

Profiling enterprise groups: a promising new statistical activity

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Outline of the presentation

1. **General and French context**
2. **What is the impact of the new enterprise-definition?**
3. **What are the main problems to be solved?**
4. **What issues have been resolved?**

Conclusion

1 – The general and the French context

1.1 The general context

- **Solow paradox: “you can see the computer age everywhere but in the productivity statistics”**
- **“You can see enterprise groups everywhere but in the official statistics”**
 - 1999: Peugeot legal restructuring \Rightarrow production x 2.5
 - 2002 & 2006: Arcelor & Arcelor Mittal \Rightarrow nothing happened
- **Why ?**
 - In most European countries, official statistics are just based on “legal” units or more precisely
 - “Enterprises” are assimilated to legal units
 - This paradigm biases the description of economic fabric (size concentration and sectoral breakdowns)
- **This issue has been known for a long time**
 - Hard and costly to change
 - Implies European coordination and knowledge of the enterprise groups perimeters

1.2 The French situation

- **Two main events have made a difference:**
 1. A working group under the aegis of the CNIS (“structural statistics based on enterprise groups (EG) and subgroups”) ⇒ recommendations adopted in 2008 by Insee executive board: **“an affiliate of an EG must no longer be considered as an enterprise”**. (not an independent economic actor);
one enterprise = one group or an independent part of it
 2. New law : LME (loi de modernisation de l’économie) (2008). The purpose was to define new size categories and specifically to define ISEs (see next slide).
But one ISE = several LeU ⇒ a new definition of the enterprise (~ **European 1993 regulation**) was put in the law.
- **Finally, we disseminate, since 2009, estimates for roughly 20 accounting ratios based on a proxy of the definition**
 - The rest (the majority of all statistical results) is still based on legal units

1.3 The precise definition of the categories

- **Four categories : micro-enterprises, SMEs, ISEs, LEs**
- **Three variables taken into account: Employment, Turnover (annual sales), Total assets (French territory)**
- **Precise thresholds and definitions:**
 - Micro enterprises: fewer than 10 people and [either their annual sales or their total assets do not exceed € 2 million]
 - SMEs: fewer than 250 people and [either their annual sales do not exceed € 50 million or their total asset do not exceed € 43 million]
 - ISEs: Do not belong to micro enterprises nor SMEs, fewer than 5,000 people and [either their annual sales do not exceed € 1,500 million or their total assets do not exceed 2,000 million]
 - LEs: Not classified in any categories above

1.4 profiling groups

- **What is fairly easy to be done:** (because we have in France the perimeter of all the groups), to get estimates for all variables:
 - Treat all the groups as single enterprises
 - Consider their possible truncated part to the French territory (if they are multinational)
 - Simply add the accounts and not consolidate them
- **But:**
 - Most of the largest EG (or conglomerates such as Bouygues, LVMH, Gr1 Eltric) should be split because they are composed of relatively autonomous segments, performing different activities, that should strictly be considered as businesses
- **Profiling large groups is delineating autonomous parts within the groups. The result is the so-called “profiled enterprises”. Insee began this process for 75 EG in 2010.**

