

# Business registers

## Recommendations manual

2010 edition



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# SCOPE OF THE RECOMMENDATIONS

# 1

## CHAPTER 1 — SCOPE OF THE RECOMMENDATIONS

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### 1A — The general framework

1.1 The Member States of the European Union have undertaken a programme to harmonise and develop their national business registers for statistical purposes. This programme is coordinated by Eurostat, with priorities decided and progress reported at annual meetings of the Business Registers — Statistical Units Working Group. The main tool for assessing progress is the annual business register inquiry, administered by Eurostat. Regular contact is also maintained between Member States and Eurostat via less formal means such as e-mail and the BRnet website: <http://circa.europa.eu/Members/irc/dsis/brnet/info/data/home.htm>

**Note** — a username and password are needed to access this site. Persons working with statistical business registers may request these from Eurostat.

1.2 This programme is generally open to other European countries, particularly EFTA and candidate countries, most of whom take part in meetings and discussions. It is also closely coordinated with the United Nations Economic Commission for Europe (UNECE), with joint UNECE/Eurostat/OECD meetings being held on a regular basis every other year. The main tools supporting this work programme are:

- The BR Regulation: Regulation (EC) No 177/2008 of the European Parliament and of the Council of 20 February 2008 establishing a common framework for business registers for statistical purposes and repealing Council Regulation (EEC) No 2186/93 (OJ L 61, 5.3.2008), which provides the legal basis.
- The BR Recommendations Manual: Article 7 of the BR Regulation states that "The Commission shall publish a business registers recommendations manual. The manual shall be updated in close cooperation with the Member States." The purpose of this Manual is to provide guidelines on interpreting the Regulation, as well as guiding the further development of business registers.
- The EuroGroups register: Article 11 of the BR Regulation defines an exchange of individual data between the Commission (Eurostat) and Member States' appropriate national authorities. This entails the creation of a central register of multinational enterprise groups at Eurostat and its integration with the national statistical registers.

The EuroGroups register will have a separate user guide, but the technical specifications for the data exchange will be included in this Manual.

## **1B — The BR Regulation**

1.3 The BR Regulation was adopted by the European Parliament on 25 October 2007 and by the Council of Ministers of the European Union on 21 January 2008, coming into force on 25 March 2008. It replaces the previous Regulation (Council Regulation (EEC) No 2186/93 of 22 July 1993 on Community coordination in drawing up business registers for statistical purposes (OJ L 196, 5.8.93)), and is part of a series of regulations intended to harmonise the European business statistics infrastructure, including:

- Regulation (EC) No 1893/2006 of the European Parliament and the Council of Ministers of 20 December 2006, establishing the statistical classification of economic activities (NACE Rev. 2) and amending Council Regulation (EEC) No 3037/90 as well as certain EC regulations on specific statistical domains, gives the legal basis to the NACE classification, introduces NACE Rev. 2 and replaces the previous versions of NACE.
- Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system within the Community.

1.4 The original, repealed BR Regulation (2186/93) was a compromise between what was desirable and what could reasonably be achieved during the 1990s. The initial position regarding registers differed greatly from one country to another. Some countries had to develop their registers or, in some cases, even create one, whereas others needed only to adapt their existing register to meet the requirements of the original BR Regulation. The new BR Regulation can be seen as consolidating the harmonisation of business registers, as well as extending requirements to cover additional variables, notably at enterprise group level.

## **1C — Objectives of this Manual**

### **a) To explain the Regulation**

1.5 The BR Regulation sets out a common framework for the harmonisation of national registers, but the practical implications are not always clear, partly because the Regulation is the outcome of complex negotiations. This Manual aims to explain the reasoning behind the provisions of the Regulation. It aims to provide the extra information required for the correct and consistent interpretation of the Regulation in all countries.

### **b) To extend beyond the Regulation in order to shape future development**

1.6 This Manual extends beyond the provisions of the BR Regulation for the following reasons:

- One of the main constraints in drawing up the Regulation was what was feasible within a certain timeframe for all Member States. Consequently, it reflects a compromise rather than the ideal situation. The Manual can therefore be used as a tool to push on towards ideal solutions by identifying and recommending best practices.
- Implementing the provisions of the Regulation guarantees a certain level of harmonisation between the registers in the various Member States, but this is not sufficient to make these registers fully operational. In order to do so, the Member States must incorporate other elements to take account of national peculiarities, such as the administrative sources used and the requirements of various register users. The

freedom to determine how to compile and maintain the register is consistent with the principle of subsidiarity, but makes it more important to have documented guidelines and information on the experiences of other countries.

