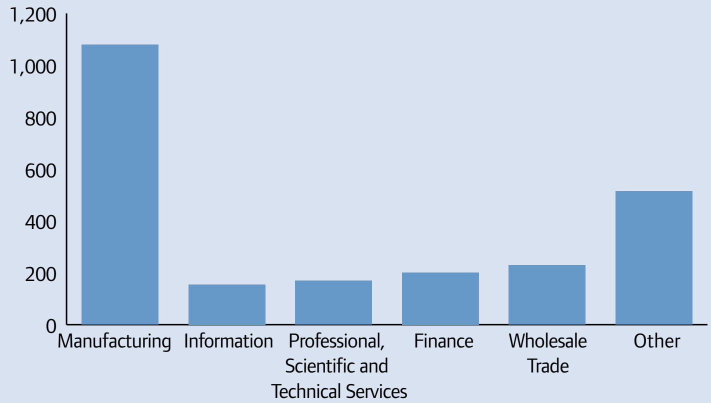


At the one end of the spectrum, 415 companies each employ more than 10,000 people in America — indeed, an average of 43,630 workers each. At the other end of the spectrum, nearly 50 percent more multinationals, 613, each employ fewer than 500 people in America — and thus, as this report later discusses, fit the U.S. government definition of being a small or medium-sized enterprise (SME). Many of these SME multinationals are likely dynamic, fast-growth companies that were recently "born" into the group of U.S.-based multinationals by establishing their first foreign affiliate. Many of America's largest and most successful companies today once started small, with the quintessential person pursuing a dream from a garage or dorm room. The fact that today 26.1 percent of U.S. multinationals are SMEs speaks to how diverse these important companies truly are.

Another measure of the rich diversity among American companies with worldwide operations is their primary industry of operation. For the most recent year of data available, 2009, Figure 6 splits the 2,347 U.S.-based multinational companies into six broad industry categories, with each parent company classified into its primary industry.[6]

Figure 6

Number of U.S. Parents by Employment, 2009



Less than half (46.0 percent) of all parents operate in manufacturing as their main industry. The majority are spread across a variety of services and other sectors: information (6.6 percent); professional, scientific and technical services (7.2 percent); finance (8.6 percent); wholesale trade (9.8 percent); and all other industries (21.9 percent), which includes sectors such as mining, retail trade and utilities. And over time the share of U.S. multinationals in manufacturing has been falling: It was 50.9 percent in 1999. As discussed in the following section, this rising importance of services in multinationals reflects both demand growth abroad and global supply networks that increasingly span all industries.

Among Globally Engaged U.S. Companies, There Is Striking Diversity in Their Markets and Customers

To provide further insight into how successful companies in America are fundamentally American yet also richly diverse, this report surveyed the members of Business Roundtable and the United States Council for International Business. Each member company was asked a set of three questions about the relative importance of its U.S. and global customers.

The 121 companies that at least partly responded to this survey together account for about 5.2 percent of the 2,347 U.S.-based multinationals tabulated by the BEA in 2009. However, the approximately $4.3 trillion in 2011 global revenue earned by these responding companies accounts for well over a third of the total revenue earned by all U.S. multinationals today. Moreover, responding companies span a broad range of industries such as manufacturing, information technology (IT), telecommunications, finance, retail, transportation and health care. The combination of the size and industry breadth of these 121 responding companies suggests that their collective responses are reasonably representative of global companies operating in America.

Question 1 documents how important the United States remains to worldwide companies, even as many of them also depend on markets abroad. Here is the question along with its average response (i.e., mean response — the median response is nearly identical).

1. In 2011, what was the split of your company's global revenues between sales to U.S. customers and sales to customers in the rest of the world?

	United States	Rest of World
Average Response	59.6%	40.4%

Yes, world markets matter for these companies, as Section III discusses, but for the typical large company in America the majority of its revenues still come from U.S. customers. Within this average lies a wide range of sales mixes. Eighteen of the 121 companies, or 14.9 percent, derive at least 90 percent of their global revenues from the United States. Seventy-eight of the 121, or 64.5 percent, derive at least 50 percent of their global revenues from the United States. And another 18 of the 121, or another 14.9 percent, derive less than one-third of their global revenues from the United States.

Question 2 further documents the continued importance of the United States to worldwide companies — as well as the growing significance of global markets for them. Here is the question along with its average response for each of five years (i.e., mean responses — median responses are nearly identical).

2. In recent years, what have been the average annual rates of growth for your company's U.S. revenues and its non-U.S. revenues?

	United States	Rest of World
2011	9.4%	16.3%
2010	9.4%	14.1%
2009	-7.2%	-8.7%
2008	6.7%	18.8%
2007	8.5%	31.6%

In all recent years except during the depth of the world financial crisis in 2009, these companies' average revenues were still growing in the United States. Yes, on average growth abroad was faster in these four other years, a development examined in Section III. Yet looking beyond these averages at individual companies again reveals a wide range of experiences. The share of companies reporting faster growth abroad than in the United States was 81.8 percent in 2011, 78.2 percent in 2010, 57.0 percent in 2009, 82.3 percent in 2008 and a remarkable 91.2 percent in 2007.

The third and final question of this survey asked companies where they foresee future growth. The replies further demonstrate that the United States remains an important market to these companies but also that other world markets are growing more important.

3. Over the next 5–10 years, which three countries do you think will generate the most revenue growth for your company (in terms of dollars, not percentage)?

A striking 82.5 percent of companies responding to this question — 94 of 114 — listed the United States as one of their three largest revenue-growth markets over the next several years. Indeed, a remarkable 80 of the 114 — fully 70.2 percent — forecast that the United States will be the country generating the most revenue growth over the next several years. For so many of these companies, their success will still partly depend on meeting the needs of their American customers.

At the same time, so many of these companies' success will increasingly depend on engaging the world and its rich array of customers abroad. Seven other countries were cited as the largest growth country — including 20 companies forecasting that their biggest revenue gains will come from China. Twenty-three distinct countries were forecast to provide the second-largest revenue gains in the future. China was cited most (by 35 companies), followed by Brazil (17 companies) and India, Canada and the United States (8 companies each). And 24 distinct countries were forecast to provide the third-largest revenue gains in the future. Brazil was cited most (by 18 companies), followed by China (14 companies) and India (13 companies). Reflecting the rich diversity of global strategies for these 114 reporting companies, a total of 31 distinct countries spanning all six inhabited continents were listed in reply to this question.

CENTRAL MESSAGE OF SECTION II: *Globally engaged U.S. companies are in many ways fundamentally American companies. They have long performed large shares of America's productivity-enhancing activities that create tens of millions of well-paying jobs. They foresee maintaining a major U.S. presence well into the future. And within this group, they are richly diverse in size, industry and customers. For all these companies, however, successful engagement in America increasingly requires them to also be dynamically engaged with the world — for demand growth, supply networks and ideas that shape all their operations. Sections III and IV examine the many ways in which it is essential for these companies, from their strong foundation in America, to also be global.*