2- What is the maximum impact of this new enterprise definition

2.1 The four categories reveal the duality of France's economic fabric

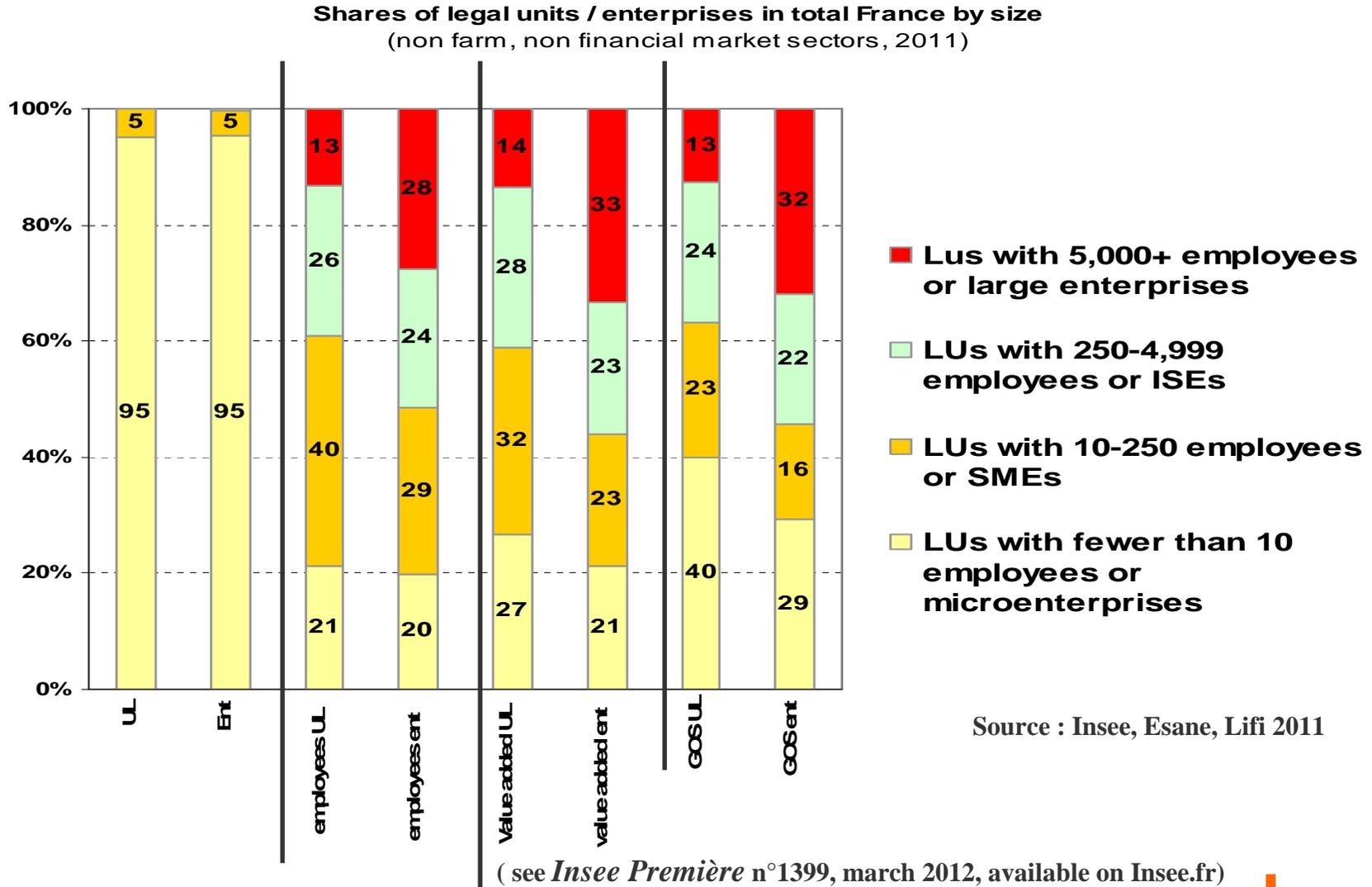
Number of enterprises and employees by enterprise categories
(non-farm markets sectors 2011)

	number of enterprises	number of employees		share of employees
		mean	median	
microenterprises	3 001 329	1	0	19%
SMEs excluding micros	137 534	27	16	27%
ISEs	4 959	615	354	23%
Large enterprises	243	16 790	7 830	31%