## **1D — Structure of this Manual**

1.7 The Manual is presented as a set of different parts, dealing with:

- (i) The basics: Objectives, units, contents and access (chapters 1–10)
- (ii) Unit demography: Changes and continuity (chapters 11–16, 21–22)
- (iii) Contents: Updates and development (chapters 17–20)
- (iv) Guidelines for specific domains (chapters 23–24)
- (v) Specifications for the data exchange between Eurostat and Member States (to be prepared)
- (vi) Glossary for business registers (separate but closely linked with the Manual)

1.8 The structure of the Manual is not rigid. New chapters may be added to reflect new developments and existing chapters can be revised when necessary.

1.9 The Manual is primarily designed for electronic dissemination via the Internet. The advantage of this is that readers can be sure that they always have the latest version. However, its design means that it can be printed on a chapter by chapter basis if required.

For this reason, each chapter must be capable of being read separately, whilst still forming part of a coherent set. It is therefore not always possible to achieve a full understanding of a certain topic without reading all of the various chapters concerned.

1.10 Each chapter is clearly marked with the date and current status, indicating whether it is a draft or agreed text. The finalised chapters are available from the Eurostat website's RAMON server, the consulted drafts are available on CIRCA, the BRnet interest group at the website given in paragraph 1.1.

## **1E — Scope of the Recommendations**

1.11 All Member States of the European Union maintain business registers for statistical purposes. The BR Regulation establishes a common framework for these registers in Articles 1 and 3(1):

“Member States shall set up one or more harmonised registers for statistical purposes, as a tool for the preparation and coordination of surveys, as a source of information for the statistical analysis of the business population and its demography, for the use of administrative data, and for the identification and construction of statistical units.

*The registers shall be compiled of:*

- (a) *all enterprises carrying on economic activities contributing to the gross domestic product (GDP), and their local units;*
- (b) *the legal units of which those enterprises consist;*
- (c) *truncated enterprise groups and multinational enterprise groups; and*
- (d) *all-resident enterprise groups.”*

1.12 The scope and nature of national business registers are determined by country-specific factors. The primary factor concerns the purposes for which the register is used. A second major factor is that legal requirements determine, to a significant extent, both the information available to build and maintain business registers as well as the limits within which that information may be stored and used. Thirdly, the information, which businesses need for their

own purposes, or to fulfil administrative requirements, governs to a large extent the information a statistical institute may obtain for its register, since it is often difficult to persuade enterprises to supply information which they do not themselves need. Finally, business registers are very expensive to compile and maintain, with the resources devoted to them varying between Member States.

1.13 As long as the scope and nature of national business registers vary considerably, it is clear that they will not fully meet the needs for comparable statistics for the European Union as a whole. This is becoming more of an issue given the growing need for accurate and timely data for the purposes of administering the monetary union and the internal market.

1.14 The recommendations in this Manual for harmonising the principles and contents of business registers in Member States do not just represent those factors that are common to existing registers of Member States. They do, however, reflect current practices, which statisticians consider useful, improvements to registers that they consider possible and future needs as far as they can be predicted. The recommendations take into account the need for consistency in the units and classifications used in harmonised registers and, particularly, compatibility with NACE. They also consider the need for a balance between what is desirable and what is practical, bearing in mind the costs involved and the information which organisations can reasonably be expected to provide.

1.15 Full implementation of these recommendations will help to ensure that business registers are compiled and maintained on a consistent basis in all Member States. As a result, the statistical surveys based on them will improve in terms of comparability and, in many cases, in other quality factors. This will also help to develop other uses for the registers, such as a source of business demographic statistics.

## **1F — Relation to the BR Regulation**

1.16 This chapter introduces the Recommendations Manual, as stipulated in Article 7 of the BR Regulation, its framework, objectives and scope and, as such, it is not considered an interpretation of the Regulation.

**HARMONISATION OF  
BUSINESS REGISTERS**

**2**

## CHAPTER 2 — HARMONISATION OF BUSINESS REGISTERS

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### 2A — Why harmonise?

2.1 In all Member States of the European Union (EU), the availability of business registers for statistical purposes is key to the compilation of the statistics required to provide indicators of both short-term and structural economic developments. If the coverage, comprehensiveness and quality of these registers vary between countries, it is difficult to integrate the data they provide, either directly or via statistical surveys, to produce aggregates for the EU as a whole. The goal of consistent and comparable statistics cannot be achieved without some form of standardisation of registers.

