



Improving the measurement of MNE groups' activities

New findings from European Profiling

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Background on European Profiling

- Eurostat and NSIs cooperate to achieve a cross-border, consistent view of MNE groups:
 - to understand the structure, activities of the MNE groups both at global level and at national level;
 - to address any inconsistencies coming from different practices, availability of information and tools between the NSIs.
- A collaborative process between:
 - the GDC NSI (The NSI of the country where the global decision centre of the MNE group is located);
 - The partner NSIs (those of the countries where this MNE group has legal units or branches);
 - Eurostat which developed a secure platform which allows the NSIs to exchange and store the results: the *Interactive Profiling Tool* (IPT).

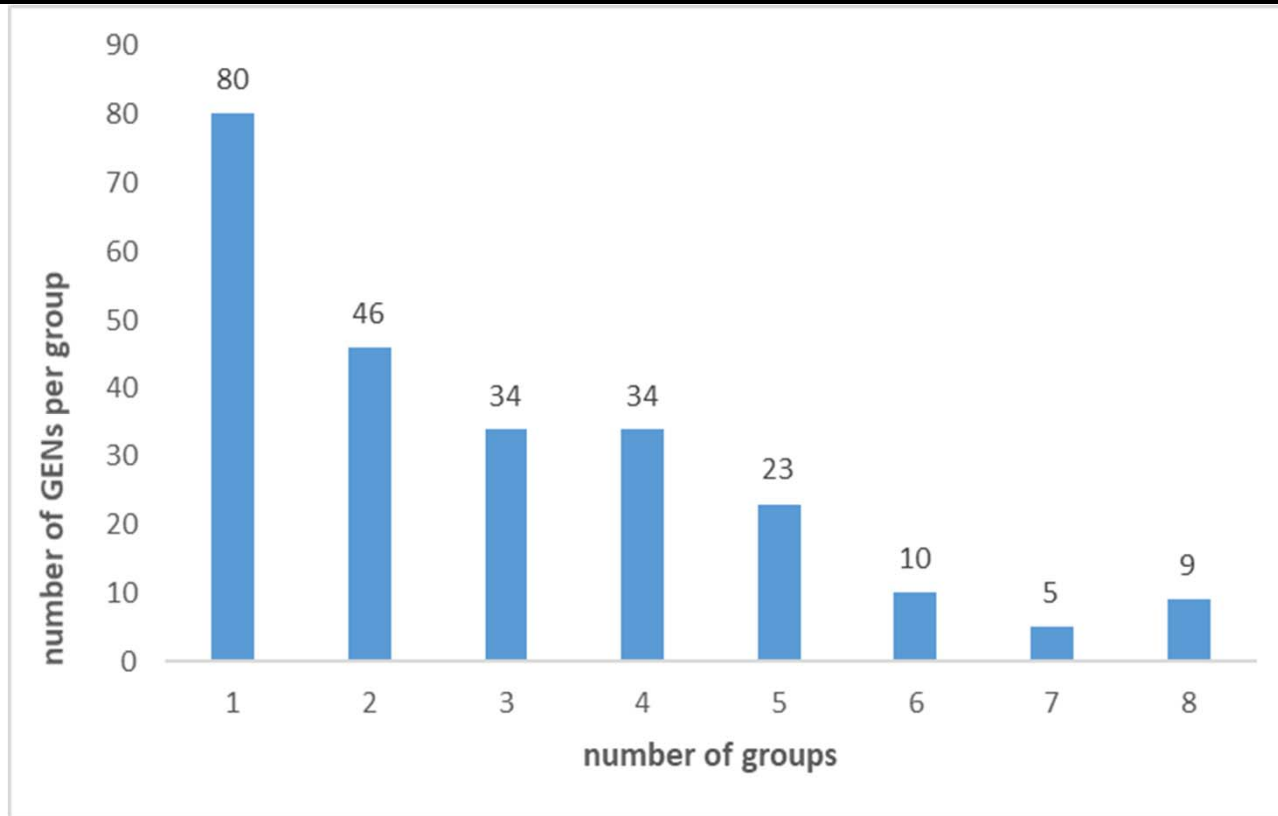
The results of European Profiling

- Common experience under the ESBRs project (since 2014)
 - The European system of interoperable business statistics project focuses on registers to address inconsistencies, implement common standards, IT tools;
 - 410 MNE groups profiled (at least once).
- Profiled groups are stored in the IPT since 2016:
 - Groups are chosen as large and complex;
 - 3 cycles completed, which involved 19 NSIs (and 7 others testing);
 - 27 NSIs participate in the current cycle of European Profiling.
- As a result, in October 2019:
 - 241 MNE groups stored in the IPT, profiled together by 19 NSIs;
 - They employ 6,5 M employees and control 28,176 legal units;
 - European profiling provided 692 Global enterprises (GENs).

Profiling practices are quite homogeneous among the NSIs

- From 1 GEN to 8 GENs per MNE group in each of the 3 grants;
- Even in smaller countries, MNE groups may provide several GENs.

Graph 1: Number of GEGs, according to the number of their GENs



Source: Eurostat, grants 2015-2016-2017 on European profiling



The largest MNE groups are present in more countries

Table 1: Indicators on the MNE groups' structure according to their size

	Number of groups	employees / group	median of countries involved	Legal units / group	Groups of 1 GEN (%)	GENs /group
Groups by size:						
less than 5,000 employees	83	2.313	8	33,8	30	2,7
5,000 to 9,999 employees	52	7.443	17	74	36,5	2,7
