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The role of the Statistical Business Register in the modernisation of the statistical production and services.

The European profiling of multinational enterprise groups: a crucial tool in the current European developments on statistical units to improve national and European business statistics

Note by Eurostat

Summary

Since 2009, a group of European countries (ESSnet) has been entitled by Eurostat to develop and test a methodology, called profiling, to define enterprises in the context of multinational enterprise groups. Eurostat is now considering to generalise this methodology to all the EU+EFTA countries and to make available the results of profiling to the business statisticians for national uses. Indeed, profiling is not seen as an activity per se, but as a crucial tool in the context of globalisation and which is going hand in hand with the revised statistical units. It should help the users in defining the appropriate statistical units to be followed in business statistics.

Profiling is also intended to be a tool to build European business statistics and improve consistency of national business statistics in the EU. Profiling relies on cooperation between Member States and with the multinational enterprise groups. It will create the conditions of a new way of working together in the NSIs. In a first part, this paper will remind the profiling principles, present the type of information collected through profiling and propose an organisation of the process at the European level. The second part will develop the consequences of European profiling on national business registers and its benefits for business statistics.

I. Introduction

1. In the frame of the MEETS programme (Modernisation of European Enterprise and Trade Statistics)¹, Eurostat launched several actions amongst which one acknowledged the need to develop statistics that take into account the globalisation of the economy and another one focused on finding ways of improving the consistency of statistics in Europe. The two ESSnets (networks of European countries) created for these purposes ended up with the same conclusion that there was a need to change the definition of the enterprise.
2. The ESSnet on profiling was entrusted by Eurostat to develop, test and implement a common methodology for the delineation of statistical units (the initial step of profiling) in large and complex multinational enterprise groups.
3. The ESSnet on consistency of concepts and applied methods of business and trade-related statistics has devoted its first work package to the issues raised by the present use of statistical units. Based on and taking care of a preliminary study on inconsistencies between legal acts² the ESSnet Consistency explored more practically their application in different statistical domains and in or between the Member States.
4. As the two ESSnets are now close to providing their last conclusions³, Eurostat started a process of revising the Council Regulation 696/93 on statistical units in which the proposal of a new definition of the enterprise plays a central role. The definition of the enterprise is not yet finalised, but the most important principles are set up. A major difference with the previous definition is that implementation rules will come along with the definition.
5. European profiling offers these implementation rules for the delineation of enterprises that belong to large and complex multinational enterprise groups.
6. This paper presents in its first part the new features of the definition of enterprise and how profiling fits in this new definition. It also sketches the impact of this new definition on the data collection.
7. The second part of the paper focuses on the profiling methodology and the organisation that needs to be set up at the Eurostat level in order to ensure the success of implementation in all the NSIs.

II. The European profiling in the implementation of a new definition of enterprise

A. The new definition of enterprise takes into account the global dimension of the economy

8. The proposed definition of enterprise should answer to two main concerns of the current definition: the current enterprise has been defined at a time where the economies

¹ Decision No 1297/2008/EC of the European Parliament and of the Council of 16 December 2008 on a Programme for the Modernisation of European Enterprise and Trade Statistics (MEETS).

² Richter/ Engelage/ Thomas: External Study on the detailed evaluation of the legal acts in the areas of statistics which were identified by Member States as areas to revision; Luxembourg 2010.

³ The ESSnet consistency, WP1, has already delivered the final proposal for a revision of the Statistical Units Regulation, and the work is finished. The report is publicly available on the CROS-portal at the following address: <http://www.cros-portal.eu/content/deliverable-53-part-1-definition-statistical-unit-enterprise>.

were not as globalised as they are now and it was not accompanied with guidelines to help the countries in its implementation. As a result, it is not homogeneously applied in the different member states, which creates inconsistency in the business statistics across Europe.