2.2 The internal market is giving rise to new requirements for information on the structure of enterprises. For example, statistics are required on takeovers, mergers and restructuring, as well as on the concentration of production factors. Additionally, there has, for many years, been a rapid growth in the internationalisation of enterprises, with the formation of multinational enterprise groups spanning the boundaries of Member States. Users in general, and the European Commission in particular, require information on this phenomenon. An EU-wide approach to the design and maintenance of statistical registers will help to meet these needs for information.

2.3 In many countries, there is increasing pressure to reduce the burden on enterprises to supply information for statistical surveys. In contrast, data users are constantly seeking improvements in the statistics currently provided and presenting new requirements. Rationalisation of the systems for collecting information can, to some extent, reconcile these conflicting needs. Good registers allow surveys to be distributed more effectively and economically between various enterprises and, by using the same information for different purposes, the total amount collected can be reduced. Therefore, harmonised registers should help to contain the reporting burden on enterprises and, in some cases, may even reduce it.

### 2B — What needs to be harmonised?

#### The definition of units

2.4 If Member States and international institutions are to be able to compare and integrate their statistics, they must have at their disposal a common set of statistical units. Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system within the Community defined a set of eight units. Unfortunately, these definitions have been open to different interpretations and have therefore



been implemented in different ways in different countries. Further work is required to achieve the goal of harmonised statistical units.

2.5 It is not practical for business registers to incorporate all eight units according to the SU Regulation. Regulation (EC) No 177/2008 of the European Parliament and of the Council of 20 February 2008, establishing a common framework for business registers for statistical purposes and repealing Council Regulation (EEC) No 2186/93, makes three of these units mandatory – the enterprise group, the enterprise and the local unit – as these are the main units intended for use in collecting business statistics. In addition, registers are also required to hold information on the legal units and their links to enterprises and enterprise groups. The remaining unit types are either practically not recordable (UHP, local UHP) or not mandatory (KAU, local KAU).

2.6 Since the previous BR Regulation (EC) No 2186/93 came into force in 1993, the importance of enterprise groups has rapidly increased. The requirement to hold enterprise group information was therefore changed from optional to mandatory in the current Regulation. Other statistical units, mainly kind-of-activity units and local kind-of-activity units, are a matter of subsidiarity.

### **Coverage**

2.7 In theory, business registers should record all enterprise groups, enterprises and local units that are active in the national economy. This may not always be possible in practice, so for the purposes of international comparison it is desirable that the coverage of business registers should meet agreed standards and the omission of any categories of units must involve an assessment of their economic importance. The BR Regulation defines the units which must be included and those which may be excluded if they are of no statistical importance to the respective Member State (Article 3(6)). This topic is examined in greater detail in Chapter 6.

### **Updating**

2.8 The entities represented by the units held in business registers are not static. Entities are created, they may change form and they eventually disappear. Over a period of time, their characteristics may also change. Unless the rules and procedures for recording these demographic events are standardised, and the terms and frequency of updating statistical units are harmonised, it will still be difficult to make international comparisons. The handling of demographic changes is examined in detail in Chapters 11–16 and 21–22.

### **Characteristics**

2.9 As with the units themselves, the characteristics recorded within business registers for the different units must be harmonised. They determine the comparability of the strata used in sampling, the harmonisation of relevant sub-populations and the standardisation of definitions for certain derived units. The characteristics required are examined in Chapter 5.

### **Quality of business registers**

2.10 The quality of a business register corresponds to the extent to which it meets the needs of register users. This is in line with the ISO 9000:2000 definition of quality and the approach taken within the European Statistical System regarding the assessment of the quality of statistics. This may conflict to some extent with the previously held view that the quality of a business register is determined by how closely its contents reflect reality. In certain cases, demands for statistical consistency, e.g. between short-term and structural indicators, may require temporary distortions of reality, such as the postponement of certain updates until a specific point in the annual statistical cycle.

2.11 In practice, each country is free to determine the procedures and sources for compiling and updating its register, provided that it can guarantee the necessary level of quality for the purposes for which the register is used. It is therefore important to lay down minimum quality standards, which must be reviewed periodically to take account of changes in the purposes for which the registers are used. Quality standards and measures are examined in more detail in Chapter 10.

## **2C — Harmonisation in practice**

2.12 The harmonisation of national business registers is a long and gradual process. The BR Regulation provides the basis for this harmonisation by defining the legal and statistical units to be covered and specifying the characteristics to be recorded.

2.13 Effective harmonisation also requires regular consultation and discussion. The main vehicles for this are the annual meetings of the Business Registers Working Group, other temporary and ad hoc working group or task force meetings, and the BRnet website:

<http://circa.europa.eu/Members/irc/dsis/brnet/info/data/home.htm>

2.14 The progress of harmonisation work is monitored through the annual inquiry administered by Eurostat.

## **2D — Relation to the BR Regulation**

2.15 This chapter sets out the rationale for harmonisation and explains how this is to be achieved in the context of the Regulation. It is not therefore a direct interpretation of the Regulation.

