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Profiling and Globalisation

**Manual profiling in cooperation with the MNE:  
Italian experience and the quality improvement of economic statistics**

**Abstract**

*The cooperation with the MNE may be a core element for the effectiveness of manual profiling, especially intensive cases which call for a direct involvement of the group to be profiled. However, NSIs may establish different types of contact, from soft tools like e-mails and telephone calls to more complex ones, including visits to the groups and multifaceted interviews. The collaboration between the MNE and the NSI is an extremely tricky phase for the profiling process since it may have significant advantages for the success of the exercise but it may also result in a statistical burden increase from the MNE perspective. Facing this burden is a challenge for the profiling team and the NSI in a whole, because the final goal of contact phase should be not only to obtain the necessary info for the profiling analysis but above all to create a unique access point for collecting economic data at group level to satisfy users' needs from different domains (NA, SBS, STS). The type of contact and the involvement of the MNE has to be managed in a suitable way in order to ensure an improved quality of statistical output in economic statistics. This contribution tries to summarize the Italian experience of profiling activity done in cooperation with a number of MNEs in three reference years (2011, 2013 and 2015); despite the small number of observations, the empirical analysis developed in the paper is intended to highlight strengths of the Italian organizational model as well as points of weakness in such a methodological step. The benefits of building up a strong relationship with the group, such as raising the profile of the NSI and the attention towards the MNE's needs, are pointed out. However, enough room is also given to the main difficulties encountered in managing the relationship such as the reluctance sometimes shown by the MNEs. In addition, the work is aimed at proving the importance of the MNEs' cooperation in the profiling process through a comparative analysis between the data provided by the groups themselves following the interview and the data the profiling team would have defined without the cooperation. Such study is a real example of how a direct involvement of the profiled MNEs can contribute to the quality improvement of economic statistics on a national and international level, even ensuring an higher international consistency in statistics.*

*Keywords: Manual profiling, Cooperation with the MNE, Economic statistics.*

## 1 Introduction

ISTAT has been involved in the profiling activity since 2011 by taking part in a number of European projects such as ESSNets and Grants exercises. This continuous involvement has resulted in a clear consciousness of the importance of profiling activity to delineate complex enterprises as well as the necessity of establishing an ongoing cooperation with the MNEs to be profiled (also known as GEGs<sup>1</sup>).

Profiling is “a method to analyse the legal, operational and accounting structure of an enterprise group at national and world level, in order to establish the statistical units within that group, their links, and the most efficient structures for the collection of statistical data”. The major aim of profiling is indeed to examine complex enterprise groups (MNEs) in order to ensure high qualitative standards and suitable data comparability at international level.

The developing profiling methodology envisages two different approaches to the study of the MNEs and the delineation of their statistical units: automatic and manual profiling. The former<sup>2</sup> is a set of procedures, implemented to automatically delineate the statistical structure of business groups; it is especially suitable to analyse groups with a simple structure. The latter (manual profiling) is to be done for the very large and complex groups which have high impacts on the statistical outcomes. Manual profiling techniques call for a demanding activity of analysis and study of the MNE in terms of financial documents, administrative sources and website information at group level. Such a phase of “desk analysis” may, in some cases (intensive profiling cases), be enriched with the direct involvement of the group itself. In effect, the cooperation with the MNE may be a core element for the effectiveness of manual profiling. However, the collaboration between the MNE and the NSI is an extremely tricky phase for the profiling process since it may have significant advantages for the succeed of the exercise but it may also result in a statistical burden increase from the MNE perspective.

This contribution is organized as follows. Paragraph 2 is intended to introduce the Italian experience with regards to the cooperation with some relevant MNEs to satisfy the newest statistical needs which relate to the profiling action. Paragraph 3 presents an empirical analysis on a number of Italian groups profiled in three different reference years (2011, 2013 and 2015) with the intent of proposing a classification of the MNEs according to the type of cooperation established. The fourth paragraph deals with the main findings of the analysis and offers an overview on the strengths of the collaboration. A comparative analysis between the data provided by a limited number of MNEs following the interview and the data the profiling team would have defined without the cooperation is presented in paragraph 5 in order to highlight the rich contribution given by the interviewed MNEs to the quality of economic statistics at national and international levels. Finally, some conclusive remarks are presented (paragraph 6) together with the future developments foreseen by the Italian profiling team.

