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Large and complex enterprises units and international profiling

EuroGroups Register and Profiling of the largest multinational groups

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Summary

This paper provides an update of the present and future use of Euro Group Register and profiling of the largest multinational groups in the EU. It also discusses assessing and improving the quality of Euro Group Register according to feedback from users. Further, the purpose and outcome of European profiling is presented. Finally, the document reviews the results from testing European Profiling and plan for the next steps.

I. The EuroGroups Register

A. Introduction

1.   The EuroGroups Register (EGR) set up started in an experimental way (EGR 1.0), following the adoption of the present BR Regulation (No 177/2008). The first 2.0 frame produced with the improved version EGR 2.0 was disseminated in spring 2016. The shift to version 2.0 started a period of stability for the EGR, with no more major methodological and IT developments. The present production process relies mainly on information provided by the ESS NSIs and it allows the EGR producers and EGR users to access the micro-data information in a secure on-line environment. This situation allows comparability between subsequent yearly frames and the possibility to focus on the quality issues.

2.   The EGR is created for statistical purposes only. EGR's goal is to improve the quality of information on European[1] multinational enterprise groups available in the NSIs in the Member States. In concrete terms the EGR aims at providing coordinated "frame populations" (snapshots of the European enterprise groups' population at a given reference date) to ESS statisticians[2]. At least one frame is produced yearly, with a delay which is at present T+15[3] months.

3.   The EGR frames are accessible to all national statistical authorities - national statistical institutes and national central banks - responsible in the ESS of producing official statistics. According to Regulation (EC) No 177/2008 each EU Member State and EFTA country can access the full structure of a multinational enterprise group, including its statistical units and characteristics, provided that at least one legal unit is resident in its territory. The data of EGR frames are disseminated via the Eurostat secure exchange channel called EDAMIS.

4.   The following units and their characteristics are in the EGR:

UNIT	Characteristics	Figures for the 2015 frame
Legal units Total number identified[4]	identity & demographic characteristics, control and ownership characteristics	**about 23 million** *(about 0.5 million outside Europe)* – potentially part of groups
Legal units which are part of multinational groups	identity & demographic characteristics, activity code (NACE), number of persons employed	**about 770 thousand** in multinational groups
Enterprises	identity & demographic characteristics, activity code (NACE), number of persons employed, **turnover**, institutional sector	**about 640 thousand** in multinational groups
Multinational enterprise groups	identity & demographic characteristics, structure of the group, group head, country of global decision centre, activity code (NACE), **consolidated employment and turnover** of the group	**about 80 thousand**

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[1] EGR's objective is to record all enterprise groups with at least one legal unit active in Europe

[2] Only official statisticians in Eurostat and NSIs who are maintaining Statistical Business Registers or using them for the production of statistics have access to the EGR confidential micro-data.

[3] This means, for example, that the snapshot for the year 2015 is made available in March 2017, 15 months after the end of the reference year.

[4] The EGR aims at identifying all incorporated legal units that may potentially be part of multinational enterprise groups.

B.   Identification of the legal units by the LEID

5.   All legal units in the EGR process get the so called legal entity identifier (LEID) number. The LEID number is a unique identification number assigned by the EGR system. A central EGR application, called the EGR Identification Service (EGR IS) manages the identification process and issues the LEID numbers. Currently about 23 million incorporated legal units are uniquely identified with a LEID in EGR. Only 770 000 of them belong to multi-national enterprise groups.

C.   The EGR present and future use

6.   At present the EGR can be seen as a newly constructed, almost finished house which cannot be inhabited until the roof is securely installed (with data quality being the roof of EGR). Some use is already made of the house but the future residents (or users) will only move in definitively when the necessary quality is reached.

7.   The present goal is the "roof installation" (quality assessment and quality improvement) which should make the EGR much more used (populating the EGR "house"). Therefore Eurostat, together with the NSIs, is investing at present in:

- Understanding better the present and potential use of EGR;
- Further assessing and improving the EGR quality;
- Increase the use and usefulness of the EGR.

8.   This means more concretely:

- Further promoting the EGR for all ESS business and business-based statistics (such as NA and Balance of Payments Statistics);
- Producing EGR output tables for dissemination;

9.   Integrating the results of the Profiling activities into the EGR.

10.   For the moment FATS statisticians are the main EGR users. Still not all FATS producer use the EGR - often not as the unique backbone -, but just as complementary data source. Other European statisticians (including the national producers of NA and Balance of Payments statistics) make some use of the EGR for different purposes; others would be interested in using it, but are waiting for further EGR quality improvements.

11.   More information on the present and potential EGR use will be available very soon based on the results of an ad-hoc questionnaire circulated in March 2017 to all European NSIs.

