

Large Cases Unit: Approach for dealing with multi-national enterprise groups¹

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1. Introduction

Multi-National Enterprise (MNE) Groups stand at the centre of economic globalisation. They play a dominant role in global production, which is then reflected statistically in their contribution to total external trade, foreign direct investment or international transfer of knowledge and technology. A study carried out in 2001 showed that over 80% of all international trade is related to at least one MNE Group. A third takes place within MNE Groups².

The MNE Groups play a very important role cutting across most economies in the world. In many European Union (EU) Member States their contribution to production, value added, employment, trade in goods and services, foreign direct investments, etc. is substantial. Indeed, in 2011, in the French economy, all MNE Groups represented roughly half of the employment (47%) and the value added (56%) of all enterprises located on French territory³. According to a recent study carried out by Dutch Statistical Office (CBS)⁴, MNE Groups are responsible for 21% of total employment and 30% of total value added in the Netherlands. They are responsible for about three-quarters of the international trade (excluding re-exports) in goods and services.

Collection of reliable and consistent statistical information from the MNE Groups is, therefore, of utmost importance for the National Statistical Institutes (NSIs) and National Central Banks (NCBs). Data received from the MNE Groups need to be complete and coherent across different statistical domains, like short-term statistics (STS), structural business statistics (SBS), international trade in goods statistics (ITGS), international trade in services statistics (ITSS), foreign direct investments (FDI) and foreign affiliates statistics (FATS), and ultimately, feeding into the balance of payments (BoP) and national accounts (NA) in order to present a full and correct picture of the economy.

As data collection in many of the NSIs/NCBs is decentralised and not sufficiently coordinated across the statistical domains, the large MNE Groups are usually confronted with many different questionnaires where some of the questions ask for the same or similar information. On the other hand, the multifaceted organisational structure of MNE Groups, their complex ownership structures and intricate global production arrangements create major challenges for the NSIs in measuring their activities and properly recording their transactions.

For these types of reasons, the establishment of a specialised unit within a NSI to focus on the communication and relationship with the largest MNE Groups as well as data collection, processing and quality assurance of data is becoming an essential need. The main purpose is to improve the

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² Kleinert J. (2001)

³ Boccara F., Picard T. (2015)

⁴ CBS (2017)

quality, consistency and coherency of the data but there can also be other beneficial impacts such as resource use and reducing reporting burden on MNE Groups.

The role of Eurostat and other international organisations in this respect is a facilitating one. Member States provide statistics to Eurostat based on regulations. These regulations describe the concepts, definitions and the required output. Member States decide themselves how to organise the collection of data and production of statistics, in line with the subsidiarity principle. The purpose of this paper is to summarise available information, update and share good practices, and not to prescribe any specific way of dealing with MNE Groups.

2. Large Cases Unit

Currently (in the beginning of 2018), the NSIs of Denmark, Finland, France, Hungary, Ireland, Italy, Netherlands and Sweden have specialised units responsible for large MNE Groups, while the United Kingdom (under-going a Pilot Exercise) and Norway are considering creating them. Such specialised units are often called Large Cases Unit (LCU) as they deal with large and complex cases trading across borders or just within the national boundary. The way how LCUs are organised can differ substantially from country to country depending upon the organisational structure of the NSI and/or NCB, available resources, etc. In this paper different approaches and common characteristics are described.

2.1 Main objective of an LCU

The main objective of an LCU is to provide all relevant statistical domains with consistent data originating from the biggest MNE Groups for compiling their statistics. In practice, inconsistent data are often discovered at different stages of the statistical value chain. Ultimately, many statistical differences and mis-measurement issues can be identified when balancing Supply and Use Tables, where for example, the supply and use of goods and services in an economy do not equal. Analysing the discrepancies, in many cases the source data may be inconsistent data covering MNE Groups, for instance between foreign trade statistics and structural business statistics. An LCU can identify and resolve these inconsistencies at an early stage before dissemination of the primary statistics. This objective, in general, may lead to the following actions⁵:

- Define the population of MNE Groups that should be managed by the LCU.
- Develop and maintain regular communication and good working relationships with the selected MNE Groups and form a contract manager type role, for example, acting as a single contact point for them and the NSI.
- Coordinate data collection for various statistical domains (e.g. STS, SBS, FDI, outward FATS) by designing common questionnaires (monthly, quarterly and annual) and carrying out centralised data collection from the selected MNE Groups. This eliminates duplication of questions and cuts the reporting burden by decreasing the number of questionnaires. In addition, other strategies can be developed such as collecting all the data the MNE Group can provide in the form convenient for them and the burden is on the NSI then to process the data as required.