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<sup>1</sup> Global Enterprise Groups.

<sup>2</sup> ISTAT has heavily worked on this algorithm which is built up on an integrated micro-data base linking together the Italian Business Register of enterprise groups, including data coming from EGR, the Business Register of Enterprises, the statistical register Frame SBS which provides the main economic aggregates, and better the key SBS (Structural Business Statistics) variables such as value added and turnover and the Financial Statements.

## **2 Cooperation with the MNE in manual profiling**

The starting activity of manual profiling is depicting a picture of the group, both in terms of legal and operational structures, through desk analysis which implies collecting all the available information from the main administrative and statistical sources. The evaluation of the MNE to be profiled is enriched by the consultation of a wide range of financial documents referring both to the whole group and to the main operative holding companies, so that the operational and economic vision of the GEG may be completed. However, the disclosure to the third parties provided by the group, through corporate websites and presentations as well as financial reports, together with all sources available to the profiler, are not sufficient to understand the links between the legal units of the MNE and to derive the statistical units potentially detected in it. As a consequence, during manual profiling process, there is the need to contact the group and to face some aspects of the operative organization since that moving from an economic vision to a statistical one requires a set of information which is not always available to the profilers.

### **The Italian organizational model**

The actual Italian profiling team set up by ISTAT is composed by BR experts, engaged in the current production of Business Registers, thus working on a number of different activities; the team is also commonly referred to as ‘EGR-profiling team’ since that its members are also fruitfully involved in the EGR annual process. Profiling activity is more than ever occupying a core position in the analysis of enterprise groups and the links between all the legal units which form the groups themselves. The Italian profiling organization model tries to assign the profiling responsibility of each MNE to the same profiler for different reference years. In such a way a resources saving is ensured thanks to an in-depth knowledge of the group and familiarity with its structure by the profiler who has already analysed the group for the previous reference year; however, a regular exchange of opinions is guaranteed within the team of profilers working in a collaborative manner through motivating weekly meetings. A number of training activities has been launched to develop profilers’ skills; in particular, Italian profilers have participated to ESTP courses and taken part in university business tracks. Moreover, they have been collaborating with Italian colleagues from SBS domain and experts of FATS statistics.

### **The iterative process of contacting MNEs’ representatives**

In the Italian profiling team’s experience, contacting the groups has been an iterative process in two ways. On the one hand, starting from the contact people for the SBS surveys or, in some cases, from the investigation of references in the corporate websites and financial documents, a sort of “roadshow of profiling” has taken place. First of all, the primary task of initial contacts was to find the correct people in charge of managing the data needed to conclude profiling exercise; the second goal was instead to schedule a formal visit with the GEG’s representatives on a suitable date for the group even considering the financial accounts deadlines. Thirdly, the profiling team had to identify the most appropriate way to perform the meeting: a face-to-face interview, a conference call, a web meeting.

On the other hand, the communication process with the group can be considered as an iterative process with regards to the different reference years of profiling analysis: in a number of cases, first contact attempts (initial intensive profiling exercise) which didn’t gather exhaustive data have led to more complete and productive results when a follow-up analysis has been undertaken. For example, a group which was contacted for initial profiling activity provided only the total number of employees at group level and general information on the organization by segments, which were however useful to start the delineation of enterprises. In the follow-up analysis the group’s representatives addressed

the profiling team to different contact people within the group, one for each operative segment; in such a way, the profiling team was able to build a reliable relationship with the right positions in the GEG and to reach a complete set of information, although only for the Italian part of the group.