12.   A thorough knowledge of the EGR present and future use is necessary to:

- Improve the EGR quality- Quality can be defined as fitness for user purposes and therefore a thorough knowledge of the user requirements should lead to targeted quality improvements;

- Support strategic decisions – Once acknowledged who are the potential users and their needs, the gap between the present EGR and the user' requirements will get clear. This gap will then determine the future EGR development.

EGR potential users

- Business Statistics

    a. Statistics on Foreign Direct Investments (FDI), External trade in goods (TEC) and services (STEC) and other function oriented statistics (R&D, ICT, GVC).

    b. Structural Business Statistics (SBS, Entrepreneurship and Business demography). The possibility of producing EuroGroups demography is also envisaged.

- Business-based Statistics e.g. National Accounts, Balance of Payments (BoP) statistics, Structure of Earnings Survey (SES) statistics, Continuing Vocational Training Survey (CVTS) statistics, etc.

D. Assessing and improving the EGR quality according to feedback from users

13.   The main dimensions for EGR quality are:

- Relevance (meeting the needs of users);
- Completeness (coverage);
- Accuracy (including consistency and comparability);
- Timeliness[5].

14.   At present EGR is **relevant** for FATS producers. Some additional characteristics in the EGR are needed for further uses too. The present survey on the EGR users and potential users will give indications on such characteristics.

15.   Concerning **coverage**, virtually all significant global enterprise groups in Europe are recorded in the EGR, while the coverage is weaker concerning small groups (with less than 500 employees). Foreign legal units (parents or subsidiaries) are difficult to include in the EGR. If a legal unit is not identified in EGR, it cannot be used to build groups in EGR. Several actions are taken to alleviate the problem.

16.   At present EGR covers at least 80% of the employment in groups measured by FATS. With all the on-going actions, at least 90% (probably more) of the employment coverage should be reached by 2019.

17.   The present **timeliness** is acceptable for FATS purposes (the preliminary frame is produced at t+ 13 months and the final frame at t+15 months); however a better timeliness would increase the EGR usefulness for FATS users. Timeliness will also need to be improved in order to attract and satisfy additional users. This implies that timeliness of the national SBRs feeding the EGR will also need to be improved.

18.   Concerning **accuracy** EGR should accurately and reliably portray the reality. If it is not always the case, investigations are needed at input[6], throughput (algorithms creating the groups from legal units and relationships collected) and output level.

19.   Improvements are expected as a result of the Eurostat's data quality program (DQP) launched in 2016, encompassing the quality of the national SBRs (input to EGR) and of the EGR itself and including a set of quality indicators allowing the assessment of the EGR accuracy at the three mentioned levels. The integration between EGR and Profiling is also

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[5] Timeliness is a compromise between actuality (shorter is better) and quality (longer is better)
[6] Input comes from NSIs, complemented just when necessary with information from other sources.

expected to improve the EGR accuracy. The target level of accuracy will depend on the analysis of the users' requirements[7].

20.   Data quality is also affected by the production processes and the data exchange. Pilot actions should improve the interoperability of the National SBRs and the EGR. These actions are launched in 2017 and are expected to further improve the quality of the EGR.

E.   EGR process overview
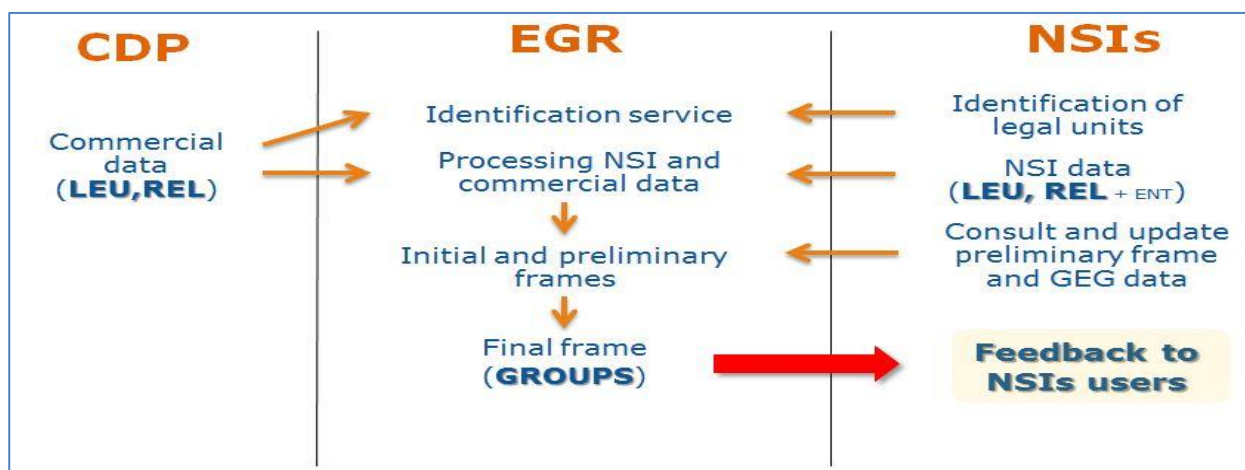
The EGR 2.0 receives majority of information from NSIs. Commercial Data Providers (CDP) are only used to complement and validate the NSIs information.