**OBJECTIVES AND USES OF THE  
BUSINESS REGISTERS FOR  
STATISTICAL PURPOSES  
RECOMMENDATIONS**

**3**

## **CHAPTER 3 — OBJECTIVES AND USES OF THE BUSINESS REGISTERS FOR STATISTICAL PURPOSES**

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### **3A — Objectives**

3.1 Current and future objectives and uses should be carefully analysed to determine how best to develop national business registers. Standard objectives for statistical business registers include:

- Coverage — The aim is to cover as much national economic activity as possible, though there is often an increasing ratio of costs to benefits involved in covering the smallest units, so some sort of cut-off is usually applied in practice. The proportion of gross domestic product covered by a register is often a more useful measure than the proportion of enterprises covered. The coverage of business registers is examined in more detail in Chapter 6.
- Quality — A high-quality business register will help to improve the efficiency of the national statistical system, which should in turn help to reduce the response burden on businesses. Overall quality is not easy to measure, though various specific aspects of it can be used as indicators, e.g. coverage, accuracy of the data held, frequency of updates and consistency of processes. The quality of business registers is examined in more detail in Chapter 10.
- Authority — The business register should be recognised as the authoritative source for data on business populations and demography. It should be used for the sampling frame for all business surveys within the national statistical system. It is also used extensively as a sampling frame in other domains.

### **3B — Uses of statistical business registers**

3.2 Studies have shown that statistical business registers are used in five main ways (not listed in order of importance):

- For the detection and construction of statistical units;
- As a tool for the preparation and coordination of surveys and for grossing-up survey results;
- As a source of information for statistics and analysis of the business population and its demography;
- As a tool for the mobilisation of administrative data;

- As an integration and dissemination tool.

3.3 These uses and their implications for the maintenance and development of business registers are considered in detail below. Non-statistical uses, e.g. commercial or administrative, are generally not examined in this Manual. They may be important in some countries but forbidden in others. They may, however, give useful feedback for the business register; this aspect is examined in Chapter 9.

### **Detection and construction of statistical units**

3.4 The units used for statistical observation or analysis, e.g. enterprise, kind-of-activity unit (KAU), may represent real economic structures, but do not always correspond exactly to known legal or administrative units (VAT and other tax, company registration, etc.).

3.5 Administrative sources provide information on the creation and existence of legal units in all countries. The addresses of premises where these legal units employ workers are also often known to the administrative authorities responsible for implementing social legislation and to the social security authorities, but in some countries those sources are difficult to mobilise.

3.6 The business registers developed by Member States must therefore serve as registers both of administrative units and of statistical units (enterprises, local units and enterprise groups). They are designed to function as a bridge between administrative and statistical units.

### **Tool for the preparation and coordination of surveys**

3.7 The most obvious use for a business register is to supply sample and population data necessary for conducting surveys. A business register may:

- Provide a directory from which mailing lists can be assembled for the issuing of paper or electronic questionnaires in statistical surveys;
- Provide a population (or 'frame') of businesses for which efficient sampling schemes can be designed and panels monitored;
- Provide the basis for grossing-up results from sample surveys to produce business population estimates;
- Help to prevent duplications and omissions in the collection of information on businesses;
- Improve congruence between the results of different surveys;
- Control survey overlap by effective coordination of samples, thus reducing both costs and the response burden;
- Help to improve coverage or reveal inaccuracies in statistical data collection;
- Help to monitor and spread the response burden on businesses caused by statistical surveys.

3.8 To be of sufficient quality for this purpose, the register must be updated at least annually to record unit creations and deletions, as well as changes in address and stratification variables.

3.9 It should be noted that this use of the register means that coordinated sample selection tools must be developed downstream of the actual register management.

3.10 Another major problem in conducting a statistical sample survey relates to the handling of businesses that do not reply to the survey. It is necessary to determine whether this non-

response is due to the unit ceasing activity or a straightforward refusal to reply. In the case of the unit ceasing activity, it must also be determined whether the activity ceased before, during or after the reference period for the survey. Non-response may therefore be handled in the manner appropriate to the particular case. This careful handling of non-responses can only be implemented if the register permits prompt elimination of uncertainty about the reason for non-response.

3.11 Variations in the results of surveys, mainly in strata surveyed exhaustively or almost exhaustively, or for panel surveys where the same sample is retained for several years, can often be explained by structural changes within enterprises or enterprise groups. The business register can be particularly useful for identifying such changes; particularly if reference is made to the copies of the register frozen annually as required by the BR Regulation.