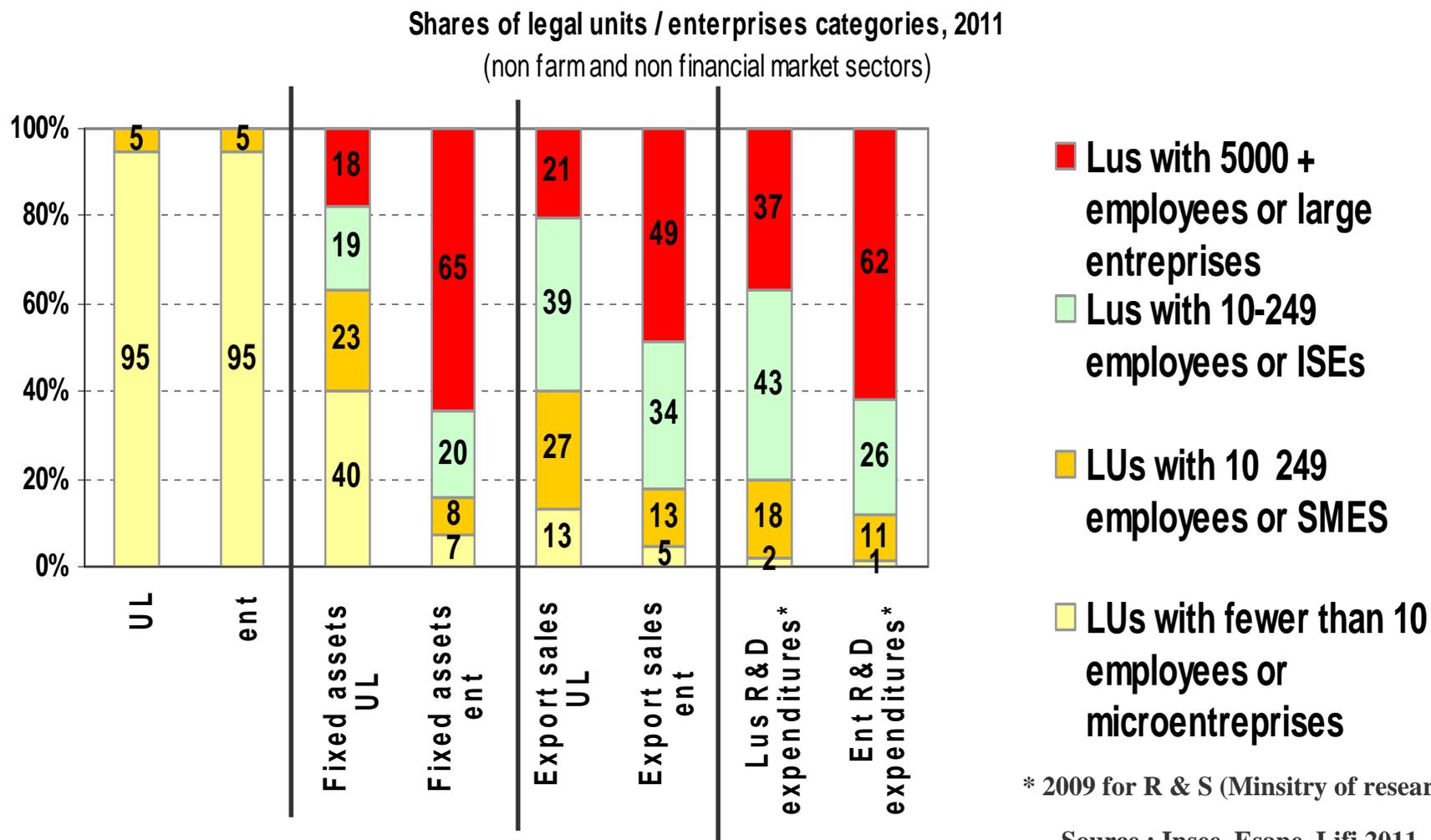
Source : Insee, ESANE, LIFI, CLAP 2011

- **3.14 million of enterprises employ 13.3 million of employees FTE (14.9 employees 31-12)**
- **Each category weights a large share of employees**