II.   Profiling of the largest multinational groups

A.   Purpose of Profiling

21.   According to Eurostat Business Registers Recommendations Manual Profiling is "a method to analyse the legal, operational and accounting structure of an enterprise group at national and world level, to establish the statistical units within that group, their links, and the most efficient structures for the collection of statistical data"[8].

22.   In fact, the purpose of Profiling is also to maintain such structures over time and to allow early identification of the multinational group's restructuring operations that may affect the statistical data production in the countries where the group operates.

B.   European Profiling[9]

23.   Multinational groups no longer see national borders as a limitation to their organisational structures and activity: they organise themselves globally, so profiling large

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[7] Accuracy is dependent, among other criteria, on the user. What could be considered accurate for FATS could be not accurate enough for SBS or FDI. It is likely that some further characteristics of the statistical units will have to be considered to achieve accuracy.

[8] Source: Eurostat Business Registers Recommendations Manual (Annex 3.1, paragraph 19

[9] European Profiling is part of the VIP.ESBRs (European system of interoperable business registers) project launched by Eurostat in 2013 for the Vision 2020.

multinational groups cannot stop at the country level. The relevant information to fully understand the multinational enterprise groups and better collect statistical data on them may not be available in one country only. Integration and comparisons across countries is often necessary to achieve consistency at European and at national level. Cooperation between statistical offices that have a common interest to understand the structure and the activities of the same multinational group globally is then needed.

24.   European profiling is a collaborative process between European Member States and, aiming to correctly delineate the economic activity of the group in the various countries and particularly in the European Union. European profiling methodology was originally designed to analyse the structure of the multinational enterprise groups and derive the national enterprises from a top-down process to improve the quality of the business registers and to increase the consistency across countries in business statistics on the EU level.

25.   In European Profiling there is precise governance that specifies the role and the responsibility of each participating country. The statistical office of the country where the global decision centre of the multinational group under profiling is located initiates the process and visits the Group Head representatives.

26.   During the visit information about the complete legal unit structure of the group is collected as well as additional information regarding the economic activities globally performed by the group. This information is then shared with the national statistical offices where the legal units of the groups are located. Normally national statistical offices know only the single resident legal units and have no source to detect the complete multinational group structure.

C.   Outcome of European Profiling

27.   The outcome of European Profiling should serve to improve the national statistical business registers and the EGR.

28.   The statistical immediate outcome of European profiling is the improved perimeter of the multinational group in terms of constituent legal units.

29.   Additionally, the statistical office where the Global Decision Centre (GDC) of the MNE resides gathers from the group statistical information useful to delineate the so-called global enterprises, i.e. entities that the group recognises as having a certain economic activity and characterised by a certain degree of autonomy. To delineate the Global enterprises the IFRS operating segments may be used as a starting point.

30.   Then the statistical office where the Global Decision Centre (GDC) of the MNE resides proposes to the statistical offices of the partner countries where the other parts of the MNE are located, the national parts of the global enterprise, the so-called truncated enterprises.

31.   European profiling activity can be combined to national profiling activities and eventually the truncated enterprises can be used as a starting point for the delineation of the statistical unit enterprise as defined by the European Regulation 696/1993.
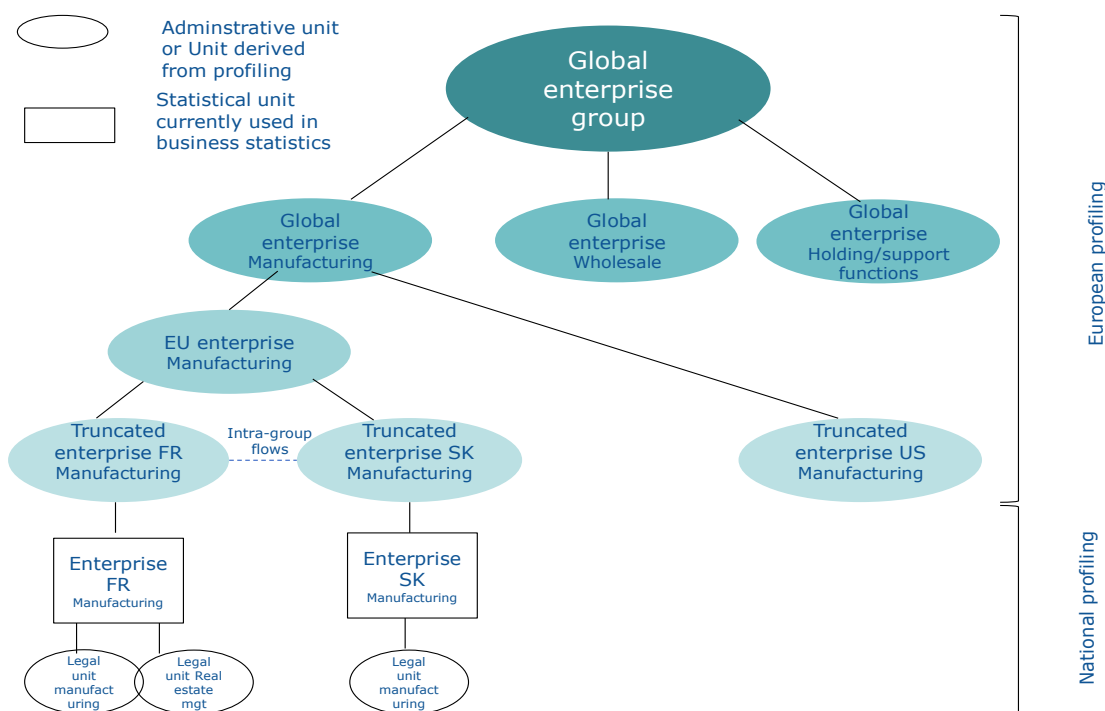
D. Results from testing European Profiling and next steps