Other examples of positive contacts over the time were two cases intensively profiled as initial and follow-up profiling; after an introductory meeting organized in the initial phase, the groups provided statistical data needed for profiling activity by an exchange of mails with the profiling team. From such an experience you may deduce that contacts must be maintained and strengthened over the years in order to build a fluid and useful communication process with the groups to be profiled.

Finally, for each group it was necessary to adopt a different approach in order to manage communication in the best way; in effect, the profiler adopted different methodologies of contact. E-mails and telephone calls were useful for an initial explorative phase to investigate the intention to participate in such an activity which is not mandatory for the groups to be profiled and especially to find the right contact person to be interviewed. Then, e-mails were sent to organize and prepare the visit; they also contained an easy questionnaire with the main topics to be discussed during the meeting or *ad hoc* templates with the list of all the legal units belonging to the group's perimeter as well as the set of variables necessary to profiling analysis.

Before starting the proper phase of information and data exchange with profilers, some of the groups' representatives have asked for an institutional invitation to cooperate with ISTAT. For this purpose, more official letters and emails have been prepared and signed by the Director of Economic Statistics; the receiving of them has had a positive impact on the following contact phase. Therefore, it should be noted that there is no a one-best way to contact and look for cooperation with MNEs; profilers can't make use of standardized and always-valid steps for all the groups to be studied, but they have to choose among a series of tools and try to combine them in the most suitable manner with regards to the features of the GEG they are facing.

### **3 Empirical analysis: results of the contact phase**

Since 2011 the Italian EGR-profiling team has profiled a number<sup>3</sup> of MNEs through manual actions. This paragraph tries to present the database developed to store the information on the profiled groups and the main results of the contact phase. The database contains different files for each reference year. In particular, this contribution is focused on reference years 2011, 2013 and 2015, thus allowing to present some interesting considerations also on the follow-up happenings.

A simplified version of the structure of the file for reference year *t* is presented in Table 3.1. The first column (Column A) contains the list of the profiled MNEs in reference year *t*. Columns B to G represent the core variables of the empirical analysis because they present data on the contact phase established between the Italian profiling team and the MNE itself.

More specifically, the following variables have been created to save information on the cooperation mode and outcome with the MNEs. Different values for each variable have been set up as well in order to make the results enough comparable; in some cases, in order to highlight combined modalities, the variables assume positional values.

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<sup>3</sup> In this paper the number of profiled cases is referred only to Italy acting as GDC Country; the partnering activity is not taken into account.

Table 3.1 – Simplified structure of the Italian database on profiling contacts

A	B	C	D	E	F	G
<i>List of the MNEs</i>	<i>Type of contact</i>	<i>Outcome of the contact</i>	<i>Respondent selection mode</i>	<i>Contact level in the MNE</i>	<i>Data provided</i>	<i>Data acquisition mode</i>
MNE 1	0000	0	000	0	00000	000
MNE 2	0000	0	000	0	00000	000
MNE 3	1101	2	011	3	11110	011
...						
MNE <i>n</i>						

More specifically, the following variables have been created to save information on the cooperation mode and outcome with the MNEs. Different values for each variable have been set up as well in order to make the results enough comparable; in some cases, in order to highlight combined modalities, the variables assume positional values.

*Type of contact* – This variable is intended to provide sufficient information on the way the group has been reached by the Italian profiling team: through e-mails, telephone calls, formal letters, signed at a high level within the NSI, to highlight to the GEG the importance of the project, or the profiling team visit to the group. The profiling team may have used all the available types of contact, that is when the group has been reached through e-mails, telephone calls, an official letter and a face-to-face meeting. No contact may be established as well.

*Outcome of the contact* – It makes clear: (a) if the group has not been contacted at all (not all the groups to be profiled have been contacted; in some cases, they have been analysed through a light profiling method); (b) if the profiling team has identified the correct person to be contacted but no cooperation has been established; (c) if the GEG has provided the necessary core variables to complete the profiling activity; (d) if the profiling team hasn't received any reply to the attempted contact.