9. As a matter of fact, most European countries use the legal unit in place of the enterprise, as it is an easy solution and allows the use of administrative data. This approximation was acceptable when the enterprises were not organised in complex clusters of legal structures. However, along the time, together with the globalisation of the economy and the creation of large and complex enterprise groups, the operational structures of businesses deviate from the legal structures more and more frequently. In particular inside the European Union enterprises no longer see national borders as a limitation of their structures; they organise themselves globally. The use of the legal unit to follow the activity of the enterprise becomes less and less relevant and impacts the overall quality of business statistics (impact on relevance, accuracy and consistency).

10. The new proposed definition of the enterprise, that is not yet finalised, was presented in several working groups in Eurostat (BR working group, SBS steering group, FATS working group, business demography working group, BSDG...) and is now discussed in the frame of a specific task force. The following definition has been proposed by the ESSnet consistency in co-operation with the ESSnet on profiling:

The **enterprise** is an organisational market oriented unit which benefits from a sufficient degree of autonomy in decision-making. An enterprise carries out one or more activities at one or more locations. Meaningful data for statistics can be provided for this unit.

The enterprise can correspond either to

- a single legal unit not controlled by any other legal entity = independent legal unit, or
- an enterprise group as a set of legal units under common control, or
- an autonomous part of a an enterprise group.

Organisational means: For the economic activity in which the enterprise is engaged, a planned and formal structure is identified. This structure is able to govern the whole production processes managing the whole productive means.

Market-oriented means: The enterprise sells in its own will goods and services to an independent buyer and the exchanges are made on the basis of commercial consideration only, called at “arm’s length” (at economically significant prices). If not all of the exchanges are made at arm’s length, the 50% criterion has to be used: the unit is market oriented if more than 50% of its total cost is covered by exchanges made at arm’s length.

Sufficient autonomy in decision-making means: The enterprise has the control of the use (may not be the owner from a legal point of view) of nearly the whole productive means, processes and outputs of the economic activities in which it is engaged.

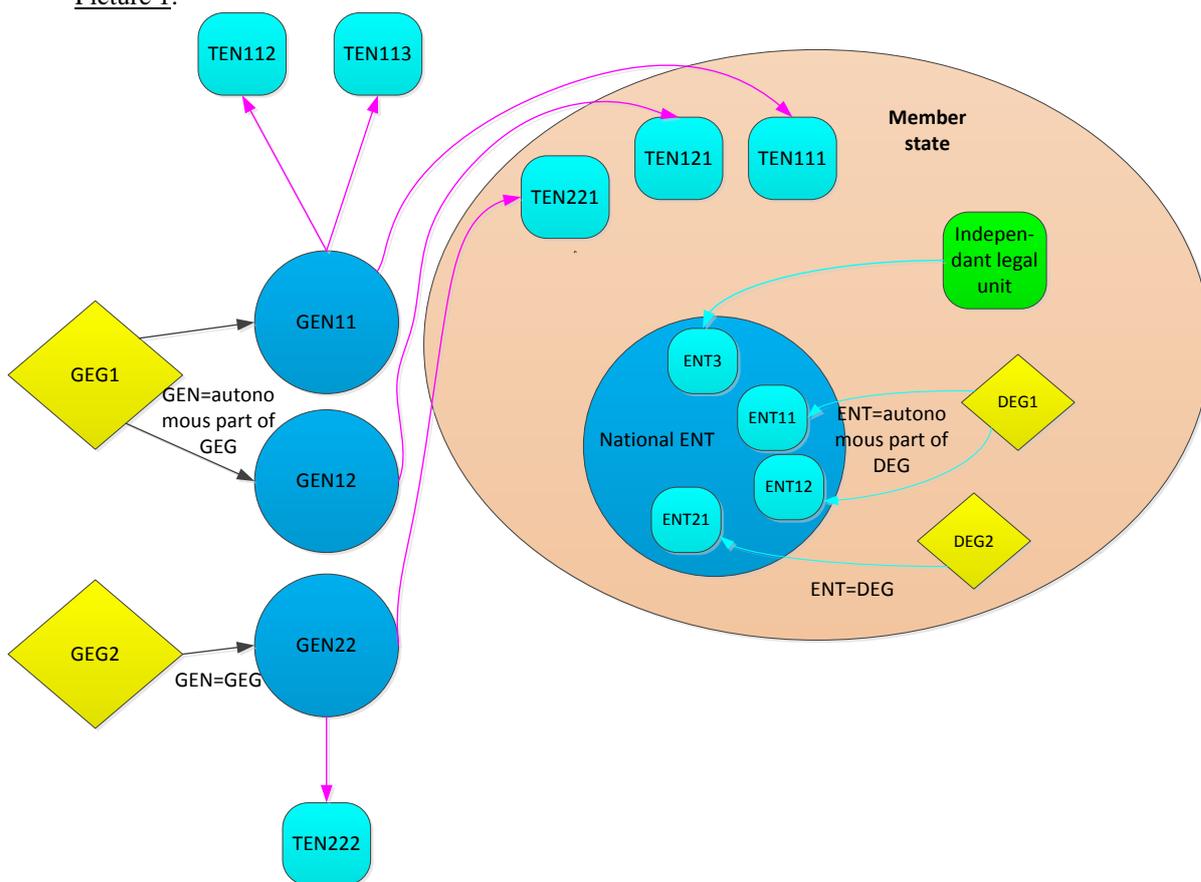
11. In addition to the guidelines for implementing the definition, the main point of this new definition is that the enterprises are not defined in the frame of geographical boundaries. In the case of multinational enterprise groups, the autonomy of decision cannot be found in the restricted geographical area of a country, but at a higher level. In practice, the delineation of the enterprises is performed according to a top-down approach (rather than, up to now, a bottom-up approach) which allows the delineation of two geographical