32. European profiling has been tested over the last few years by about 20 Member States at least once.

33. During 2016 European Profiling was carried out using a specific shared platform developed by Eurostat and called the Interactive Profiling Tool (IPT). The IPT is a prototype that enables the statistical offices of the country where the GDC of the multinational group is located to exchange information with the other partnering countries on the perimeter of the multinational groups (the legal units), the delineated global enterprises and the truncated enterprises in a secure environment.

34. In 2017 European Profiling will be carried out using an improved version of the IPT, while financing in the form of individual grants to member States will continue to build up sufficient capabilities in the Member States.

35. According to the experience of the countries that have done European profiling in the latest years, the main issue related to European Profiling is due to the complexity of the process, especially in visiting the multinational groups and gather information from them. In addition, countries have expressed need for more flexibility, especially in defining the national enterprise while keeping a sufficient level of consistency at European level. Also, the timing and governance of European Profiling are considered issues by the countries, as they are linked to the length and complexity of the collaborative process. Profiling work is resource intensive and to reach a sufficient coverage of the significant MNEs operating in Europe, all Member States should contribute. The headquarters of the MNEs are unevenly distributed between the Member States. Due to frequent restructurings, profiling activities must be done regularly.

36.   The experiences so far demonstrate also important benefits:

- The "view from the top" is needed to get a comprehensive picture and better understanding of the multinational enterprise group's structure and activities. Profiling leads to an agreed common view on the MNE structure, to improved quality of national Business Registers (NBRs) and the EGR (fed by NBRs)

- Business statistics improve as the register frames improve and double counting due to intra-group flows (cross-border or within a country, now present in the SBS/STS)is avoided if data is collected on a higher level of consolidation

- Those countries which have not yet profiled enterprises on the national level can benefit from getting the truncated enterprises delineated by the NSI of the Global Decision Centre country as a starting point to further delineate their own national enterprises

- Collaboration and information sharing across borders is needed and appreciated. The national view is not enough to understand MNEs activities.

- Profiling fosters important long-term relations with respondents and leads to burden reduction (increased consistency of responses to surveys or centralised surveys)

- Risks for sudden shifts in time series caused by changes in the legal or accounting structure of economically significant MNEs (with no changes in production) are reduced

- The current methodology foresees defining the structure and collecting information on employment and turnover for the global enterprise and the truncated enterprise. If profiling is combined with other (centralised) data collection activities in the national statistical offices (e.g. by LCU), consistency between statistical domains is ensured and double counting avoided

- An understanding of changes in economic ownership, IPPs and production arrangements can be obtained if sufficiently detailed information can be acquired during the visit from the Group Head of the multinational groups, and if information between Member States is shared.

37.   Eurostat has recently set up a Task Force on profiling that is in charge to improve the current European Profiling methodology.

38.   The review of the methodology should include the connection between European Profiling and national profiling as well as the integration of the results into the EuroGroups Register.

39.   As explained in the previous chapter, the EuroGroups Register is build up pooling information coming from the national statistical business registers on the pair-wise control relationships among legal units. Thus, the groups structures are constructed using a bottom-up method. With European Profiling, the GDC country starts from the information available in the EuroGroups Register (EGR) for the reference year T-2 that is uploaded into the IPT and proposes updates to the partnering countries for the reference year T-1. The results of European profiling should then be used as a feedback for the national statistical business registers and for the EuroGroup Register production of the updated national and EGR frames at T-1.

40.   Following the review of the European profiling methodology also the IPT will be modified and eventually utilised for the profiling cycle in 2018.

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