*Respondent selection mode* – This variable describes the way the appropriate respondents have been identified by the profiling team: if the possible respondents' names have been discovered by consulting open sources such as corporate websites; if a contact with the SBS or STS respondents has been established; or points out the contribution of profilers' personal contacts or collaborations established when the profiling activity is of follow-up type (already existing experiences with the GEG).

*Contact level in the MNE* – Since that respondents may belong to different areas of the organizations, the variable in column E highlights their role: Corporate governance, Human Resources Department and Financial or accounting area.

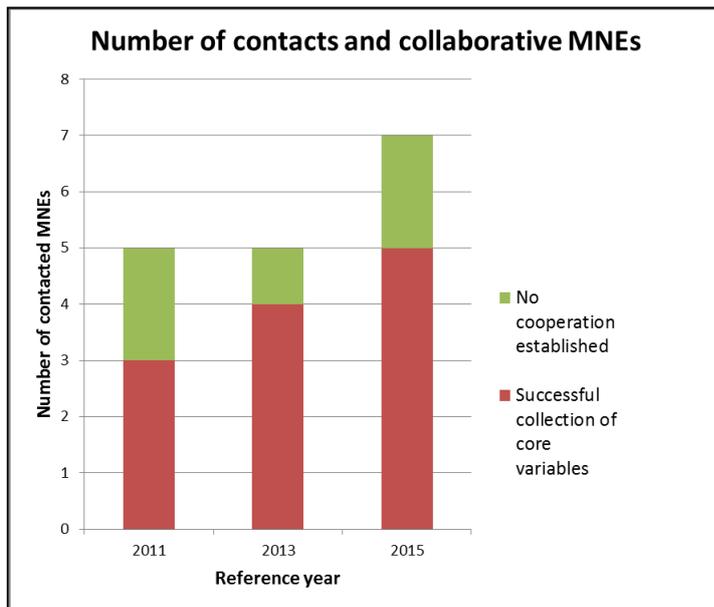
*Data provided* – The Italian profiling team has especially looked for core variables and consolidated data at national level. Column F tries to summarize the collected data for each group of the reference year *t*. The most co-operative MNEs have provided a big amount of data on the group's perimeter, on the economic variables of the legal units, the structure of the enterprises, the so-called ENTs, the links between the legal units and the ENTs and the ENTs' core variables.

*Data acquisition mode* – When contacts with the representatives of the GEGs are successful, the way they provide useful data to the profiling team may vary depending on the type of contact and the intensity of the relationship. In effect, different instruments have been developed in order to help the profiling team in collecting the statistical data and the MNE in providing them. Column G presents such data acquisition mode which may be the result of three different approaches: a general

presentation of the business group in the form of a discussion between the GEG’s representatives and the profiling team including questions on the data to be collected, a questionnaire addressed to the GEG’s representatives or a structured template (usually a spread sheet) to be completed by the GEG’s representatives containing the list of all the legal units of the group’s perimeter as well as their links to the enterprises.

By integrating all the available files (reference years 2011, 2013 and 2015) the complete set of the profiled groups may be obtained. In order to give an overview of the perimeter of the analysis, the following figure presents data on the number of groups which have been contacted in 2011, 2013 and 2015 distinguishing the successful cases from the failed ones<sup>4</sup>.

Figure 3.1 – Italian groups contacted in 2011, 2013 and 2015



In 2011, 14 GEGs have been profiled but only 5 of them (about 36%) have been contacted; the profiling team has succeeded in collecting data in 3 of the cases (60%). In 2013, the profiling activity has involved 10 groups of enterprises and 5 of them (50%) have been contacted, too; most of them (4 out of 5) have collaborated to the profiling activity by providing core economic variables. In 2015, the Italian profiling team has profiled 15 groups and 7 (46.6%) have been contacted; more than 71% of them have been co-operating. Data show an increase in the number of collaborative MNEs from 2011 to 2015; this is especially due to the follow-up activities undertaken by the Italian profiling team in strengthening the relationship with some of the MNEs of the initial sample.