levels of enterprises: the **global enterprise** which is defined irrespective of national boundaries and the **truncated enterprise** which is the national part of the global enterprise. The truncated enterprise will be the basis of national business statistics, even if it does not necessarily fulfil the criteria of autonomy of decision-making and market orientation.

B. Illustration of the new definition and its implications in the business statistics

12. The revised definition of enterprise can be concretised according to the following picture.

Picture 1:



13. The different types⁴ of enterprises that are active in a country and need to be taken into account while compiling business statistics from a national point of view are: the national enterprises (national ENTs) and the national parts of global enterprises (so called truncated enterprises or TENs). National ENTs can be independent legal units, domestic enterprise groups (DEGs), which are groups of resident legal units, or an autonomous part of a DEG.

14. In any case, the enterprises should be delineated keeping in mind their suitability for data collection and their relevance as basis for business statistics. The new model of statistical units “enterprises” takes into consideration this concern and proposes a bi-

⁴ The “types” refer to categories easy to use for statistical collection. They have no particular economic significance.

dimension approach: delineation and data collection which are closely related. This approach is relevant especially when delineating enterprises in the frame of groups (domestic or multinational). Indeed, in such cases, data related to the enterprise (national ENT or TEN) cannot usually be observed directly for example from administrative files but need to be derived from the legal units by consolidating information collected at their level or gathered by specific direct collection.

C. The role of profiling in this new definition

15. European profiling is intended to play a major role in the delineation of enterprises that belong to global enterprise groups.

16. The profiling is defined in the Eurostat Business Registers Recommendations Manual as: “a method to analyse the legal, operational and accounting structure of an enterprise group at national and world level, in order to establish the statistical units within that group, their links, and the most efficient structures for the collection of statistical data” (annex 3.1, paragraph 19.9).