2.2 A far more concentrated distribution of enterprises than measured by legal units (1)

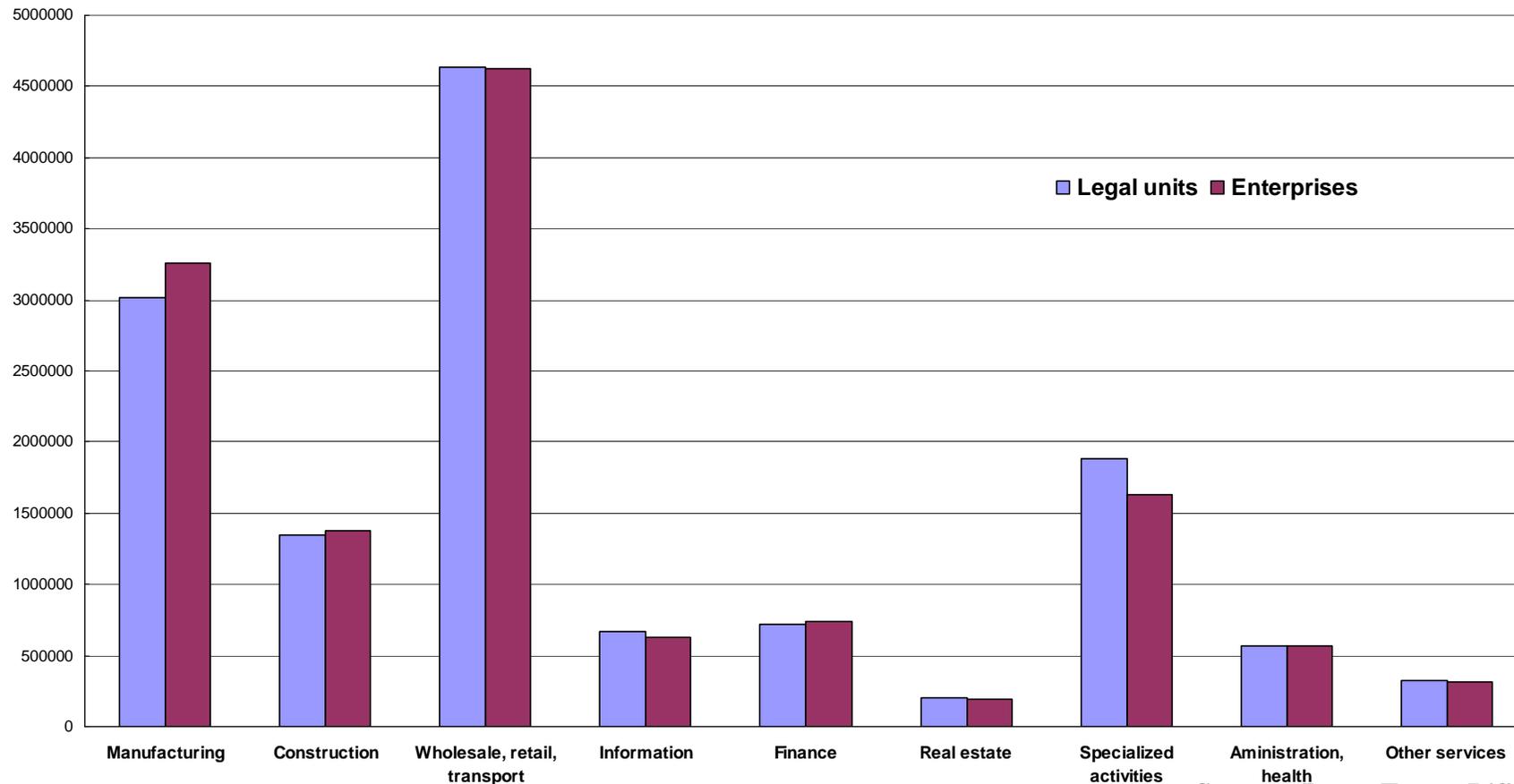


2.2 A far more concentrated distribution of enterprises than measured by legal units (2)



Source : Insee, Esane, Lifi 2011

2.3 Service sector affiliates are reincorporated in manufacturing groups



Source : Insee, Esane, Lifi 2011

3.3 million employees in manufacturing enterprises, 3 million in manufacturing legal units (increase by 9 %)

In 2000, the 1, 500 French largest groups had 8 % of their staff in sales and support functions

(Gonzales Picart, 2007)

Profiling enterprise groups

3- What are the main problems to be solved

3.1 From estimates to real figures (1)

- **Delineating profiled enterprises within large groups requires a dedicated team of experts, familiar with business accounting; they are facing 3 types of challenges:**
 - *Geographic divisions*: "global" enterprises are defined at global level whereas we still need national data ⇒ we need "**truncated**" enterprises. **Doesn't preexist but possible to obtain**
 - *Accounting standards for consolidated data*: for non additive variables (turnover, debt,..) we need consolidated data. In most cases, financial statements respect IFRS standards (breakdown by function ≠ by nature) ⇒ we need to translate into **national standards** (e.g. French PCG for VA). **Difficult but done**
 - *Other variables*: as normal statistical units, those new enterprises must answer, to all kinds of surveys; or we must produce their data from legal units characteristics. **This is the most difficult step, not always successful**

Of course, there will be breaks in series

3.1 From estimates to real figures (2)

- **Delineating enterprises within small (or simple) groups can be done automatically:**
 - Most of them are domestic; few affiliates
 - Internal flows are weak
 - We can easily equate 1 group = 1 enterprise
 - We can use legal units data and elaborate automatic consolidation (for ancillary activities)

This work is currently in progress

- **Delineating enterprises within intermediate size groups implies additional information since:**
 - The number of affiliates is bigger
 - There are internal flows and an automatic consolidation is more problematic
 - There could be several enterprises within a group

Their treatment is not yet started

4- What issues have been resolved?

