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Profiling and more – from the perspective of a small country

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Abstract

Enterprises now day operate globally. This is especially true for the large multinational enterprise (MNE) groups. From the perspective of a small national economy, it is not only important to capture the structure of MNEs in the global economy but it is also important to delineate properly the national part of MNEs. This can be achieved with the help of profiling. However, while profiling is a good starting point, it might not be enough to accept the right decision for creating national statistical units (mainly enterprise) that will then be used in all business statistics and in national accounts as well.

The Statistical Office of the Republic of Slovenia has experience in all types of profiling (intensive, light/desk, automatic and partner) where data on activity, turnover and employment are gathered. While it was feasible to delineate national enterprises and gather data for profiling, it was later discovered that those enterprises were not always the right choice to get other needed data (especially for structural business statistics and national accounts) for such enterprises as not all the relevant data were available.

This document shows lessons learned in the process of profiling and further actions needed in order to satisfy all the needs of business statistics and national accounts. As this is an ongoing work, some future actions and plans are described as well.

Introduction

National business statistics and national accounts use different statistical units for the compilation of their statistics. One of the units that might have a big impact on the economy is a multinational enterprise (MNE) group. This so-called global enterprise group (GEG) operates globally and it is important to capture correctly not only its global performance but from the perspective of business statistics and national accounts the operation of its national part as well. In this connection, an important task that statistical offices need to perform is the process of profiling and the decision on how to delineate an enterprise.

Enterprises and other statistical units are kept in the Statistical Business Register (SBR), so the profiling work influences the SBR especially in the case of complex enterprises. This work or rather the decision on how to delineate complex enterprise then further influences other domains that use the enterprise as a statistical unit, so the work with the profiling does not end but it only begins.

When we try to delineate the enterprise, we usually follow certain methodology. We need to look at the performance of MNE group. An important factor might also be the economic environment specific for a country in which MNE group operates. Therefore, some facts about the Slovenian economy and the Slovenian SBR are given in order to clarify the background for a decision on how to delineate enterprises that was taken in Slovenia.

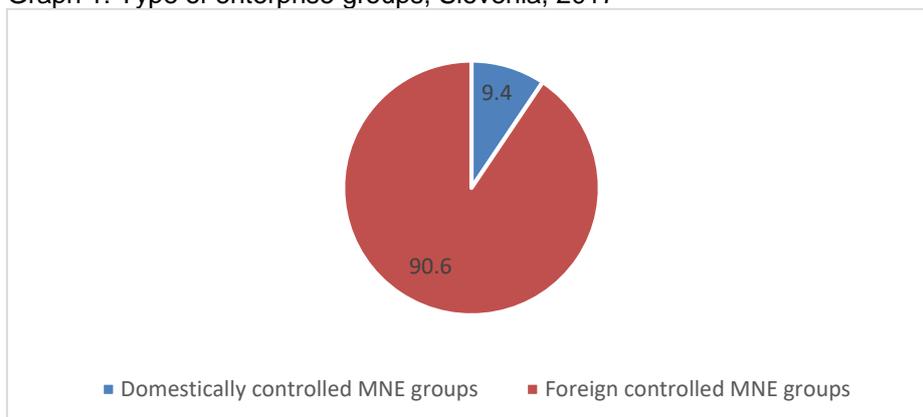
Slovenia is one of the smaller member states of the European Union, so the Statistical Office of the Republic of Slovenia (SURS) follows European statistical regulation and methodology. In our case, the national SBR is the backbone for the business statistics and national accounts. It is also the main source for the sampling frame for all business statistics. We have all statistical units and an important feature of our national SBR is that we maintain the relationship between all statistical units. Hierarchically the lowest statistical unit in the SBR is the local kind of activity unit (LKAU) from which hierarchically higher units (e.g. enterprise, local unit) can be derived by relations between units. For the corporate sector, we also maintain a connection to the institutional unit as the enterprise is equal to the institutional unit used in national accounts.

Main units in the national SBR are LKAU and enterprise and some information on those two types of statistical units is maintained on a monthly basis. For other units (e.g. kind of activity unit, local) data are prepared on a yearly basis. A separate register is kept for the enterprise groups. It is updated on a yearly basis and is used as a foundation for the data exchange within the European Group Register (EGR).