17. The ESSnet on profiling proposes to operationalize the definition according to two main options:

(a) According to the first option the ESSnet on profiling proposes to centrally delineate the enterprises (GENs and TENs) and defines 2 main actors of this process in the NSIs: the H-O NSI (Head-Office NSI) and the partnering NSIs. The H-O NSI is the NSI in the country where the group has its strategic decision centre (called in this paper Head-Office, but also known as headquarter). It has the role of delineating the GENs and collecting data at the GENs' level. The TENs are de facto defined as national part of GENs. The partnering NSIs are the NSI in the countries where the GEG has an economic activity. They have the responsibility of checking the suitability of the TEN for data collection and statistical purposes. Thus, at the end of profiling, it should be assessed how the data on the TEN will be gathered. However, the data collection for the TENs is of the responsibility of the NSIs and can be done or by the profiling team or by the statistical users (SBS, STS, FATS).

(b) In the second option, the H-O NSI not only delineates the GENs and TENS, but also centrally collects the data on GENs and TENs (especially for SBS⁵ purposes). The partnering NSIs have then to integrate these data in their national statistics.

18. In both options, the success of profiling relies on a good collaboration of the GEG (and its representatives in the Head-Office) and a close cooperation between the partnering countries and the H-O NSI.

19. The methodology of European profiling applies without any difficulty to domestic groups that have a complex economic structure (they are performing several economic activities); it is only simpler to operationalize as only one country is involved. The profiling of domestic groups includes the same 2 steps: delineation and check of the suitability of the defined enterprises for data collection. If the DEG accepts to collaborate with the NSIs, the direct collection of data at the level of the head office will be easier than the compilation of existing administrative data at the level of the legal units.

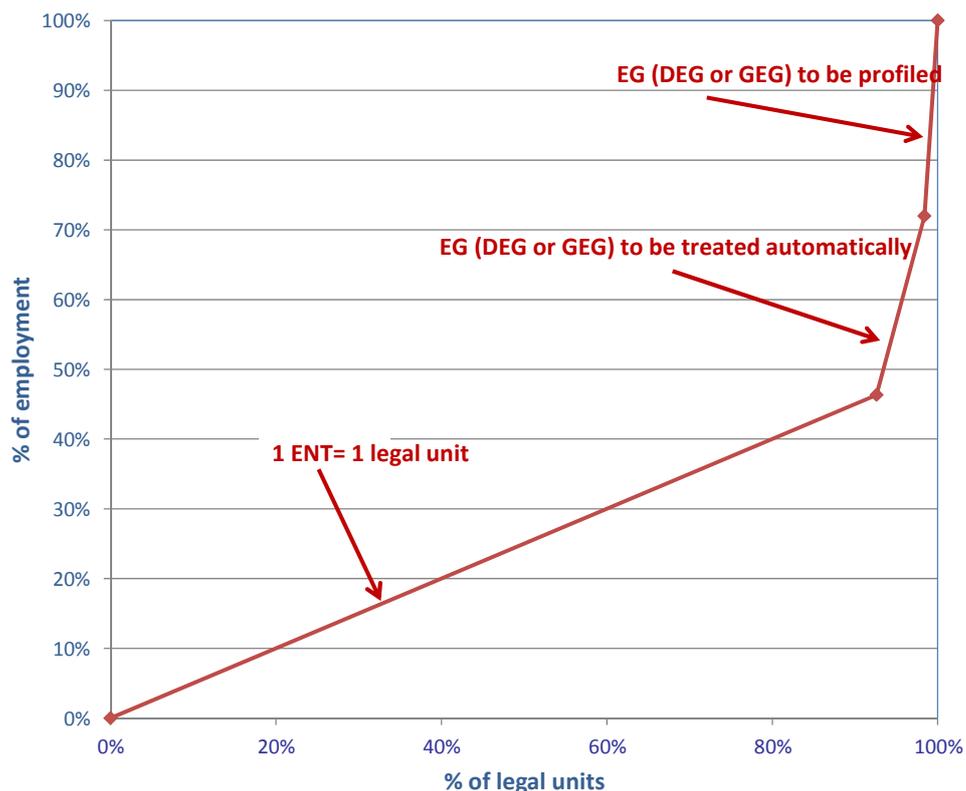
20. Profiling is not recommended for simple or small groups (DEG or GEG) in which only one enterprise can be delineated (GEN or national ENT). In such cases, automatic procedures will be favoured, with the concern of consolidating non-additive variables.