4.1 The issues solved in France

- **The three possible statistical units (LU / PE / EG) retain their proper legitimacy according to the issues one seeks to analyze (no debate for independant companies):**
 - LU for labor law & employment issues
 - PE for the analysis of production and its factors
 - EG for financial analysis and comprehensive strategies
- **Aggregates for the four categories of enterprises have legitimized the law a posteriori; groups differ according to:**
 - productivity , employment variations, international deployment, export propensity
- **2/3 of large French groups are fully profiled. Their French situation is completed with the outwards FATS results.**

4.2 The situation in Europe & the future

- The enterprise definition of 1993 European regulation (which already implied profiling) has been actually very little implemented.
- At present, about fifteen countries are (more or less) engaged in such a process.
- Eurostat has launched several working groups (ESSnets, EGR and now ESBRs) to develop this new technique and strongly supports the principle of profiling.
- A centralized profiling process under the umbrella of NSI of the UCI country, with exchanges between NSIs is on debate and could enhance the ESS.
- The next and main milestone will be the new "FRIBS" regulation and the definition of statistical units that will be adopted.

Conclusions

1. In most cases, presently, the enterprise is equated to the legal unit. This leads to biases and wrong statistics. The solution is to profile groups and delineate new "profiled" enterprises.
2. Impact of the new definition : an initial approach shows that France's economic fabric is more concentrated than it seemed; the weight of manufacturing is increased but the sectoral deformation is not as big as the size deformation.
3. Implementing strategies are different according to the size of the groups and imply a dedicated team of experts. Some technical problems are still pending.
4. French and even European strategies are clear despite the technical difficulties.

We have been slow in taking into account groups. But I'm pretty confident that we shall not go back to our old LU

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**Thanks for your attention !
Any questions?**

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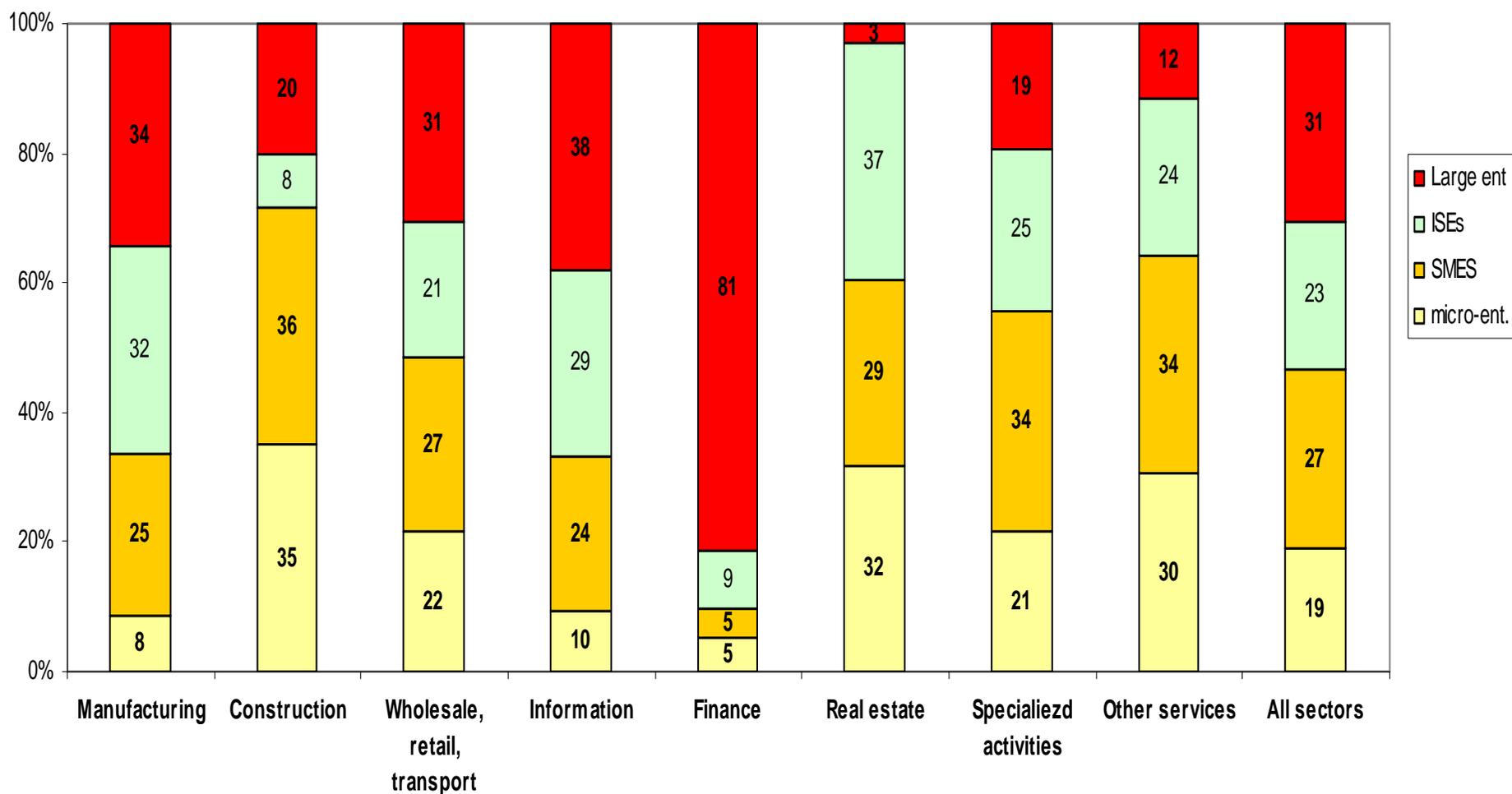
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du lundi au vendredi de 9h00 à 17h00