SURS strongly uses administrative sources. For the SBR main administrative source is administrative business register. All legal units performing activities on the territory of the Republic of Slovenia need to register in this administrative business register. In Slovenia almost all legal units must prepare annual reports (balance sheet and profit and loss account) for statistical purposes. These annual reports are gathered by a special agency and are then used for several cases (apart for statistical also for tax purposes, for analyses in ministries, etc.). Data on turnover in the SBR is gathered from these annual reports and they are also used for the preparation of structural business statistics and annual accounts.

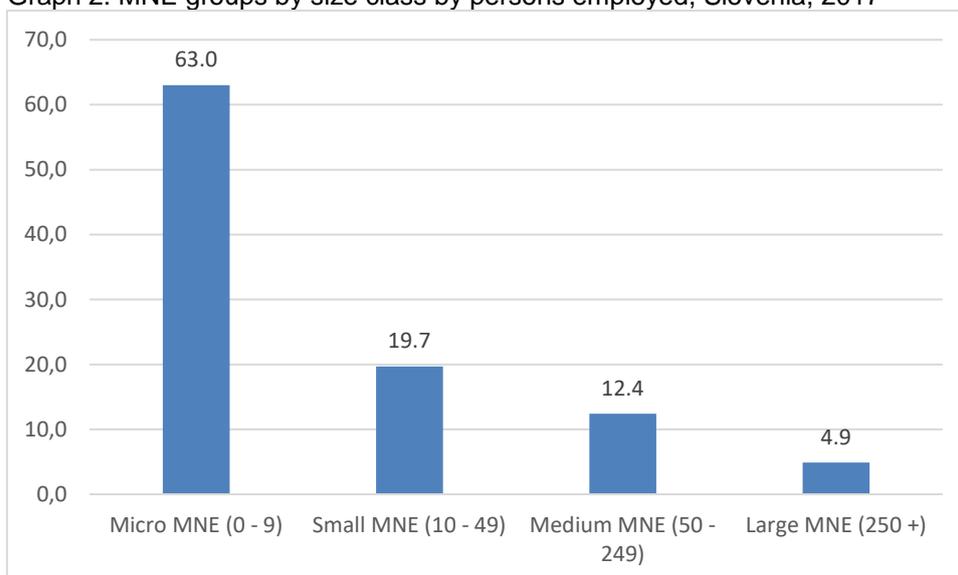
As profiling work concentrates on the MNE groups, here are some facts about Slovenian MNE groups. In Slovenia foreign controlled MNE groups predominate. In 2017 nine out of ten MNE groups were foreign controlled. All MNE groups in Slovenia are relatively small. The majority of foreign controlled MNE groups had two or three legal units in Slovenia (the maximum is 24 legal units in Slovenia). Domestically controlled MNE groups on average have 6 legal units in Slovenia (the maximum is 25 legal units in Slovenia). The first domestic MNE group that was profiled had 32 legal units all together (5 of them in Slovenia). In 2017 the largest domestically controlled MNE group in the terms of legal units had all together 44 legal units (in Slovenia and abroad).

Graph 1: Type of enterprise groups, Slovenia, 2017



If we look at the size of MNE groups in terms of persons employed, the majority (95%) of MNE groups are small or medium-sized.

Graph 2: MNE groups by size class by persons employed, Slovenia, 2017



1 Profiling work

When we try to determine the structure of the MNE in terms of the right statistical units and relationships between legal units, the profiling is a good starting point. European methodology distinguishes several types of profiling. Intensive profiling contains not only intensive search of all available data for the profiled MNE group but it also foresees the group's involvement in the decision on how to treat data and delineate the enterprise. Light or desk profiling includes desk research and usually all the data needed are found in consolidated annual reports and other sources. Both intensive and light profiling are manual profiling. For the majority of small MNE groups automatic profiling could be used. With this profiling enterprises are delineated automatically and statistical methods are used for the consolidation.¹ Partnering profiling is a case when another country profiles the MNE group (as intensive or light profiling) and the country that has legal units from that group than tries to delineate enterprises in the national economy.