⁵ This process is already used in some countries for OFATS collection.

21. The following picture shows the respective weight of each treatment in the delineation of European enterprise. It is the result of an estimation that needs to be confirmed. However, it already shows that the treatment of GEG via automatic procedures or profiling will concern a very limited number of cases (7% of the legal units belong to DEG or GEG), but allows to improve the quality of the economic data for more than 50% of the employment (see more detailed results in annex 1).

Graph1

Delineation of the statistical units “enterprises”: concentration curve according to the types of treatment required (estimation)



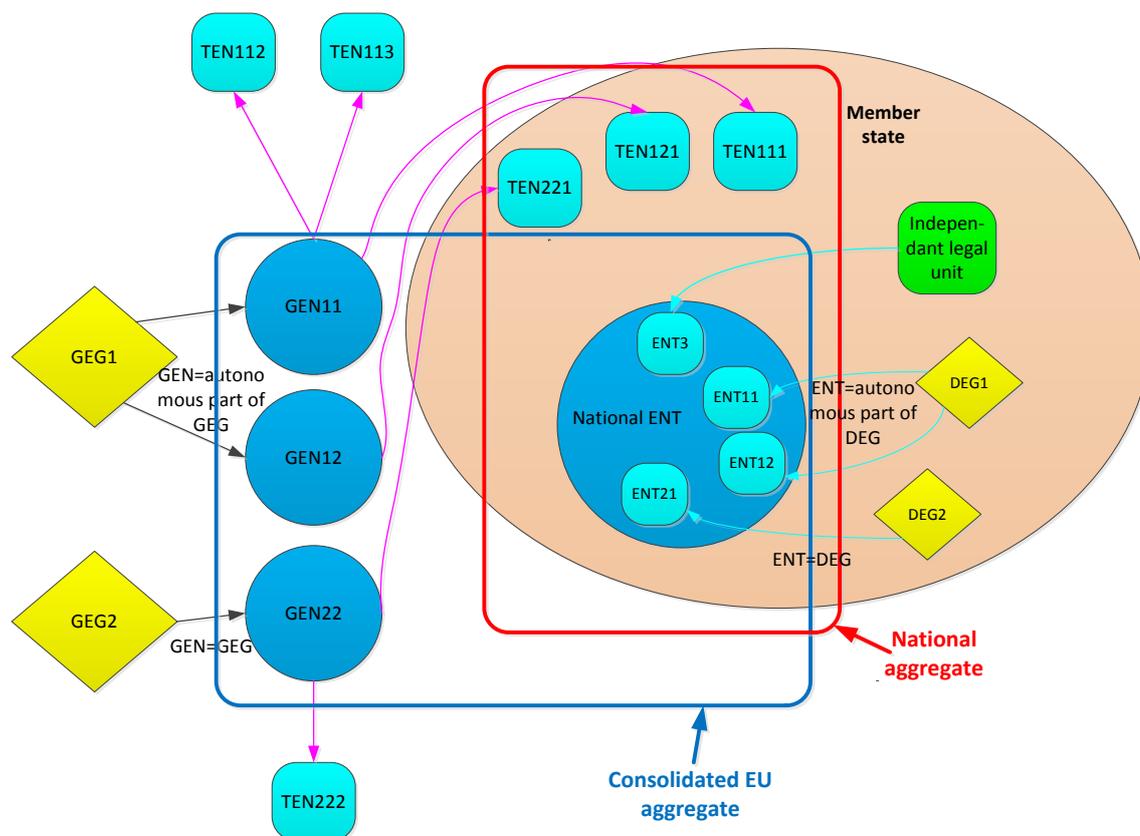
D. National versus EU statistics

22. The new model of statistical units envisages three geographical levels: the global, the EU and the national level. The model aims at building a bridge between the perception the GEG has of its activity (which is global) and the national and EU statistical data needs.

