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**DELINEATION OF MNE: SOME IMPLICATION IN NATIONAL
STATISTICAL OFFICE**

Invited paper submitted by ISTAT, Italy*

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1. Problems of identification of MNEs in Business Registers

Identification of Multinational Enterprise Groups (MNEs) for economic analysis requires the set up of statistical information on control links at international level into the National Business Registers (BR), as the basic frame for Structural Statistical surveys. This central role of the BR was clearly stressed during the last meeting of Business Statistics Directors General (BSDG) held in October 2004, where about the future of the Business Register was stated that: *“Many statistics related to globalisation have been or are currently being regulated by Community statistical law (statistics on foreign affiliates, balance of payments, and external trade). The information on multinational enterprise groups is either a prerequisite or a vital element for their compilation (they require the coverage of the whole economy as well). (...) This data is necessary to ensure the continuation of the comparability of many current statistics, where financial links between enterprises in different countries play an important role, e.g. productivity data.”*

Council Regulation (EEC) N° 696/93 on Statistical Units defines the Enterprises Group as *“an association of enterprises bound together by legal and/or financial links (...). A group of enterprises can have more than one decision-making centre, especially for policy on production, sales and profits. It may centralise certain aspects of financial management and taxation. It constitutes an economic entity which is empowered to make choices, particularly concerning the unit it comprises”*.

The forthcoming Regulation on the Community co-ordination in drawing up business registers for statistical purposes repealing Council Regulation (EEC) No 2186/93, will include all necessary variable to register information of both All Resident and Multinational Enterprise Groups.

The new version of the Regulation foresees the double possibility to record group's information from a bottom-up perspective (inward view) and from a top-down one (outward view). Both visions bring their own advantages and drawbacks, but they cannot be considered symmetric in terms of development stages and complexity. Bottom up approach is simpler, as far as national available sources are concerned, but it gives rise to Truncated Groups. Resident enterprises can constitute the statistical units for economic analysis with the nationality of the Group Head as a stratification criterion, since all structural economic variables can be obtained on them from the Structural Business Statistics system of National Statistical Offices. Inward FATS statistics are the main development from this kind of information structure. They have the following characteristics:

- the statistical unit of analysis is always the enterprise and not the enterprise group;
- it is not necessary to reconstruct the whole chain of control links abroad, but it is sufficient to identify the Ultimate Controlling Unit or Global Parent of the MNE to which the enterprise belongs;
- they serve to study the impact of foreign control onto the domestic economy (Inward side).

For these reasons the Bottom up approach is more useful at a first development stage of a system on globalisation's statistics. Inward statistics provides information useful to measure the economy's degree of openness and the origin of foreign financial flows supporting domestic investment.

Advanced economies, whose enterprises produce and sell for the global market, need globalisation's statistics also from the side of investors. The Top down approach to register

MNEs can better answer to this need, since it provides the information on foreign affiliates located abroad and controlled by domestic Group Head. The possibility to produce Outward FATS statistics depends very much on the availability of this informative structure in the BR.

Outward statistics provide information with the following characteristics:

- the statistical unit of analysis is always the enterprise and not the enterprise group;
- it is not necessary to reconstruct the whole chain of control links abroad, but it is sufficient to identify the Domestic Ultimate Controlling Unit or Global Parent that will provide information about all its foreign affiliates;
- they serve to study the impact of domestic MNEs onto the global market.

Nevertheless globalisation's statistics based on enterprise unit may be not sufficient to provide a complete informative framework for measuring the main economic aspect of this complex phenomenon. This point was highlighted by BSDG last October, when it was explicitly said that *"Recording only the truncated parts of the enterprise groups in the national territory is not sufficient, the data on the multinational groups must be consolidated at European level".(...)* *"While respecting the confidentiality restrictions, the multinational group data can also be used as a direct source of statistics on globalisation; for competition, commercial, trade negotiations and research policy; to know the position of Europe in the global economic development, and to approach a similar level as the USA regarding the scope and the quality of multinational enterprise group data"*. The correct identification of the Ultimate Controlling Unit is the main issue for the quality of statistics on *FATS*.