¹ For more on European profiling see European business statistics manual – profiling:
https://ec.europa.eu/eurostat/statistics-explained/index.php?title=European_business_statistics_manual_-_profiling&oldid=416227

SURS started with the first profiling work in 2013. This was the first year in which work on intensive, light and partnering profiling started for some important MNE groups. The work was done under the European grant and with the use of the European methodology on profiling. The general objective of the first profiling work was to get the first insight into the global enterprise groups' legal, operational and financial structure, to get knowledge on the profiling methodology and to acquire practical experiences on the profiling. Along with the structure of the MNEs, relationships between legal units and activity of the MNE, SURS also tried to gather data on consolidated turnover and the number of employees. One intensive case of profiling, four cases of light profiling, one case of profiling a non-EU MNE group and 14 cases of partnering profiling were implemented.

Next year the follow-up on profiling of all 5 groups was done and as profiling was recognised as an important task for the office a special internal group for profiling was created. It had representatives from the profiling team, structural business statistics, statistical business register, short-term statistics and national accounts. While work on profiling was done mostly by a team of 5 persons (all working only part time on profiling), the profiling methodology, activities, profiling cases and other matters related to profiling were regularly discussed by the profiling group. The group met at least once every three months and reported to SURS's board, which is an advisory body of the Director-General and has members of all statistical divisions. This was also a way to communicate work done by profiling not only in business statistics but also in national accounts and in SURS in general.

In 2015 SURS further broadened its knowledge on profiling with the grant on automatic profiling of smaller MNE groups, while work on other forms of profiling continued. In the years that followed SURS continuously performed profiling and all the most important domestically controlled MNE groups were profiled. In the coming year, further profiling will be done with a special focus on foreign controlled MNE groups that have not yet been profiled but have an important presence in the Slovenian economy.

1.1 Lessons learned from intensive and light profiling

This chapter describes lessons learned from intensive and light profiling. Some are general and others are specific and apply to the Slovenian economy or specific cases profiled. As a pre-condition to profiling work, special knowledge is needed. Along with the knowledge on the profiling methodology itself, it is important to have a good understanding of accounting rules (knowledge of international and national accounting standards) and it helps also to know the economic and legal environment in which enterprises work (national laws for businesses as for example the Companies Act, etc.). An important aspect of the education phase were internal seminars that were organised for the profiling group and some other employees. Seminars were tailored to our specific needs and we prepared some specific questions about bookkeeping and accounting, about consolidation and about tax matters. With those seminars, we broadened our knowledge not only on some general principal on those matters but also on some specifics about performance of MNE groups (especially foreign branches).

For the intensive profiling we discovered that it is important to learn as much about the operation of the MNE group as possible. Apart from all the information that is usually available in the annual reports or on the web page also, all available data from surveys need to be checked. In our experience a group might ask you a question about some specific survey, so it is important to be prepared.

The most important source for the information on the performance of the MNE group is consolidated annual reports with consolidated financial statements. While we usually find data on consolidated turnover and the number of employees for the entire group in these reports, the operation of groups by countries is not always present. National unconsolidated annual reports of legal units are therefore an important source of information as well (especially the annual report of the legal unit that is a global decision centre – GDC). We usually find in this report not only data on the performance of the MNE group but information on the future plans as well. An important source of information is also a web page of the MNE group. For early changes, some information might be present also in newspapers and other media.

One of the domestic MNE groups pointed out that for the tax purposes they are obliged to answer the OECD questionnaire Country-by-Country (CbC) report that requests data similar to those

asked by the profiling project. While this might be an important source, it is unfortunately not available soon enough to be used according to the schedule foreseen in the European profiling. At least in Slovenia the CbC report needs to be submitted by the end of the next year. Some information might be available in other administrative sources (transfer prices within the corporation tax).

One of the lessons learned at our first profiling case was that it is important to schedule the visit to the enterprise at the right time. Our first visit to the MNE group took place during a very busy period for this group (just after the finalization of the draft annual report). The meeting was very short and a new meeting was required in less busy period. It is important to follow MNEs schedule and to organise first contact and a meeting in the less busy period. Usually some information on the deadlines for the publication of annual reports and other information (as for example financial calendar) is available on the web page of the MNE group (in most cases under the section for investors).