⁵ It should be noted that not all existing LCUs are involved in all of the mentioned actions

- Analyse all aspects of data submitted to the NSI by the selected MNE Groups operating in the country. This includes the delineation of statistical units of the enterprises concerned.
- Carry out consistency checks of the various statistical and administrative returns, within and between the statistical domains (i.e. to check if data from separate statistical domains are consistent with each other).
- Eventually, provide all relevant statistical domains (business statistics as well as national accounts) with consistent data for compiling their statistics.

Depending on the specific task of the LCU concerned, the LCU could thereby take over the responsibility for the consistency and provide a coherent picture of the MNE Group and its contribution to each statistical domain. In some cases, the unit is not called 'Large Case Unit' as the functions covered are more like a 'Consistency Unit' which better reflects the objective. For example, in the UK, a Pilot Exercise is underway to deal with MNE Groups with the longer-term aim of developing an "International Business Unit".

2.2 Position of an LCU in the organisation of an NSI

Those NSIs which already have an established LCU in place usually differ in terms of the positioning of the LCU in their organisational structure. For example:

- In Finland, the LCU is situated in the *Data Collection Department*, as part of the Business Register Unit. As all the data are collected centrally by the Data Collection Department, the LCU is not involved in data collection from the MNE Groups.
- In the Netherlands, the LCU is situated in the *Business Statistics Department*, between data collection and data analysis. Here again, as all data are collected centrally, the LCU receives the relevant data from the data collection unit and carries out consistency tasks, before providing the data to other statistical domains.
- In Ireland, on the contrary, the LCU is part of the *National Accounts Department*. However, in this case the LCU itself collects the data, carries out consistency checks and provides all relevant domains with the final data.

Although in the above mentioned three cases, three different approaches have been taken. The common feature in all these cases is the fact that the LCU is organisationally close to where the data are collected or is even responsible for data collection itself. It is also important to note that the data collection, business statistics, national accounts and balance of payments are also organised differently as well as may have different roles, responsibilities and coverage.

2.3 Size of the LCU and the required skills

The size of the LCU will logically depend on various factors such as:

- number of selected MNE Groups
- size and complexity of the MNE Groups
- number of surveys per year
- staff resource - the number of "ring-fenced" staff working in the LCU or partly as they may also work in other domains.

The following skills and experiences are desirable in a LCU:

- Good communication skills to develop and maintain a good working relationship with the MNE Groups. Communication inside the NSI is also important - the LCU should listen to users and discuss (conceptual) issues as well as be able to convince the statistical domains that the data provided is correct, consistent and coherent and needs no further adjustments.
- Knowledge about the business models, business practices and the functioning of MNE Groups to understand the content and validity of the statistical returns.
- Expertise in accountancy, to be able to understand business accounts and translate the information to statistical concepts in line with the SNA and BPM.
- Knowledge of the statistical system and the relations between different domains.
- Proficiency in statistical techniques and data engineering dealing with a large amount of information.
- Investigative and data problem resolution skills such as reconciling data from different domains as well as company accounts and other sources.
- Administrative skills.
- Supporting IT solutions are also needed.
- A mix of internal competencies from different areas (registers, business surveys, NA, BoP, etc.) is considered a strong asset to be integrated with external knowledge (finance, international accounting standards, business strategy) by training and consultancy.

In most of the above cases, it would be rare if “all” of the skills mentioned are available in one person. Thus, the focus is on building a team whereby all the skills and competencies required are brought together and complement each other.