A further step could be made towards the production of statistical data at the level of the enterprise group as a statistical unit. On one hand this can guarantee a better data quality since the enterprise accounting practices in different countries cannot allow to obtain a coherent and exhaustive global view. On the other hand as far as intra group sales flows, they can be collected in the most efficient way once for all by the GH, the only one that exactly knows the countries of origin and destination of the flows. Moreover, other important economic variables are more significant and easily measurable in the consolidated accounting structure of the MNE and not at the single constituent enterprises' level. To produce statistical consolidated data at European level it is necessary to switch to the global European parents, since they are the statistical unit able to provide global statistical information on the whole MNE.

2. Statistical tools and their organisational impact

2.1 The structure of the Italian Business Register on EG

The Italian Business Register on EG is built up from the integration of three administrative sources and has, for the time being, only a Bottom up structure.

The Administrative Sources used for the setting up and maintenance of the Italian BR on EG are the following:

- 1) the Administrative archive managed by the Chamber of Commerce containing for each non listed legal unit with capital divided into shares or quotas all the shareholders;
- 2) the Administrative archive managed by the National Committee on Listed Companies of all relevant shareholders of listed companies;

- 3) the list of Foreign Affiliates controlled by Domestic Groups subject to the Consolidation of Accounts according to the VII Council Directive.

Istat applies the concept of Control (and not Ownership) as the only criterion to link enterprises and reconstruct the Enterprise Group, since it allows to track a one-to-one relationship between each enterprise and the Group Head in a mutually and exclusive way. From a theoretical point of view this solution avoids the risk of double registration of one enterprise into more than one group and the single identification of MNEs into the BR. On the practical side its implementation is very problematic when upward control links abroad are unknown.

The identification of non resident Group Head is the major difficulty encountered by the BR on EG¹. Such difficulty exists not only for the statistician, but also for the competent regulatory authorities that manage the administrative sources and sometimes for the single enterprises belonging to large MNEs. Very often they know only their local parent - usually the one that consolidates their accounts - but not the global parent.

Istat methodology reconstructs the chains of control and identifies the Group Heads as the apex of such chains. The whole structure of the BR (Bottom up) is constrained by the sources' content. In particular sources affect the quality of the Foreign Group Head identification and in many cases makes it impossible to attribute the correct nationality to the MNE.

The Italian Business Register is a typical example of a register where a bottom up approach leads only to reconstruct truncated parts of MNEs. As a consequence, duplications of Group Heads for truncated part of the same MNE are very likely to occur.

In order to deal with the problem of MNEs identifications into the National Business Register different solutions have been set up.

At European level some lights for future identification of European MNE are shaded by the recent intention pushed on by Eurostat to set up a unique European Business Register on Enterprise Groups through the mutual exchange of information from Eurostat to every single Member States and from each Member State to Eurostat. In other words Eurostat should function as a catalyser for the circulation of individual data among all Member State's National Business Register. The whole discipline on statistical confidentiality should be replaced and updated in order to provide a legal support to this fundamental innovation. Some pilot studies are going to be launched by the end of this year in order to verify the consistency of data sources among the private database in use at Eurostat and the National Business Registers on EG.

2.2. Direct reporting to identify Ultimate Controlling Unit²

At national level improvement in the quality of information on foreign Group Heads can be obtained, through direct reporting on enterprises – either in the direct investment survey or in the structural business surveys, with possible increase of burden response and - given the delicate matter – of rate of non-response.

To this extent Italy in 2003-2004 has adopted a complex approach combining the information of the BR on EG with a very limited and focused survey aimed at identifying foreign Group Head

¹ In particular, source under point 1) allows to get only the first foreign controlling unit, while from source under point 2) it is possible to correctly identify the Group Head or the Ultimate Controlling Unit for listed MNEs. From the Consolidated Accounts only information on resident Group Head are available.

² Some parts of this paragraph are taken from E.Morganti – S.Menghinello (2003).

for producing Inward FATS statistics. In particular, the information included in the EG Register was exploited in order to identify the potential Inward population. The survey was performed also to check the quality of the BR on EG and to acquire new information on the nationality of the Ultimate Controlling Units.

The questionnaire was based on harmonised concepts and definitions at European level (such as Enterprise Group, Ultimate Controlling Unit, etc.) as the new incoming Regulation on BR and FATS are indicating.