#### 4 Main findings: type of contact and data collected through the cooperation

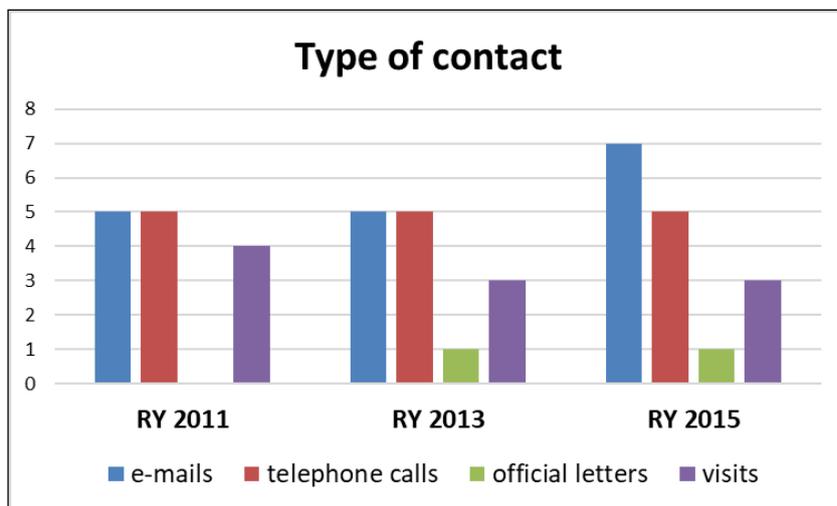
Despite the small number of observations, the empirical analysis developed in the paper is intended to highlight strengths of the Italian experience as well as points of weakness in such a methodological step.

<sup>4</sup> Even in the case of no-cooperation from the MNE side, the Italian EGR-profiling team has completed profiling activity by exploiting administrative and statistical sources; thus, in these cases, a decrease in quality had to be accepted.

With regards to the type of contact (Figure 4.1), most of the GEGs' representatives have been reached through formal e-mails. In particular, a first interaction has generally announced a telephone call while a second one, after the first contact, has been necessary to collect structural business statistical data. In only a few cases, the MNEs wished to receive a more official letter to assess their involvement in the activity.

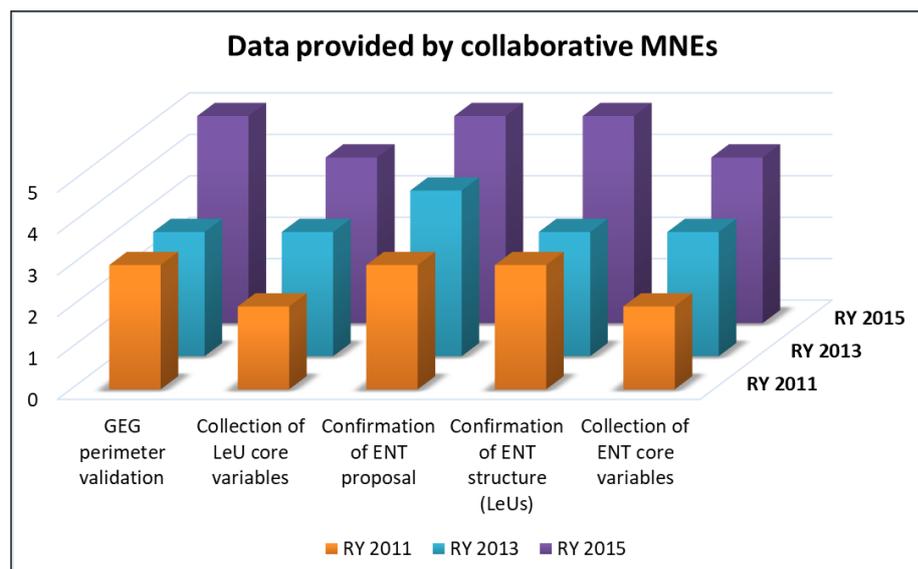
The Italian profiling team has observed that the most successful cases in terms of outcome of the contact are those MNEs which have received a well-detailed e-mail on the presentation, main aim and advantages of the project; in effect, since that profiling activity is still facing a prototypal step, the most tricky step of the whole contacting process is explaining to the group the importance for the group itself to collaborate with the NSI in a 'modern' way *id est* collecting data at group level instead of at legal unit level. E-mails have been the most suitable way to stress the relevance of cooperation between MNEs and NSIs. Telephone calls have been useful, too, in a secondary step to build a collaborative relationship, to satisfy the MNEs' needs regarding the reliability of the profiling, to have more information on economic data to be provided or to schedule a meeting which is at the third position in the 'type of contact' list.