23. Statistical needs exist at both EU and national level. However, the impact of profiling will be effective in a first time in the national statistics. The application of European profiling to compute EU aggregate remains a long term objective for Eurostat.

24. The following picture builds upon picture 1 to which now the information needs for EU-aggregates to properly reflect globalised enterprise activities have been added.

Picture 2:



25. At the national level, European profiling will allow a consistent treatment of the TENs in all the countries where the GEG is active. The intra-TEN flows should be removed from the national statistics in order to avoid double counting of non-additive variables (turnover, production value, purchases, etc.). The NACE code of the TEN should better reflect the activity of the GEG but it might cause breaks in the series by activity. The “support” activities that are performed internally for the benefit of the subsidiaries (administration, management of workforce, R&D, transport, accounting...) will not be represented as they should disappear in the consolidation.

26. European figures directly built using centrally collected information would also benefit of a consolidated view as data would be more accurate than by simply adding up national data. This would have consequences on the consistency between the EU view and the sum of the national views. Indeed, intra-GEG transactions should be removed from the EU figures. Another potential difference between EU figures and the aggregation of national figures can arise in the compilation of figures by NACE. At each geographical level defined in a GEN, the NACE code attributed to the ENTs (TENs or EU ENTs) should reflect the activity performed in the TEN or at EU level. Thus, it may differ from the one attributed to the GEN.

III. The European profiling: a European strategy to be implemented

A. Profiling is a collaborative process

27. The methodology of European profiling proposed by the ESSnet has been designed as a collaborative process and its success depends on the willingness of all the players/stakeholders to take part to it.

28. The profiling process is an iterative process that starts in the country of the Head-Office. The profiling team in H-O NSI performs a desk activity that consists in analysing all the available information on the GEG (publicly available information or statistical data available in the NSI) and makes a first delineation of the GENs. This first phase should already involve the statistical data compilers in order to check how the national economic structure fits with the global economic organisation.

29. In a second step, the profilers of the H-O NSI contact and visit the GEG to confirm the GENs and their delineation and to collect data on the GEN and eventually on the TEN. This visit gives the opportunity to set up the conditions of a long-term cooperation with the GEG.

30. In a third step, the GENs and TENs agreed with the GEG and inside the H-O NSI are proposed to the partnering countries. They have to check if the TENs proposed by the H-O NSI fit with the activity of the GEG in their country and investigate how the TENs will be followed-up for national statistics. In this phase, both profiling teams and statistical users should be involved. The result of this could be an acceptance or a proposal for amendment.

31. The fourth step consists in a round of discussion between the H-O NSI profilers and the partnering NSIs profilers that stops when all the parts agree on the delineation of the GEN.

32. The following picture summarizes the implication of the different players in the European profiling process:

option 2 described in §1.3. If this agreement is adopted with the GEG, the initial additional burden will be compensated by the decrease of the response burden for the subsidiaries of the GEG, resulting in a global decrease of the response burden for the GEG as a whole.

(b) It needs a strong collaboration of the players inside the NSIs: the profilers cannot work independently of the business register staff and statistical data compilers such as SBS, OFATS or STS. The enterprises delineated through profiling should fulfil the national needs of statistics and it should be assessed how the information on these enterprises will be gathered (specific collection or use of existing information). This should be the result of a discussion between the profilers, who have the knowledge of the GEG and of its national representation (they should be able to know if there is an entity in the partnering country which could provide national data on the TENs), and statistical data compilers, who have the knowledge of the existing sources of information that can be used to gather the appropriate information.

- The delineation of enterprise through European profiling generally has an impact on the level of detail (in terms of NACE) on which the activities are followed. Indeed, the GEG do not have necessarily the need to present their economic results at a very detailed level of activity. In some cases, they may adopt a presentation which is transversal to the one followed with the NACE.
- Sometimes, the loss of detail is justified (when an activity is performed in a country only for the internal needs of the group, for example, the human resources provision). In other cases, the loss of detail could be prejudicial to the quality of statistics. In that case, the statistical data compilers need to negotiate with the profilers in order to find a compromise that would be acceptable for the GEG and for the statistical data compilers.