Statistical methodology is adopted to cope with non sampling errors and non response and the quality of the data is assessed. Finally information collected through the survey is compared and integrated into the Register according to a hierarchical procedure that takes into account several indicators of data quality from the survey.

In particular the model that integrates the Inward FATS survey into the BR on EG compares information gathered from direct reporting to that acquired by the administrative sources. Administrative sources are ordered according to their final purpose: first importance is given to those whose purpose is inspection by the regulatory authority (i.e. stock exchange market authority and central bank) that manage them. On the other hand, a secondary importance is given to those having only a publicity purpose for general stakeholders (shareholders, creditors, general public). Moreover, the hierarchy takes into account the coherence of the administrative source with the definitions required for statistical purposes (i.e. Ultimate Controlling Unit or First Shot Control), the completeness of the information requested (i.e. the nationality of the Ultimate Controlling Unit) and their timelessness with respect to direct reporting. All information gathered from the respondent must be complete and checked in their main characters to be integrated. When discrepancies are found they are resolved according to the hierarchy stated in the model.

The following table shows the results (in terms of employment occupied by the MNE) of the final integration of the Inward FATS survey (reference year 2001-2002) into the BR on EG, according to the nationality of the Group Head before and after integration.

Employment of Multinational Enterprise Groups subject to transcoding of the Group Head Nationality after Inward FATS Survey - Year 2002 (percent values)

Group Head Nationality		After Survey			N° of employees (in thousands)
		Europe 25	Italy	Extra Europe	
Before Survey	Europe 25	91,0	9,0	.	188
	Italy	2,3	96,3	1,4	3.862
	Extra Europe	38,5	8,8	52,7	717
	N° of employees (in thousands)	535	3.801	431	4.767

As a result, a validated version of the BR on EG was obtained, including new information on the country of residence of the Ultimate Control Units. The link between the Business Register and the Structural Business Statistics surveys at the level of enterprise provides the basic framework to produce consistent and reliable estimates by sectoral and geographical breakdown.

2.3 A tentative comparison between the bottom up and top down approaches

During 2004-2005 a significant experiment was carried on within the “MNE project”, whose first aim was to compare whether structural and economic information collected at the enterprise level (that of the foreign affiliated, so the Inward perspective) and at the Group Head level on the same affiliated (the Outward perspective) were consistent.

As far as the structural analysis is concerned, the legal structure of the MNE in each of the five participating countries and their total employment were considered, while no analysis was done the economic classification of the affiliates. For the study of the economic variables only few basic indicators were taken and the analysis was organised not at the enterprise level but a more general level such as the geographical segments. In other words economic data of all the affiliates in one country were aggregated.

For the analysis of the legal structure, Istat carried on a double check; first on the structure of the MNE provided by the foreign Group Head with respect to the Italian BR on EGs and then, when there were missing legal units in the Register or incoherent structure of the group, with respect to all the available administrative sources in Italy. This procedure gave us a wide range of hints about the status of the Register with respect to MNEs. Most of the problems we suspected to have in the Register were confirmed. In particular the MNE project allows us to better identify them, as summarised in the followings:

- overcoverage of legal units (due to the presence of ceased legal units not cancelled in the administrative registers);
- overestimation of the number of foreign controlled groups (due to different truncated parts of the same multinational group);
- underestimation of the dimension of foreign controlled group (due to the same reason as above).

From the final results of the MNE project, and referring to its main objective, it is possible to show the following four considerations:

- a) As regard the structural variables (MNE perimeter and employment) the results were sufficiently coherent: therefore there are non substantial differences if they are investigated from the single enterprises or from the GH.
- b) As regard variables that are interesting in their total amount, and not at consolidate level, (Gross Sales) the results confirmed that their investigation does not present many problems: discrepancies are due not to logical aspects but only to data quality issues.
- c) As regard variables concerning intra group flows (e.g. intra group sales) they can be efficiently and correctly collected only at the GH level, since it is the only one having a global view, as discussed before.
- d) As regard specific economic indicators and economic variables that are not clearly defined at statistical level (EBIT, Capitalised Expenditure), the exercise showed the largest discrepancies, confirming that it is fundamental to work on a better harmonisation not only of the definitions, but also of the different level and criterion of consolidation’s practises among countries.

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