### **Source for statistics and analysis of business population and its demography**

3.12 There is a growing demand for information on the structure and demography of the business population. The Manual on Business Demography Statistics (Eurostat — OECD Manual on Business Demography Statistics, Edition 2007) recommends that data on enterprise populations, births, deaths, survival and growth should be produced annually from business registers, according to an agreed methodology. Only enterprise demography is currently regulated, but in the future at least enterprise group demography and possibly local unit demography will also be developed. As the production of enterprise demography according to the SBS Regulation is relatively slow and does not cover non-market and all NACE sections, production of quicker and cruder indications on enterprise, enterprise group and local unit creations and cessations for the whole economy is under discussion. Issues relating to business demography are examined in Chapters 11–16 and 22.

3.13 Article 8(4) of the BR Regulation states that "Member States shall make annually a copy that reflects the state of the registers at the end of the year and keep that copy for at least 30 years for the purpose of analysis". This provides essential reference material and the frozen copies of the business registers are an ideal basis for elementary analyses.

3.14. Article 9(1) of the BR Regulation states that "Member States shall carry out statistical analyses of the registers and transmit the information to the Commission (Eurostat), following a format and a procedure defined by the Commission in accordance with the regulatory procedure referred to in Article 16(2)".

This intended standardisation of the BR annual inquiry could provide basic data (number of enterprises, persons employed and turnover) and development for the whole economy, as well as for sections not covered by SBS. Other frequently requested data concerns the breakdown according to institutional sectors and information on the impact of the privatisation of certain public services and the role of public enterprises. This information can only be obtained from business registers and an increasing number of Member States publish such statistics.

### **Tool for mobilising administrative sources**

3.15 The demand for economic information is constantly increasing, with the result that statistical surveys may place a heavier burden on enterprises. This coincides with increasing political pressure to reduce this burden, particularly on small and medium-sized businesses. An effective business register is vital when attempting to accommodate these conflicting pressures.

3.16 It is vital that the same enterprises are not approached multiple times by different surveys for the same information. Above all, statistical surveys must try to avoid requesting information that the business has already supplied to other authorities.

3.17 One problem often mentioned regarding the mobilisation of administrative information for statistical purposes is that it is collected for units that do not always correspond to statistical units.

3.18 By correlating administrative units and statistical units, the register offers a partial solution to these difficulties. It is, however, often necessary to gather further information in order to identify how different legal units may be grouped together in a single enterprise.

### **Integration and dissemination**

3.19 The role of national statistical business registers as a pivot for the integration and dissemination of statistical data from different national statistical authorities and from Eurostat (the EuroGroups register) has recently become very important. This data can be used exclusively for statistical purposes and the different national statistical authorities in many countries have not yet reached agreement on the exchange of data, although it is allowed (optional) in the EU regulations.

3.20 There is also a strong demand that the business register data be used for non-statistical purposes. This is possible in some countries in a restricted way. The requests to provide lists of businesses with standardised identification data (name, address) and a number of criteria for classification by size and economic activity come from many different bodies and from enterprises themselves. Such requests are generally satisfied by administrative business registers, but some countries also use the statistical business register. There are technical possibilities of electronic data interchange (EDI), the transfer of large amounts of data on a regular basis between statistical institutes, businesses and national organisations.

3.21 National registers developed for statistical purposes can play a major role in integrating the data from different sources and satisfying user needs, as they include legal units which are not statistical units and insofar as the rules for the confidential data are clearly defined. The integration is easier if legal units can be identified by means of unique national identifiers. Countries have, however, different national legislation and practices on the question of disseminating data on individual units. In some countries, lists of legal units classified by principal activity are not considered confidential and the legislation governing statistical institutes may explicitly specify that the circulation of these lists is one of their duties. In contrast, this type of circulation is prohibited in other countries. This issue is examined in more detail in Chapter 9.

## **3C — Relation to the BR Regulation**

3.22 Article 1 of the BR Regulation states that: 'Member States shall set up one or more harmonised registers for statistical purposes, as a tool for the preparation and coordination of surveys, as a source of information for the statistical analysis of the business population and its demography, for the use of administrative data, and for the identification and construction of statistical units'.

This chapter looks at the objectives and uses of business registers. It is thus closely related to the interpretation of Article 1 (Purpose) of the Regulation, although the details examined go beyond that.