Figure 4.1 – Type of contact by reference year



In spite of the type of contact, described above and referred to the three different reference years, attention should be also paid to the quality and typology of data obtained in the 'successful cases': 3 MNEs for reference year 2011, 4 for 2013 and 5 for 2015 (see Figure 3.1). To this aim, Figure 4.2 presents the main findings stored in the newly created database. It is evident that Italian EGR-profiling team has shaped data requests depending on the degree of cooperation shown by each of the groups in the sample; therefore, when possible, data were collected at global level while in some cases the profiling team focused on the national perspective. Such a choice is justified by a trade off between profiling data collection and statistical burden on MNEs.

Figure 4.2 – Collaborative MNEs: data provided by reference year



In almost all cases (11 out of 12) the MNEs have confirmed the legal structure proposed by the Italian profiling team; the only case of partial validation of the perimeter was occurred for a non-European group for which the profiling team could only obtain a validation at Italian level. The operational organization of groups in terms of ENTs proposed was always accepted by GEGs representatives, thus confirming that the profiling methodology, especially desk analysis, is the right way to approach to the group study in a statistical perspective. On a similar vein, MNEs have approved also the composition of ENTs in terms of legal units. However, in some cases, data on core variables, both for LeUs and ENTs, were not satisfying; consequently, in order to complete profiling exercise, they have been integrated with administrative sources.

To sum up, the amount of successful data requests has raised from 2011 to 2015. This evidence is due both to the increasing expertise of the Italian profiling team and to the follow-up cases; the latter shows the iterative condition of the ‘contact process’ in the sense that the relationship between the profiling team and MNEs may be reinforced during the years.

### 5 An ex-post evaluation of two successful case studies: the turnover overestimation

In the latest years, the Italian profiling team has been devoted to analyse the impact of profiling activity with respect to the main economic variables. Thus, this paragraph is intended to provide some examples of the relevance of the cooperation for what concerns the measure of turnover variable. In particular, an analysis of the difference between data collected before and after profiling activity is provided as well as between undertaking the sole desk analysis and building up a collaboration with the groups representatives. In effect, in order to highlight the importance of cooperation with MNEs during the profiling process the most interesting study has been focused on a comparative analysis between the turnover provided by the groups themselves following the contact phase and the turnover collected by the team during profiling analysis without the group cooperation. In this way the quality increase of economic statistics at national and international levels when the MNEs get in touch with the NSIs in a collaborative approach is put in evidence.

Following the operative steps managed by profilers in collecting ENT turnover data, the analysis compare not consolidated turnover, available from statistical and administrative sources, with both

consolidated turnover calculated by profilers and turnover provided by the MNE itself. In particular, the study has been focused on two cases and the main results are presented in the following tables (Table 5.1 and Table 5.2) which contain the structure of two relevant enterprises groups in terms of national enterprises (ENTs). The tables also contain the main indicators (Ind1, Ind2, Ind3 and Ind4) which have been measured to reveal the ENT turnover overestimation in which profilers may incur depending on the different aggregate used to provide consolidated turnover in the BR of Enterprises.

