Luxembourg, 12 February 2024

Methodological note: Economic indicators of enterprises belonging to multinational enterprise groups

1. BACKGROUND

Microdata linking (MDL) is increasingly recognized as a powerful tool to provide new statistics without increasing the burden on respondents. Statistical business registers (SBRs) are the backbone of business statistics. They especially provide a unique identifier and characteristics for each statistical unit, enabling the linkage between the domains. That is why SBRs have been at the core of most microdata linking initiatives in business domains.

For many years, Eurostat has carried out several microdata linkage projects with Member States to define methodologies and exchange national practices. The ultimate goal of these projects has been to produce new statistical indicators that could improve insight into businesses' performance without creating any additional administrative burden on businesses.

In line with these initiatives, Eurostat launched a grant in 2021 to further promote the MDL activities in EU and EFTA countries as well as to help them build the necessary long-term capacities in terms of IT systems and processes, human resources and statistical methodologies.

The participants of the MDL exercise were asked to use the Statistical Business Registers (national SBRs) and the EuroGroups Register (EGR) as the main infrastructures for linking statistical and administrative data sources to obtain new SBS breakdowns.

One module of the grant focused on capacity building in the MDL to respond to new policy or research needs in the area of business statistics. The second module of the grant was specifically aimed at compiling Structural Business Statistics with an additional breakdown by a group status, mean on the participation of enterprises in an enterprise group, be it national or multinational.

2. DEFINITIONS AND CLASSIFICATION

In this article, the following terms are used to distinguish between the different categories of enterprises:

- **independent enterprise**: an enterprise which, according to the business registers, is not controlled by another legal unit or enterprise (neither domestic nor foreign), and at the same time, it does not itself control another enterprise (neither in the country of residence or abroad)
- **dependent enterprise**: an enterprise, which, according to the business registers, is controlled by another enterprise (either domestic or foreign), and/or, it controls itself another enterprise (either in the country of residence or abroad). Dependent enterprises belong to an enterprise group that could be all-resident (domestic) or multinational
- **all-resident enterprise group**: an enterprise group that has all its legal units registered in the same country
- **multinational enterprise group** is defined as an enterprise group consisting of at least 2 enterprises or 2 legal units located in at least 2 different countries. If at least one legal unit of an enterprise group is in the EU or EFTA, the multinational enterprise group is in the scope of the EGR. Multinational group can be split into domestically controlled and foreign controlled
- **domestically controlled multinational group**: an enterprise group with two or more legal units registered in two or more countries and of which the GGH, or the ultimate controlling institutional unit when available, is located in the country compiling the statistical business register
- **foreign-controlled multinational group**: an enterprise group with two or more legal units registered in two or more countries and of which the GGH, or the ultimate controlling institutional unit when available, is located outside the country compiling the statistical business register.

This Micro Data Linking exercise produced a new set of data for the 6 indicators broken down by enterprise group status. The groups statuses are defined as follows:

- independent enterprise
- enterprise belonging to all-resident enterprise group
- enterprise belonging to domestically-controlled multinational group (MNE group)
- enterprise belonging to foreign-controlled multinational group (MNE group)

The 6 selected indicators are as follows:

- number of active enterprises ([1])

- number of employees and self-employed persons ([2])

([1]) A statistical unit is considered to have been <u>active during the reference period</u>, if in said period it either realized positive net turnover or produced outputs or had employees or performed investments. (page 70 of GIA Regulation)

([2]) The number of employees and self-employed persons is the sum of the Number of employees and Number of self-employed persons. The Number of employees is the average number of persons who were, at some time during the reference period, employees of the statistical unit. The number of self-employed persons is the average number of persons who were at some time during the reference period the sole owners or joint owners of the statistical unit in which they work. Family workers and outworkers whose income is a function of the value of the outputs of the statistical unit are also included.

- wages and salaries (^{3})

- net turnover (^{4})

- value added (^{5})

- gross operating surplus (^{6})

and for at least three consecutive reference years between 2016 and 2020 included (^{7}).

3. GEOGRAPHICAL SCOPE

The data in this article is released as Experimental Statistics as it covers only a sample of EU and EFTA countries. There are 7 countries in total: Belgium, Spain, Italy, Netherlands, Portugal, Sweden, Norway, that produced the new SBS breakdown using the EGR information on a voluntary basis.

(^{3}) The variable "Wages and salaries" contains all expenses incurred during the reference period on the total gross remuneration, in cash or in kind, of all employees of the statistical unit. The total gross remuneration, in cash or in kind, contains as examples, but is not limited to the following items: direct remuneration, bonuses, allowances, gratuities, tips, commissions, payments to employees' saving schemes, payments for days not worked, wages and salaries in kind, company products, staff housing, company cars, stock options and purchase schemes, amounts to be withheld by the employer (social security contributions of the employee, personal income tax, etc.). Expenses regarding services provided through agency workers, as well as the expenses of social security contributions and other similar fiscal obligations (tied directly or indirectly to wages and salaries), if incurred by the employer, are excluded.

(^{4}) For all activities except for NACE 64, 65 and some activities of NACE 66 net turnover consists of all income arising during the reference period in the course of ordinary activities of the statistical unit, and is presented net of all price reductions, discounts and rebates granted by it. Income is defined as increases in economic benefits during the reference period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. The inflows referred to are arising from contracts with customers and are realised through the satisfaction by the statistical unit of performance obligations as foreseen in said contracts. Usually, a performance obligation is represented by the sale (transfer) of goods or the rendering of services, however, the gross inflows can also contain revenues obtained as a yield on the use by others of the statistical unit's assets. Excluded from net turnover are: all taxes, duties or levies linked directly to revenue; any amounts collected on behalf of any principal, if the statistical unit is acting as an agent in its relationship with said principal; all income not arising in the course of ordinary activities of the statistical unit. Usually, these types of income are classified as "Other (operating) income", "Financial income", "Extra-ordinary income" or under a similar heading, depending on the respective set of generally accepted accounting standards used to prepare the financial statements.

(^{5}) Value added is a composite indicator of net operating income, adjusted for depreciation, amortisation and employee benefits, all components being recognised as such by the statistical unit during the reference period. Its value is given by the formula: + Net turnover + Income from product- or turnover-related subsidies + Capitalised output ± Change in stock of goods - Total purchases of goods and services.

(^{6}) Gross operating surplus or profits is defined, in the context of structural business statistics, as value added minus personnel costs. It is the surplus generated by operating activities after the labour factor input has been recompensed. It is the balance available to a unit which allows it to recompense the providers of own funds and debt, to pay taxes and to finance all or a part of its investment. Income and expenditure classified as financial or extraordinary in company accounts is excluded from gross operating surplus.

(^{7}) For Spain only 2019-2020 and data about NACE section F was not provided. For Norway the variable wages and salaries was not provided for NACE B06 and D35.

This new breakdown allows to look into more detail at the performance of those enterprises that belong to domestic enterprise groups or MNE Groups, be it domestically or foreign-controlled as well as to carry out the comparison with the performance of independent enterprises.

As the number of participating countries is limited, no European totals can be calculated, nevertheless the results testify the usefulness of Micro Data Linking exercise to produce new statistics on MNE groups and insights on globalisation and its relevance in the EU economies without increasing the statistical burden on respondents. An update of this article is foreseen in 2024 when data from more countries can be additionally collected.