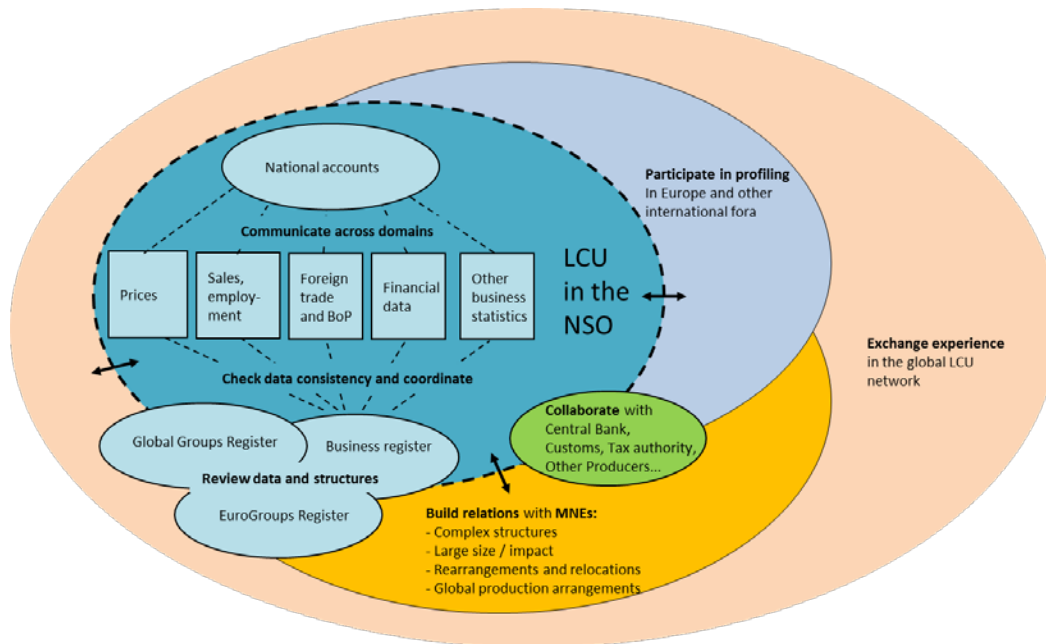
2.4 Working procedure

The working procedure of currently existing LCUs usually includes:

- Regular contacts with the MNE Groups and official formal meetings, complemented by ad-hoc and informal contacts.
- Good preparation for the meetings by reviewing the company structure, company data and notes and actions of previous meetings.
- Service-minded attitude to all statistical domains whom the LCU will provide with consistent and coherent data for compiling their statistics.
- Intra-institutional and international cooperation, including the contacts with LCUs in other countries, should be part of the LCU strategy from the beginning.

Figure 1 illustrates the role an LCU may play in the statistical production process. As already mentioned before, providing consistent primary data to National Accounts, Balance of Payments and other upstream domains by building relations with MNE Groups and ensuring close cooperation with other relevant authorities inside and outside the country make the role of LCU crucial in statistical production process.

Figure 1: Role of LCUs in statistical production



It should be noted that to work as effectively as possible, it is important to have the right choice of the selected MNE Groups to be treated by the LCU. The size of the MNE is an important but not the sole criterion. Other important selection criteria are the complex ownership structure, opaque organisational structure, transmission of inconsistent data, re-arrangements and relocations of MNE Groups, involvement in global production arrangements, ownership of intellectual property products, etc. It might be useful to have an algorithm to define (and possibly to regularly redefine) the units treated by the LCU.

Furthermore, it is very important that the MNE Group is willing to cooperate – this may not always be the case.

2.5 Benefits of an LCU

The key benefit is that a multi-skilled account management team would ensure the collection of timely and accurate data at the very beginning of the production process of economic statistics, enabling a prompt reaction to data changes and the resolution of anomalies before they are processed by any of the statistical domains. Comparisons could be made analysing the data received from different surveys and potential issues addressed at the first receipt of data.

A multi-disciplinary team would have the skills and capability of understanding these complex global MNE Groups, their accounts, and the underlying global issues such as:

- Factoryless goods production;
- Goods sent abroad for processing;
- Merchanting of goods and services;
- Contract manufacturing;
- Toll processing;

- Transfer pricing;
- Stocks and flows of IPPs;
- SPEs activity;
- Internet related activity; and
- FDI and related income flows.

The above issues are not new but have grown significantly in the past two decades and are problem areas that need to be addressed.

3. International aspects

To fully understand MNE Groups and to better compile data on their global business activities, it is important to understand their structure and their ownership chain internationally. The MNE Groups organise their production chains across national boundaries with affiliates in numerous countries. Therefore, a proper treatment of MNE Groups would require cooperation between concerned NSIs in the form of exchange of relevant information, sharing of statistical data related to the activities of those MNE Groups and reconciliation of the data to ensure the whole picture was correct. Without a full picture of the activities of the MNE Group, it is a challenge to ensure continued meaningful and correct measurement of global production and trade, and to understand the influence of MNE Groups on macro-economic and business statistics.

Therefore, data sharing, data exchange and data reconciliation between national LCUs is essential if they are to accomplish their tasks in an efficient and effective way. An international network of LCUs seems to be the right answer to facilitate the necessary exchange of relevant information. LCUs may have a special role in facilitating international work towards better understanding of MNE Groups. LCUs could provide the contact point between NSIs for MNE Group profiling and data exchange. LCUs' active involvement in international work and follow up of results achieved in recent international initiatives would support national work on MNE Groups.

However, exchange of confidential data will face different obstacles of legal, administrative, statistical, technical and cultural nature. Several on-going international initiatives are attempting to make progress in addressing issues across countries such as:

- the G-20 Data Gap Initiative;
- number of Eurostat-driven initiatives (for instance, the EuroGroups Register (EGR), European Union Profiling and the Early Warning System (EWS)); and
- the Nordic LCU network.