The work on profiling is important as it might influence the way how to treat the enterprises, so it is very important to communicate about work done in this field. As mentioned, a special group on profiling was created in the early stage for that matter. Further, a special workshop on profiling and the use of the European Group Register (EGR) was organised for all employees of business statistics sections. The concept of profiling was presented at an internal event where best practices and new activities are presented for the entire office (the event takes place twice a year). It is important for the users of the SBR to hear about the profiling work on different occasions, so not only once.

For the discussion on how to treat the enterprise a methodological meeting was organised where all top management was present and middle management from all domains that use statistical units (including national accounts). In addition, a special section on work on profiling was created on the intranet page where all the important information about work done on the profiling is presented. When we tried to explain what the profiling is all about, the practical examples on real MNE groups profiled seemed to be the best way to explain the methodology to the audience.

In 2018 a group on profiling was reorganised and a new internal group on enterprises was created. This group consists of representatives from business statistics (SBS, STS, ICT), environmental and social statistics, data collection unit, general methodology and national accounts. Its four main work areas are:

- Determination of statistical activity
- Maintenance of the SBR
- Identification and elimination of inconsistencies in the methodologies and data on enterprises
- MNE and large enterprises, cooperation with reporting units

The collaboration of all members of this internal group is important. When the group on enterprises discussed a proposal to form enterprises as a combination of legal unit, valuable feedback was received and the decision on how to form enterprises changed. One of the specifics in the compilation of SBR is strong cooperation with structural business statistics (SBS). SBS in SURS is done from statistical and administrative sources and the starting point is first iteration of annual SBR. The units, their activity and employment data are taken from SBR for all sectors and all activities. While over the years turnover was calculated twice (once in SBR and once in SBS) in this year we changed that. With the exception of government sector and non-profit institutions serving households turnover for all activities is calculated first in SBS and then used in final frame of annual SBR.

At the beginning of the profiling, we expected to be able to offer enterprises a possibility to reduce the reporting burden in the case of combining legal units into the enterprise, but since the data on turnover and other financial variables are gathered from annual accounts, this was not the case. This and the fact that there were only a few legal units in Slovenia might be the case that in every case of intensive profiling MNE groups insisted that the legal unit is an enterprise. In all cases of intensive profiling, MNE groups needed to prepare additional data.

The structure of the MNE group can change very quickly but even after some organisational changes (e.g. merger) some part of the group tends to operate independently for some time (usually another year). It is important to follow the cases profiled and in the case of bigger changes it is necessary to do profiling again.

For all the MNE groups profiled so far we discovered that there are small internal flows (if any) between legal units in Slovenia, as all legal units in Slovenia are market oriented. The findings on internal transactions indicate that the extent of internal transactions is much more typical between the national and foreign legal units than between the national legal units themselves. We found some common features in resident legal units but they were mainly connected to the operating costs (e.g. common IT solutions). One of the MNE groups exposed that consolidation is not so important for turnover but it is essential if we look at the figures of profit.

On the other hand, in partnering profiling we found out that in a lot of cases there is not enough information for the delineation of the national enterprise and to prepare data for it. For example, we do not have information on the amount of internal flows with other national legal units or any information about selling products or services to customers. These legal units in Slovenia are also smaller and often not important for the MNE group. For non-EU groups the countries, especially small, do not have enough data to profile such huge groups. In small countries, usually there are a small number of units and small units, which do not represent important part of the group. This is also the reason that data needed for profiling are usually not available.