## MAINTENANCE OF THE REGISTER

# 4



## CHAPTER 4 — MAINTENANCE OF THE REGISTER

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### 4A — Introduction

4.1 Member States are increasingly using administrative sources of information to compile and maintain statistical registers. Some are integrating the information held in the two types of register with the aim of producing a multi-purpose register. The VAT register is one source of administrative information used by most statistical institutes, while registers maintained by other taxation authorities, social security administrations and chambers of commerce are others. Where these flows of information occur, the shape and content of the administrative and statistical registers can influence each other.

4.2 The maintenance of statistical registers should not be regarded as an isolated operation but as part of a coordinated approach towards the joint development of statistical and administrative registers, although care must always be taken that the interests of a business will not be harmed by the transfer to other authorities of information it has given to the statistical institute. The document 'Fundamental Principles of Official Statistics in the Region of the Economic Commission for Europe' adopted by the Member States of the Economic Commission for Europe contains the following two principles that are relevant in this context:

- Principle 5. Data for statistical purposes may be drawn from all types of sources, be they statistical surveys or administrative records. Statistical agencies are to choose the source with regard to quality, timeliness, costs and the burden on respondents.
- Principle 6. Individual data collected by statistical agencies for statistical compilation, whether it refers to natural or legal persons, is to be strictly confidential and used exclusively for statistical purposes.

4.3 These principles clearly establish the need for a one-way flow of data between administrative sources and statistical business registers. It is accepted in some countries that less sensitive information such as name and address, or possibly even activity classification (NACE code) can be shared, but it is universally accepted that sharing financial, input or output variables would compromise statistical integrity and independence, and could adversely affect response rates and public trust.

4.4 New enterprises should be recorded in the business register as soon as information about them is available, preferably before they start trading, so that information about investment in new buildings and plant can be collected. Changes to the data necessary for the conduct of surveys, such as addresses of reporting units, should obviously be reflected in the register as quickly as possible. The handling of units that have ceased to trade is considered in paragraphs 4.8 and 4.9 below.

## **4B — Changes in unit structures and variables**

4.5 Information received on changes to the structure, size or activity of a business may prompt a change to the details held for the statistical units representing that business in the register. The handling and timing of changes to characteristics is examined in detail in Chapter 17.

4.6 Some countries carry out proving exercises on sections of their registers from time to time, by adding questions to an existing survey or conducting ad-hoc surveys. For example, information might be sought from enterprises about the addresses, activities, etc. of all their local units, or by asking retailers to tick which of a list of retailing activities (based on NACE) they consider to be their principal activity. Surveys of this kind sometimes indicate marked gaps or inaccuracies in business registers; it is therefore recommended that verification surveys should be part of the normal maintenance of the register (see Chapter 10).

## **4C — Historical register**

4.7 A difficult but important question is the extent to which the record of a unit should include the unit's history. For survey statisticians in most Member States this is a fairly simple matter; the statistician aims to ensure that the units in scope for statistical surveys correspond to the units present on the business register. The record of many statistical units may not include the date the unit first contributed to a survey, while the records of legal units may not include the accurate date of incorporation of a company or, for the sole proprietor, the date the business was started.

4.8 There are no provisions regarding the maintenance of historical data within business registers in the Regulation. An ideal historical register would be one that could answer any question about changes to a unit based on the contents of the register set out in Chapter 5. This ideal historical register would also hold related information about the dates of and reasons for (or categories of) any changes in the record, as well as the source of the information. The problem is best illustrated by an example. The ideal register could tell us that an enterprise operating at one address, making car body pressings, was the result of a management buyout of one of the activities of a car manufacturer for which the register used to record, at the same address, a local unit engaged in the same activity.

4.9 The scenario in the preceding paragraph is a real-life example. Many national statistical institutes are unable to deploy the resources required to build and maintain a register that could provide such information, particularly for smaller businesses. In this case, there are various possible compromise scenarios, including the three set out below:

- A new register is put in place at the beginning of each year. During the year, all changes in units and the dates of and reasons for those changes would be recorded for the unit. At the end of the year, the register would be copied and stored, following which all units no longer within the scope of the register would be weeded out. A register designed along these lines would be smaller than the ideal register described above, but would face the same definition-related problems and the same difficulties of establishing rules for the application of these definitions by the staff of statistical institutes. There would be the additional task of designing a system which could link together a series of registers stored year by year in order to produce an historical record of a unit. It would, however, be possible to study both the development of the population of businesses over time as well as the development of the individual business and its statistical units.
- The register can be analysed at regular intervals (e.g. annually) to provide a series of pictures of the structure of the register, e.g. the numbers of legal units and statistical units by type, economic activity, employment and turnover size groups, institutional

sector, region, etc. Many Member States have already been publishing such analyses for a considerable period of time. A study of these snapshots would show how the business population had changed between certain fixed points in time, but would not give information on any intermediate changes, or the reasons for the changes recorded.