In March 2017, a G-20 Data Gap Initiative (DGI) Workshop on data sharing concluded that national authorities should review non-legal restrictions to data exchange, build trust by striking a balance between making more data available while maintaining confidentiality, and start with the sharing of data at the national level to contribute to further data sharing internationally. The G-20 DGI Workshop highlighted the need for further standardization and use of common frameworks in statistical production and data exchange (e.g. SDMX) and noted the necessity to consider ways to adopt common identifiers. The G-20 DGI Workshop also noted the need to establish an international

network to advance work, and suggested that the DGI Contact Group Members⁶ serve as a first contact point for questions on data sharing and accessibility. It would be useful for LCUs to liaise with the national contact point in the G20 countries highlighting issues and progress from the statistical viewpoint.

The European Statistical System, for instance, has set up the EGR, a unique international business register of MNE Groups that have at least one enterprise in the territory of the EU. The EGR contains information that identifies each enterprise in terms of ownership, activity, persons employed as well as structure and turnover. Together with national business registers, the EGR helps to provide a more informed view of the impact of MNE Groups on the economy. This can immensely facilitate the work of LCUs as the EGR should lead to better survey frame populations and improve the quality of information on MNE Groups. Although the EGR can be improved such as quality and timeliness related issues, it is a key tool to facilitate further developments.

Another important tool in obtaining consistency in the observation and description of large and complex MNE Groups is “EU Profiling”. This approach should precede the work of LCUs in reconciling any MNE Group data. The work of profiling is a method to analyse the legal, operational and accounting structure of an enterprise group at national and EU level, to establish the statistical units within that group, their links, and the most efficient structures for the collection of statistical data. The initial step of profiling is the delineation of statistical units in large and complex MNE Groups. It is therefore directly linked to the EGR, which offers the starting point in terms of acquiring a first view of the legal units and cluster of control of a MNE Group. For the MNE Groups, “intensive” profiling including company visits will be necessary especially for the more complex cases.

Eurostat has established the EWS which aims to identify important MNE Groups and possible restructuring cases, and to agree a common recording, preferably before the changes materialise or need to be incorporated in business statistics, balance of payments or national accounts. The purpose is to ensure consistency of applied methods, statistical treatment and communication of statistics involving MNE Groups across EU Member States. The EWS provides a light procedure for voluntary cooperation between national statistical authorities and Eurostat, and between business statisticians and national accounts.

In September 2017, the Nordic countries decided to establish a Nordic network for LCUs. In the first phase, the network aims to share practical information on tasks and processes of these units in the countries. Later the network intends to discuss the need and possibilities to share data on MNEs for statistical purposes among the statistical authorities of the countries.

The UNECE Task Force on Exchange and Sharing of Economic Data is also vital in progressing work on identifying the enablers and the obstacles of international data sharing and data exchange as well as developing possible solutions.

⁶ DGI Contact Group Members are senior-level officials identified by the G-20 national authorities to serve as main contacts for the IAG on the DGI. These officials are first contact points on the annual monitoring reports, attend the global conferences, and coordinate with the policy departments of their respective institutions.

4. Conclusions

Even though the activities of LCUs vary across countries, with the MNE Groups rapidly changing cross-country production chains, the LCUs provide an essential mechanism to support statisticians in dealing with the data for MNE Groups across statistical domains. The LCUs can also improve efficiency by promoting the use of common tools, drafting instructions for data collection and enhancing consistent treatment of data for the large and complex enterprises operating nationally and/or internationally. Moreover, when LCUs review the data for MNE Groups, they do that for covering various statistical domains, whereas without LCUs, this work would be done multiple times in various statistics leading to higher costs and lower consistency.

Another benefit is that good communication with MNE Groups can result in the situation that information on a restructuring or relocating of an MNE Group is received in time for the first statistical dissemination. The EWS, which has been launched by Eurostat with the participation of all EU Member States, relies on such potential of a good functioning LCU and would benefit from the development of an international LCU network.

Examples from countries, where LCUs already exist, show that setting up of the LCU requires an initial investment and training but in the medium and longer-term efficiency gains and even resource reduction can be achieved as well as reduction on the burden on MNE Groups. All countries with an established LCU (or consistency unit, as known sometimes) are benefitting from better knowledge and understanding of major MNE Groups and higher quality data covering their activities.

In summary, in an ever-changing globalised world the investment in an LCU type unit is essential to ensure that the national statistics are of high-quality and do not double-count or miss any activity. It is also important to make the step to share data, exchange data and reconcile the data for MNE Groups beyond just the national concept⁷.

⁷ Mahajan S. (2017)

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