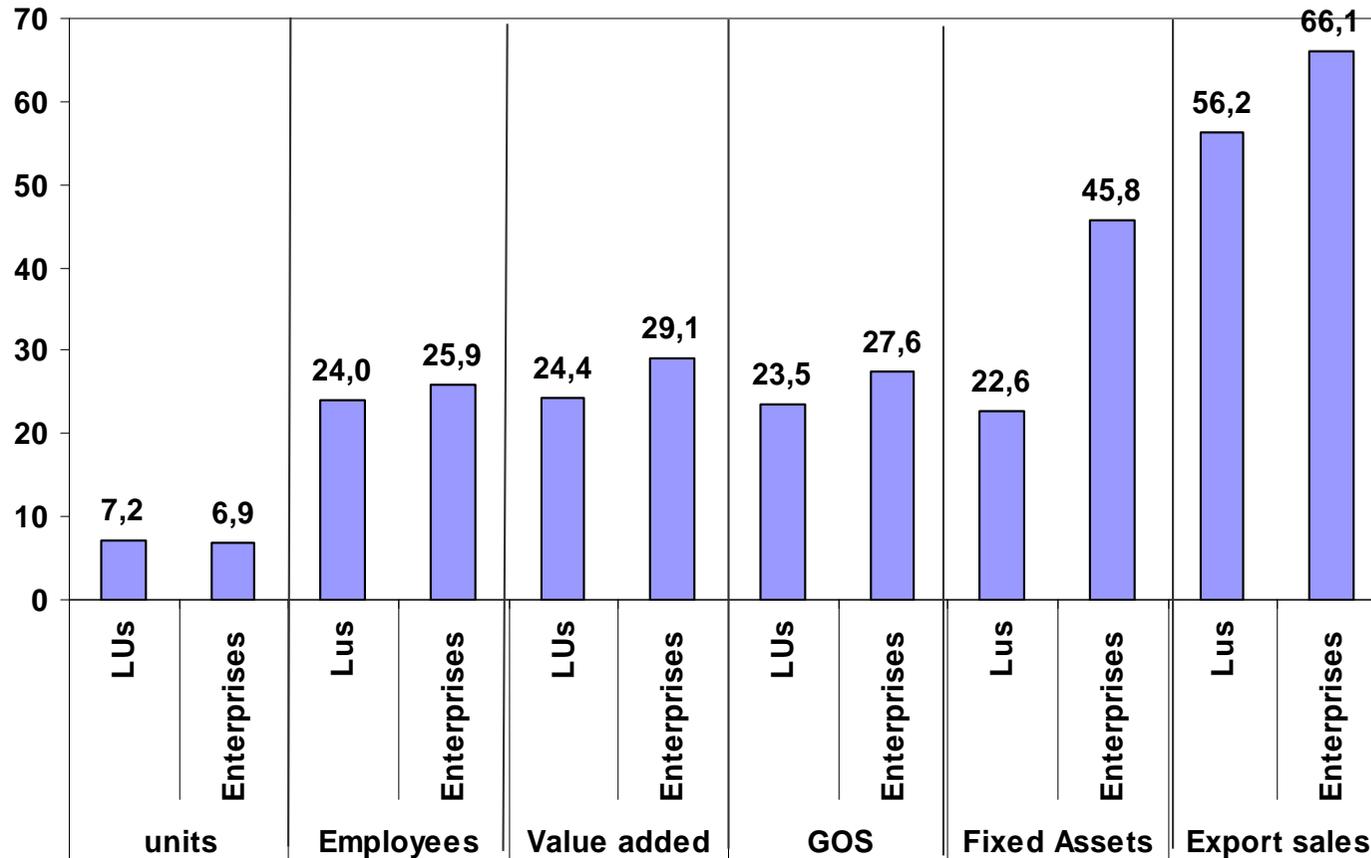
2.4 Finance, information and manufacturing are concentrated sectors