*Table 5.1 – Case study A: Profiling impact on turnover data (values in €/000)*

	Not consolidated turnover			Consolidated turnover				
	Business Register	Annual Report	Ind1	Measured by the profiler	Directly provided by the MNE	Ind2	Ind3	Ind4
	<i>a</i>	<i>b</i>	$(b-a)/a*100$	<i>c</i>	<i>d</i>	$(d-c)/c*100$	$(d-b)/b*100$	$(d-a)/a*100$
ENT A.1	6,529,925	6,101,155	-6.57%	6,101,155	5,637,831	-7.59%	-7.59%	-13.66%
ENT A.2	785,313	720,662	-8.23%	592,525	549,617	-7.24%	-23.73%	-30.01%
ENT A.3	368,397	368,284	-0.03%	368,284	189,593	-48.52%	-48.52%	-48.54%
ENT A.4	474,177	712,224	50.20%	592,001	246,961	-58.28%	-65.33%	-47.92%

*Table 5.2 – Case study B: Profiling impact on turnover data (values in €/000)*

	Not consolidated turnover			Consolidated turnover				
	Business Register	Annual Report	Ind1	Measured by the profiler	Directly provided by the MNE	Ind2	Ind3	Ind4
	<i>a</i>	<i>b</i>	$(b-a)/a*100$	<i>c</i>	<i>d</i>	$(d-c)/c*100$	$(d-b)/b*100$	$(d-a)/a*100$
ENT B.1	46,255,886	39,504,919	-14.59%	29,824,419	26,582,464	-10.87%	-32.71%	-42.53%
ENT B.2	10,488,851	10,285,701	-1.94%	10,244,795	8,737,142	-14.72%	-15.06%	-16.70%
ENT B.3	2,660,803	2,601,866	-2.21%	2,601,866	2,599,870	-0.08%	-0.08%	-2.29%

The first part of the tables present data on not consolidated turnover; the two main sources the profilers may use to collect it are Business Register at legal unit level (column a) which derives from an integration of various administrative sources such as VAT data, and Annual Report (column b). For each ENT, as an initial proxy of the turnover data at ENT level, profilers sum up data for each LeU belonging to that ENT. From the profiler side, column b represents the economic aggregate to be investigated with the groups representatives in order to find out the intra-flows transactions within the ENT, so it is the starting point of the discussion with the MNE.

The second part of the tables provides data on consolidated turnover; in particular, column c presents the results of the desk consolidation carried out by profilers on the annual report basis while column d is the outcome of the collaboration. It is evident that variables a, b and c are used to satisfy the scope of profiling when the GEG is not collaborative with the NSI or they cooperated in a partial way (only confirmation of the correct ENT structure without provision of core variables); however, turnover value reported in column c is a good estimate of the ENT turnover since that it doesn't contain the

intra-flows transactions, usually derived by the study of the annual reports. Despite the effective desk analysis developed by profilers (column c), the involvement of the GEG is the only way to find out all possible intra-flows within each ENT. In effect, Ind2 reveals how the GEG's cooperation may affect the TEN turnover definition. In a certain way, column d is the real measure of the turnover related to the third parties outside the ENT.

## **6 Conclusions and future developments**

This contribution is intended to highlight the importance of building up a solid relationship between MNEs to be profiled and NSIs; in particular, the empirical analysis developed in the document proves that the cooperation with the MNE may be a core element for the effectiveness of manual profiling. Establishing and maintaining contacts with the largest national MNEs is a tricky process so it needs to be planned in the most suitable way and to be followed by a team of experts with a statistical and economical background. In order to successfully reach the aim of profiling and collecting core variables at enterprise level, the Italian NSI is working on the development of a Large Case Unit in charge of collecting different needs, coming from the various statistical domains, such as BR, NA and SBS, and of contacting MNEs' representatives to satisfy them. In addition, an *ad hoc* survey on the collection of intra-flows is going to be undertaken with the aim of filling the informative gap on ENT core variables. The above actions are also intended to help profilers in increasing the number of successfully contacted groups to be profiled.

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