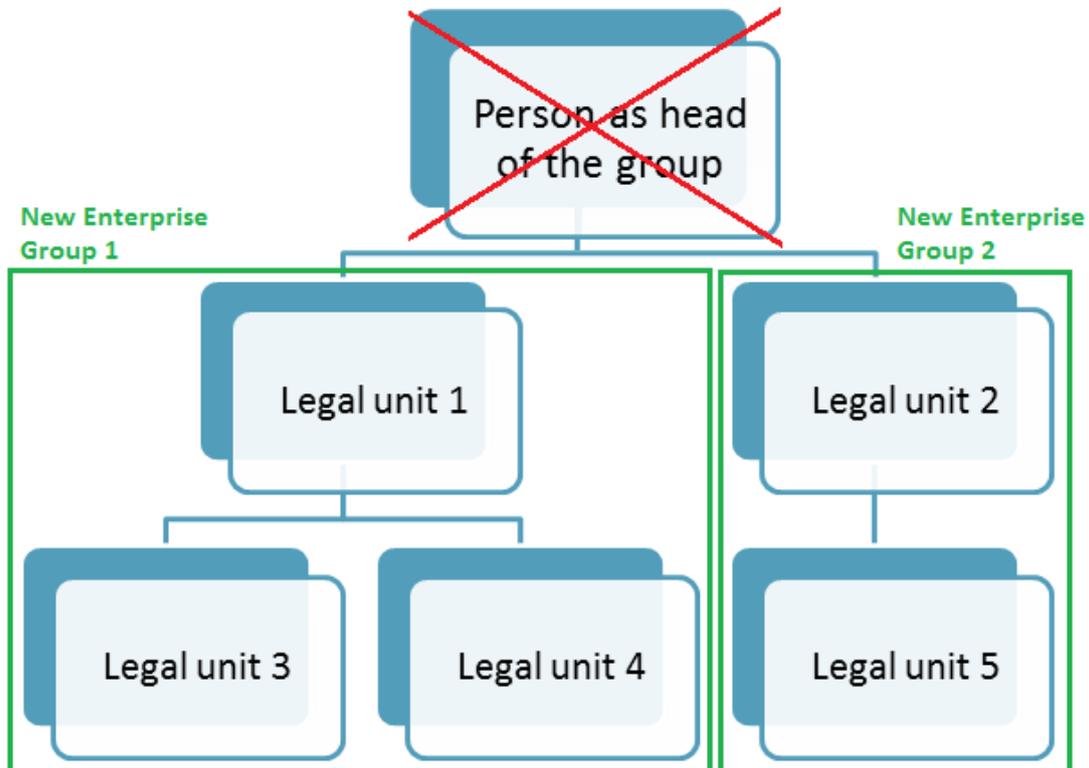
1.2 Automatic profiling

The majority of MNE groups are small groups and automatic profiling can be used for those groups. When we started with the selection of MNE groups for automatic profiling, we discovered that we need to change our methodology for creating groups as groups with natural persons² at the top (as global group head) were not appropriate for automatic profiling. A person as the head does not have turnover, employees or any other SBS variables and we cannot identify the activity code for a person (therefore, he/she does not have a NACE code). A person also does not submit consolidated annual reports as a head of the enterprise group, rather the legal unit at the next level usually does³. An enterprise group with a person as the head can have for example two consolidated annual accounts at the lower level. According to the mentioned reasons, we decided that a person as the head has to be excluded and the enterprise groups with such heads split into as many parts as there are legal units at the second level and so new enterprise groups were created.

² With natural persons, we excluded only natural persons as recipients of property income (institutional sector S.1441). Natural persons as for example sole proprietors are in Slovenia registered as legal units.

³ According to the Slovenian Companies Act, the company located in the Republic of Slovenia, which controls one or more companies established in the Republic of Slovenia or outside (the subsidiary), shall prepare a consolidated annual report (if it exceeds the threshold for consolidation).

Figure 1: Exclusion of a person as the head of the group



Another discovery from automatic profiling came when we compared results from automatic profiling with real consolidated data from MNE groups. In most cases, there were not big differences if we summed up the data or consolidated them according to the proposed methods. But in several cases the summed up value of turnover was more correct than the consolidation done with the proposed method. Since simple sum is not a consolidation there is a dilemma if this should be done or not.

2 Feedback from users of the SBR

One of the first feedbacks that we received when we tried to communicate the work of profiling and delineation of enterprises was what will happen with other statistical units. Since the SBR is the backbone for all business statistics, also statistical units LKAU, LU and KAU have to be delineated. It was decided that whenever an enterprise will consist of more than one legal unit the profiling team needs to prepare a suggestion also on how LKAU, LU and KAU should be created.