(c) It needs a strong collaboration between the profilers in the H-O and partnering NSIs. Both rely on each other and it is only the result of the feedback discussion that can ensure the quality of the delineation. The partnering NSI rely on the H-O NSI for the delineation of the TENs. The central delineation of the TEN should not delay the production of national business statistics. For that purpose, one should ensure that the profiling agenda fits with the production of business statistics cycles (which may be different for SBS, OFATS and STS).

- On the other side, the H-O NSI relies on the partnering NSIs to conclude a profiling case. In order the overall process to be successful, some working rules need to be set up.

B. Needs for a central organisation to help NSIs in their exchanges of information: the IPT

34. As European profiling requires a strong cooperation between NSIs, it will bring out, for the European NSIs a new way of working together. This cannot be successful without rules and a central coordination. Eurostat is currently designing such rules and organisation and will test their feasibility in the coming years in the frame of the ESS.VIP program ESBRS (European Statistical Business Registers).

(a) The central point of the organisation is the design of a web platform, the IPT (Interactive Profiling Tool) that will allow the countries to share information on GEG profiled or under profiling, to online update data on these GEG and to access the data on already profiled GEG). Not only profilers, but also statistical users will be able to access the IPT, consult information on the GEG, the GENs and the TENs (including their delineation in terms of legal units) and retrieve this information in their national environment. A notification system will inform the different players of the status of progress for the

different open cases, alert them when they need to be active in a case and remind them of their duties if they do not answer according to the agreed time schedule. The IPT will be closely linked to the EGR: the GEG in the profiling target population will be chosen in the EGR. Coordination rules have been established to ensure the coherence of information between both systems. The IPT will follow the same confidentiality rules than the ones in force in the EGR.

(b) Some aspects will benefit from a central management: the definition of the population of GEG to be profiled, the updating of the documentation needed to perform profiling (the ESSnet on profiling will deliver, by the end of 2013, a methodological report and a guidelines for profiling), the organisation of training courses, the definition of criteria and the assessment of the quality of the profiling and the treatment of conflicts between NSIs.

(c) Working rules and procedures will also require a centralisation in order to ensure that the same rules apply in all the NSIs. The exhaustive list of rules is not yet finalised. However, one can already foresee the necessity to establish a strict calendar for the profiling cycle. This calendar needs to take into consideration the GEG calendar (when are the consolidated account published? When the GEG representatives are the most available for discussion with the NSIs and for data transmission?), the national statistical users calendar (when are the enterprises needed to delineate the frame populations?) and the European users calendar (when the profiling results should be introduced in the EGR?). In addition to this overall calendar, it is foreseen to introduce rules to limit the time dedicated to the round of discussions between the H-O NSI and the partnering NSIs.

35. Another domain which would benefit of a common approach is the gentleman agreement that will be concluded with the GEGs for data collection at the global level of GEG for countries others than the country where the GEG Head-Office is settled down. This type of collection is pretty new (with the exception of the surveys on O-FATS) and do not obviously follow the usual statistical rules. The experiences of the different NSIs need to be put in common and Eurostat will investigate a European support to help the NSIs.

36. The central collection of data on the truncated enterprises will certainly need a central management that should ensure that all the data needed by the NSIs participating to a profiling are centrally collected (need to define common templates for collection), that the data are made available to the right NSIs and that the national calendar to produce statistics are respected.

C. Enterprise's delineation and data collection

37. The following table summarizes the roles of the different NSIs in the delineation of enterprises and in the collection of information for national and EU statistics. The respective role of profilers, BR staff and data compilers is not specified, because it depends of the organisation that is going on in the different NSIs. Currently, three main types of organisation can be found: in some cases, the profiling team is a part of the BR team, in other cases, the profiling team is part of the SBS team and sometimes it is independent from any other business statistics team. In some cases, profiling team is in charge of data collection, in other cases not. In any cases, strong relationships between all the players are needed.