Employees by enterprise category according sector (2011)



A greater impact on value added, gross operating surplus, fixed assets, export sales

Share of manufacturing sectors in French economy 2011
(non farm, non financial sectors)



Source : Insee, Esane, Lifi 2011

3.3 Industry and sector : what is the share of manufacturing ?

Share of manufacturing in industry-based and sector-based approach
In France, 2011

Value added	source	Billions of €	share of GDP en %
<i>In industry (branche d'activité)</i>			
Manufacturing homogeneous production units	National accounts	227,6	11,4
<i>In sector</i>			
Sector of LUs with Manufacturing principal activity	ESANE	253,8	12,7
Sector of manufacturing enterprises	ESANE, LIFI	301,2	15

Source : Insee, National accounts, Esane, Lifi 2011

In the sectors of LUs, secondary activities of LUs are included in the total

In the sectors of manufacturing enterprises, service sectors subsidiaries of manufacturing groups are included in the total

Anyway trends are the same : In industry based approach, manufacturing was 16 % of French GDP in 2000, vs. 11,4 % in 2011

Papers available on the Net (in English)

On Cnis.fr

Structural statistics based on groups and sub groups

On Insee.fr

Data:

http://www.insee.fr/fr/themes/detail.asp?reg_id=0&ref_id=esane-taille-2011

Studies disseminated:

- « France's economic fabric more concentrated than it seemed », [Insee Première 1399 march 2012]
- « The French Groups locations outside France » [yearly]
- « ESANE: annual business statistics offering greater consistency at lower cost », In INSEE annual report 2010

The last enterprise definition project in Eurostat (1)

- (1) An **enterprise** is an organisational market oriented unit which benefits from a sufficient degree of autonomy in decision-making. It can be constituted by one legal unit, a combination of legal units or of parts of legal units. An enterprise carries out one or more activities at one or more locations.
- (2) An enterprise can correspond to either
 - a single legal unit not controlled by any other legal unit
 - an enterprise group as a set of legal units under common control, or
 - an autonomous part of an enterprise group.
- (3) Organisational means: For the economic activity in which the enterprise is engaged, a planned and formal structure is identified. This structure is able to govern its production processes and manage its productive means.

The last enterprise definition project in Eurostat (2)

- (4) Market-oriented means: The enterprise sells in its own will goods and services to an independent buyer and the exchanges are made on the basis of commercial consideration only.
- (5) The market orientation of an economic operator is a necessary condition to identify the autonomous statistical unit enterprise.
- (6) Sufficient autonomy in decision-making means: The enterprise has the control of the use (may not be the owner from a legal point of view) of its productive means, processes and outputs of the economic activities in which it is engaged.
- (7) Where the enterprise is active in more than one country, it is called a global enterprise and its national part is called a truncated enterprise. Even though the truncated enterprise is not autonomous it is considered to be an enterprise for the purpose of national statistics.