The profiling work detected some cases of complex enterprises, so some suggestions on grouping legal units into enterprises were formed. In addition, the profiling team also prepared the suggestion of all other statistical units (LKAU, KAU, LU) for those cases. The group on enterprises discussed those proposals and all domains that have enterprise or kind of activity unit as an observation unit tried to assess what would that mean for their domain. In general, we have obtained information that legal units merged to an enterprise should create the separate enterprises because they are important statistical and observation units and some information could be lost. In addition, not all the data needed were available (especially for the SBS and national accounts).

When some profiling cases were discussed in different domains, a suggestion came to form an enterprise for two domestic enterprise groups. The profiling team looked into the suggested cases but discovered that there were just a case of common IT and no additional enterprise (as a combination of several legal units) was created. Nevertheless, an important awareness of the issue of combining legal units into an enterprise is now something that different domains that use the enterprise have in mind and they look into their data for possible new cases.

When we try to delineate enterprises, it is also important to be aware that at least data for all non-additive variables in the SBS could be prepared. These data are usually not available in the annual reports or consolidated annual reports (with exception of turnover) and according to our experience MNE groups are not willing to prepare additional consolidated data. Colleagues from national accounts also pointed out that in the case of merging legal units to an enterprise all data from different sources have to be prepared and consolidated (for example data from financial statements, tax data) for those enterprises. Sometimes it is perhaps not necessary to have all non-additive variables but it might be enough to have the information about internal flows (not only for turnover but for some cost components as well). The time component of preparing those data is also important so that they could be used for preparing data not only for annual statistics but for short-term statistics and quarterly national accounts as well.

3 Future work

In our future work we will continue to profile the most important domestic MNE groups. Since foreign MNE groups predominate in our country, we will also try to profile MNE groups that are important in our national economy but have not been profiled by other EU member states yet. The profiling will include also follow-up cases of profiling to monitor possible structural changes. Since structural changes of large and complex enterprises are of special importance, we plan to update in the future our methodology for demographic changes of legal units in our monthly SBR. For all legal units combined into an enterprise we plan to prepare special tables so they will be monitored separately and some decision or indications on how those changes influence the enterprise will be available on a monthly basis.

For the selection of important MNE groups for the profiling we will try to follow some rules. We will try to include all domains where the enterprise is an observation unit (SBS, FATS, ICT, national accounts) in this decision as it is important to assure that delineated enterprises are then used in all mentioned domains to produce reliable and consistent data on business statistics.

One of the important changes will happen in our register of enterprise groups. We will no longer create groups that have the same natural persons at the top of the decision tree. We will only keep the information that the last owner is a natural person and we will keep the data on the country of residence. This renewed register will together with EGR data form a basis for the inward FATS. SURS will continue to monitor the number of legal units in enterprise groups in this register of enterprise groups and some statistics will be published under the indicators of globalisation.

Since there might be some difference in the behaviour of all domestic enterprise groups, we will try to analyse their performance in order to see whether the profiling methodology needs to be adjusted for them. The profiling team will continue to spread the result of their work in the office and collaboration of other statistical domains will be further encouraged.

Conclusion

Enterprises could be generated according to the rules of profiling. However, this is just a starting point. In the case of complex enterprises other statistical units (LKAU, KAU, LU) might need to change as well. When we determine statistical units the feedback and collaboration with SBR's internal users is crucial, as this is the only way to really ensure the implementation of statistical units in domains. It is important that MNEs are selected in collaboration with all domains where the enterprise is an observation unit (SBS, FATS, ICT, national accounts) and also that delineated enterprises are used in all mentioned domains to produce reliable and consistent data on business statistics.

Profiling might not lead to the reduction of the burden for enterprises but could cause an additional burden. Sometimes it could be enough to just get additional information (e.g. information about internal flows) and not necessarily additional data. With the most important MNE groups, a direct contact is a necessity, timing for that is crucial as well as a good preparation phase.

Profiling is a continuous knowledge intensive work. Once the profiling of a specific case is done things are not over. Changes within the MNE groups already profiled must be followed as well as

a general behaviour of MNE groups (e.g. follow the number of legal units within the MNE group). The work of the profiling team needs to be communicated in the office on as many occasions as possible.

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