Table 1:
Level on which the information should be obtained (delineation as well as data collection)

<i>“Type” of ENT</i>	<i>Delineation</i>	<i>Data collection for national statistics⁶</i>	<i>Data collection for national OFATS statistics</i>	<i>Data collection for EU aggregates⁷</i>
ENT = LU	National	National	Not in the target population	National
ENT belongs to a DEG	National	National	Not in the target population	National
ENT belongs to a European GEG in the population of profiling:				
- GEN	H-O NSI	Not relevant	Not relevant	H-O NSI*
- TEN	H-O/national	National/H-O*	H-O NSI*	Not relevant
ENT belongs to a European GEG <u>not</u> in the population of profiling:				
- GEN	Automatic	Not relevant	Not relevant	National
- TEN	Automatic	National	H-O NSI	Not relevant
ENT belongs to a non-European GEG:				
- GEN	Principal NSI ⁸	Not relevant	Not in the target population	Principal NSI/national
- TEN	Principal NSI/national	National	Not in the target population	Not relevant

*This data may be collected during the delineation phase if both GEG (represented by its head office) and NSI agree on this approach and find a common solution.

IV. Conclusion

38. The implementation of the new model of statistical units will have an impact on the current organisation of business statistics in the NSIs. The impact may be important on the statistics and breaks in the series may occur. Eurostat is currently supporting a study on the potential breaks to be expected and this question will be further investigated in the coming years.

39. The changes on the organisation of the statistical process will be effective, but limited to a few number of statistical units: the one that belong to an enterprise group, domestic but especially global.

40. The current test of the methodology of European profiling in 15 countries tends to prove that the approach proposed by the ESSnet profiling is feasible, even if it still needs some adjustments. This test allows evaluating the needs of the NSIs to adopt this methodology and introduce it in their statistical architecture.

41. In the meantime, the use of European profiling to delineate the enterprise in the frame of large and complex GEG cannot be questioned since it increase consistency between national business statistics in the EU NSIs. It allows to get all the NSIs to have a consistent view on the enterprises belonging to the same GEG and gives a picture of the

⁶ SBS, IFATS and STS enterprise statistics (to be confirmed)

⁷ mainly SBS (to be confirmed)

⁸ NSI responsible for the profiling in the ESS

economy (national and EU) closer to the GEGs' perspective, so that the statistics based on these new statistical units should be more accurate both at the national and EU levels.

42. European profiling also allows solving problems that cannot be solved otherwise and to treat cases that are not any more treatable keeping a strict national perspective. Some GEG organise their reporting at a geographical level higher than the country. In some cases, even if the situation of the production has not changed, its representation through the follow-up of the legal units at the national level leads to breaks in the series and statistical misinterpretations. The only way to solve such cases is to survey a higher level of entities (the GEN or the GEG).

43. Finally, after an adaptation period, the system of business statistics in European NSIs should benefit of gains in efficiency and avoid double work in NSIs. This should be especially obvious in the long-term perspective of central collection.

Annex 1

Delineation of the statistical units “enterprises”: Estimated share of the legal units and EG according to the treatment to be applied

	<i>Number of groups</i>	<i>Number of legal units in the EU</i>	<i>Employment in the EU</i>
Independent legal unit		92.6%	46.3%
Groups to be automatically treated (1 EG=1ENT)	97.1%	5.8%	25.6%
DEG	75.3%	4.3%	8.4%
EU GEG	4.3%	0.7%	10.0%
non EU GEG	17.5%	0.7%	7.2%
Groups to be profiled	2.9%	1.6%	28.0%
DEG	2.3%	0.8%	9.6%
EU GEG	0.5%	0.7%	17.4%
non EU GEG	0.1%	0.1%	1.1%