10,000 to 49,999 employees	78	24.491	32	158,9	29,4	3,1
50,000 employees or more	28	143.854	36	326,1	32,1	3
All	241	27.043	16	92,6	33,1	2,9

Source: Eurostat, grants 2015-2016-2017 on European profiling

- Strong correlation between the number of countries in which MNE groups are present and their size (columns 2 vs 3);
- No correlation between the size and the number of GENs (columns 2 vs 5-6);
- No correlation between the number of countries in which MNE groups are present and the number of GENs (columns 3 vs 5-6).

The internal structure of a MNE group is greatly determined by its activity

Table 2: Indicators on groups' internal structure according to the main activity

	Number groups	employees / group	Groups of 1 GEN (%)	GENs / group	Legal units /group	employees /GEN	employees /legal unit	Internal structure
Manufacturing: C	132	22.851	32,6	2,7	117,4	8.333	195	more complex
Electricity, Gas: D	13	18.849	7,7	4,8	114,7	3.890	164	many GENs
Construction: F	10	14.688	70	2,2	118,6	6.732	124	more LeUs
Wholesale trade : 46	7	3.830	42,9	1,7	35,9	2.234	107	small, simple
Retail trade: 47	16	53.655	31,3	3,1	109,1	17.520	492	large simple
Telecommunications: JB	7	64.908	42,9	2	166,7	32.454	389	very large, many LeUs
Business to Business: M, N, JA, JC	19	49.731	47,4	1,7	123,5	28.633	403	large, Simple
<i>All</i>	<i>204</i>	<i>25.679</i>	<i>34,5</i>	<i>2,7</i>	<i>116,1</i>	<i>10.261</i>	<i>240</i>	

Source: Eurostat, grants 2015-2016-2017 on European profiling

- Manufacturing groups are more complex than trade or services groups;
- Electricity and Gas groups have far more GENs;
- Construction groups have many legal units, but 70 % consist of one GEN;

Shifting from the legal units to the GENs consolidates ancillary activities in the main activity

Table 3: Employment distribution (%) for Manufacturing groups in sample

	Manufacturing groups	
	employment distribution (in %)	
	in GENs	in LeUS
C: Manufacturing	<u>95,2</u>	<u>75,2</u>
D: Electricity Gas	0,2	0,1
F: Construction	0,5	1,6
46: Wholesale trade	0,6	<u>10,9</u>
47: Retail trade	0,1	1,0
H: Transportation	0,1	0,9
JA, JC, M, N : B. to B.	2,2	<u>6,0</u>
Others	1,1	4,4
All	100,0	100,0

Source: Eurostat, grants 2015-2016-2017 on European profiling

- Manufacturing groups have GENs and LeUs units in wholesale trade, R&D, engineering;
- In the same way, construction groups have GENs and LeUs in B-to-B services, real estate.