- The register stores information about changes as they occur. These changes are date-stamped to record the date they occurred in the register, and/or the date they occurred in the real world. This allows populations of businesses to be constructed at any point since the register started operating in this way. Storing the reason for the change is often more difficult, but basic categories of change can often be determined by automatic rules, e.g. the simultaneous transfer of all local units from two enterprises to one new enterprise is likely to reflect a merger.

4.10 The Regulation merely states in Article 8(4) that "Member States shall make annually a copy that reflects the state of the registers at the end of the year and keep that copy for at least 30 years for the purpose of analysis". This is a minimum requirement. A full analysis of demographic events affecting register units is likely to require more frequent snapshots of the register, or an event-driven system such as that outlined in the third scenario above.

#### **4D — Relation to the BR Regulation**

4.11 This chapter describes possible methods relating to the maintenance of business registers. It is not therefore a direct interpretation of the Regulation, but is intended to assist with the implementation of the relevant provisions of the Regulation.

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# 5

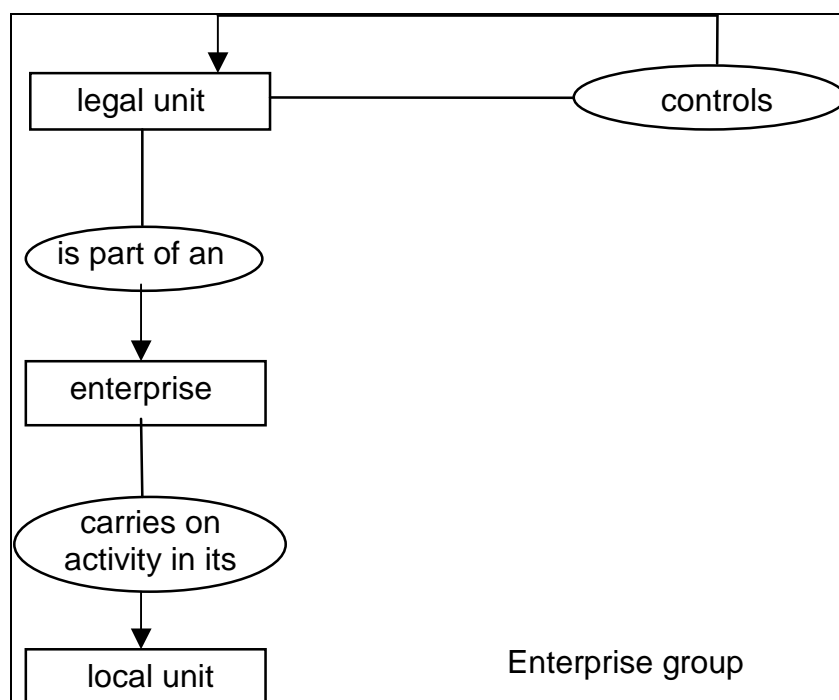
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### 5A — Introduction

5.1 The conceptual model of the information in business registers (BR) for statistical purposes, implicitly defined by the BR Regulation is very simple. It comprises the enterprise, the local unit and the legal unit, and the relationships between these entities. It thus also comprises the enterprise group.



5.2 The information that needs to be recorded for each type of unit depends on the intended uses of the register, the unit and the specific characteristic. As examined elsewhere in this Manual (Chapter 7), the legal units may be economically active or not. Local units, enterprises and enterprise groups must always be economically active, as defined in the BR Regulation Article 3(5). This definition of economically active units is wider than the concept used in business demography statistics (the existence of turnover or employment).

5.3 National business registers developed for statistical purposes clearly have to identify units accurately in order to:

- Permit the collection of information about them via administrative sources;
- Provide a sampling base for surveys and data for grossing-up methods;
- Permit demographic analysis of the business population and the different units.

5.4 This clarification of the functions of the register permits analysis of the information that it must record. This information falls into different categories — identification characteristics, demographic characteristics, economic/stratification characteristics and characteristics associated with the control and ownership relations between units (all these are directly linked to the explicit units of the model) and, finally, links with other registers.

5.5 Although the characteristics are presented below under a certain category according to the BR Regulation, the categories are not mutually exclusive, for instance legal form (1.6) can be used as an identification, demographic (enterprises by legal form) and stratification variable.

## **5B — Legal unit characteristics**

### **IDENTIFICATION CHARACTERISTICS**

#### **1.1 Identity number**

*Purpose:* To identify the unit and to link it with other units in the register and with administrative and statistical sources.