In trade or services, the share of ancillary activities is much lower

Table 4: Employment distribution (%) for retail-trade groups in sample

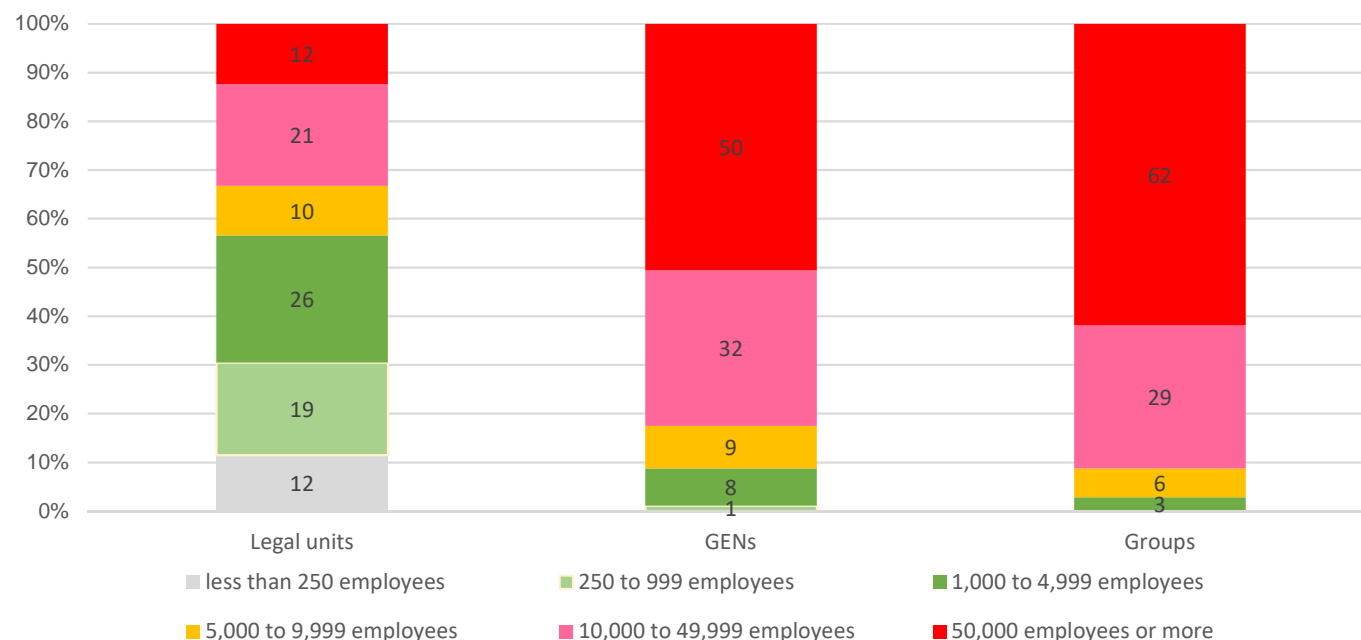
	Retail trade groups	
	employment distribution (in %)	
	in GENs	in LeUS
C: Manufacturing	1,3	1,6
D: Electricity Gas	0,0	0,0
F: Construction	0,2	0,3
46: Wholesale trade	0,6	2,2
47: Retail trade	95,3	90,8
H: Transportation	0,0	0,7
JA, JC, M, N : B. to B.	1,9	2,2
Others	0,7	2,2
All	100,0	100,0

Source: Eurostat, grants 2015-2016-2017 on European profiling

- Groups performing trade or services groups have less ancillary activities, since they are in direct contact with customers;
- The consolidation to their main activity is lower than for groups performing manufacturing or construction (also shown by studies of impact at national level).

Shifting from the LeUs to the GENS also improves the view of the size concentration

Chart 3: Distribution (%) of the units by size of the legal units, GENS and groups 241 MNE groups



Source: Eurostat, grants 2015-2016-2017 on European profiling

- In legal units, 12 % of the employees would be employed by SMEs;
- Only 12% of the employees in legal units in the maximal size, far less than in GENS or in groups.

The size distribution of the units themselves is more difficult to assess

Large MNE groups have many legal units with zero employees:

- Legal units which hold the assets (tangible or intangible assets), bill the production, special purpose entities;

The number of legal units with zero employees is difficult to assess:

- Some of them are inactive, They have to be kept in the group perimeter and in the GEN(s), especially not to miss control links according to EC Regulation n°177/2008;
- Some of them may be missing data. To limit this risk, we eliminate legal units without a NACE code.

The groups in the sample may provide an indication of the high share of legal units with zero employees

Chart 3: Distribution (%) of the units by size of the legal units, GENS and groups



Source: Eurostat, grants 2015-2016-2017 on European profiling

- This high share of legal units is not due to a general overestimation;
- Indicators and real examples show that this high share may reflect accurately the reality (elaborated below).

Legal units with zero employees reveal genuine legal arrangements within groups

Firstly, a high share of legal units with zero employees are dedicated to hold assets (according to their NACE code):

- 75% of legal units performing finance (section K) have zero employees (in fact, they are holdings companies classified in NACE 64.20);
- 69% of real-estate legal units have zero employees;
- 41 % of legal units performing B-to-B services have zero employees. (Many SPEs should be classified in B-to-B services, according to the NACE);

⇒ The 3 activities above represent 39 % of the legal units with zero employees (consequently, 16 % of all the legal units in sample).

Secondly, legal units with zero employees reflect legal logics depending on the activity of the group:

- Checked with real examples of legal units with zero employees and a turnover (looking at their NACE code and corporate purpose).

Depending on the activity, special reasons for creating legal units with zero employees

Table 3: Indicators on the legal units with zero employees, according to the groups' activity

	Legal units without employees (%)	Most frequent main activity of the legal units without employees (%)		Special reasons for creating LeUS with zero employees
Groups by main activity:				
Telecommunications: JB	64,6	Telecom. JB 74,8	B. to B.: JA, JC, M, N 9,8	commercial agreements between phone groups
Construction: F	52,1	Construction: F 51,9	Finance: K 10,5	LeUs for building sites
Electricity Gas: D	42,9	Electricity Gas: D 58,7	Finance: K 11,8	LeUs for calls of proposal
Retail trade: 47	39,4	Real estate : L 30,8	Trade: G 29,3	LeUs in real estate
Business to Business: JA, JC, M, N	38,5	B. to B.: JA, JC, M, N 77,1	Finance: K 12,6	LeUs for projects, calls for proposal
Manufacturing: C	36,8	Manufacturing: C 38,2	Trade: G 17,7	LeUs for wholesale trade
Wholesale trade: 46	27,8	Trade: G 66,0	Manufacturing: C 12,9	lower share, simpler structure

Source: Eurostat, grants 2015-2016-2017 on European profiling

(Extract from full Table, page 14 of the paper)

European profiling improves the view of MNE groups' activities

With the legal units, statisticians depend on the groups' internal organisation in legal entities:

- Legal units reveal legal arrangements, not the economic reality;
- Important biases in sector distribution and in size concentration;
- Misleading view of the groups in terms of structure and performance.

Through profiling, statisticians define enterprises with an economic meaning:

- These enterprises have an economic substance, a "certain degree of autonomy" and are market-oriented;
- The enterprises delineated within a group reveal its business model, productive or market synergies.

In addition, European Profiling provides cross border consistency:

- Common understanding of the MNE groups by the European NSIs;
- Sharing of experiences, findings and common tools.

Current and future developments

- 27 NSIs participate in the current cycle of European Profiling
- Current developments of European Profiling:
 - 1) A European Profiling Recommendations manual to be published
The guidance is in line with the other domains (Business registers, National accounts).
 - 2) Implementation of the integration between Profiling and the European Groups Register
The objective is to have the integration of profiling results and EGR, according to the agreed scenario, implemented in 2021.
 - 3) A European profiling programme is being designed
It should include around 250 groups, to address the largest MNEs in Europe and serve national uses.

Thank you for your attention!

**For questions or comments:
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