*Definition:* The identity number of the legal unit can be either specific to the statistical business register or an external one, common or shared with other institutions in the Member State, a so-called unique identifier. The latter is generally preferred.

*Proxies:* None.

*Sources:* If the identity number of the legal unit is the unique identifier used in the Member State, its updating should follow the changes taking place in the administrative source, which allocates the identifiers. For instance, a change of legal form from natural to legal person may result in the fiscal administration assigning a different identifier to the same economic unit.

If the identity number of the legal unit in the statistical business register is not the unique identifier, the unique identifier should be handled as a variable and a record of its changes should be kept.

*Comments:* A common identifier exists in the majority of Member States. Common business identifiers, shared with fiscal (compare with characteristic 1.3) and other government departments greatly facilitate the connection of the statistical business registers with other registers.

The continuity rules for legal units depend on national legislation; there are no EU-wide recommendations.

### **1.2a Name**

### **1.2b Address (including postcode) at the most detailed level**

### **1.2c Optional: Telephone and fax numbers, electronic mail address and information to permit electronic collection of data**

*Purpose:* This is the necessary contact information for the unit. It should be noted that the optional information is of primary importance, namely the telephone number and e-mail. In the event that a common identifier is missing, names and addresses can also be used for the matching of units.

*Definition:* The information may refer to a legal or a natural person. In the case of legal persons, their official business name and address must be recorded. In the case of natural persons, it may be useful to maintain both a business and a personal address. The addresses should be recorded at the most detailed level possible.

In the case of natural persons, the following information may be recorded:

- Family name(s)
- Names normally used and possible pseudonyms
- Forenames
- Gender (if only for address purposes — Dear Mr/Ms ...)

This information is often insufficient to identify a natural person with certainty. It may therefore be useful also to record either the date of birth or the personal identity number.

*Proxies:* In some countries and for some legal forms, the business name may be very long and will have to be abbreviated. In that case, very strict rules on abbreviation must be applied. Where applicable, territorial classifications and nomenclatures may be used for coding of addresses.

*Sources:* Administrative sources, mainly trade/company registers and surveys.

*Comments:* Legal persons and also sole proprietors often use initials, an acronym or a trading style instead of their official name in their business or administrative relations. There must be provision for recording this information separately (compare with 3.2). Recording the names of partnerships can also pose problems which may be difficult to manage.

### **1.3 Value added tax (VAT) registration number or, failing that, other administrative identity number**

*Purpose:* The VAT number is useful for the utilisation of tax data for business register purposes, for the links to non-resident units (1.12b and 1.13b) and for the link to Intrastat (1.7a). References to some other registers could possibly also be based on this number. In the Intrastat Regulation, the VAT number is compulsory.

*Definition:* Defined nationally, often by the tax administration. A separate VAT number does not exist in all countries, where another unique identifier (which may already be stored as characteristic 1.1) may be used in lieu of the VAT number.

Proxies: Certain economic activities may be exempted from VAT and thus have no VAT number, in which case another administrative identity number can be used, for instance general tax number, corporate tax number etc.

Sources: Mainly tax administration.

Comments: The main problem with the VAT number is that it may not relate only to one legal unit, but to a group of legal units, which may equal an enterprise or an enterprise group or its subgroup. In such cases, the VAT number can be the same for several legal units. In some countries, it may also relate to part of a legal unit or to a natural person who is not an economic operator, but who may have a VAT number for tax reasons.

## DEMOGRAPHIC CHARACTERISTICS

### 1.4 Date of incorporation for legal persons or date of official recognition as an economic operator for natural persons

Purpose: The characteristic is needed for the inclusion of new units, whether by real births or other demographic creations.

Definition: The 'date of official recognition' should be the date on which an identification number is given, or the date on which the legal existence was approved, be it a company/trade register number, a VAT number or other.

Proxies: If the exact date is not available, the year from which the unit has been monitored can be used as proxy, including a certain date (like 1 January) defined in the business register procedures according to established rules.

Sources: Administrative sources: Trade/company register, tax administration, social security.

Comments: In general, the date is the prerequisite for a firm to engage in legal economic transactions. Given that a statistical register is usually fed with files from administrative sources, a date for an official recognition should always exist and be stored in the business register. The legal unit may start its economic activity (and only then be regarded as an enterprise or part thereof: Characteristic 3.3) with some delay after its recognition or it may remain inactive. If the legal unit remains inactive, it can be either omitted from the register, or kept in the register but marked as inactive. Keeping legally alive but economically inactive legal units in the register could facilitate the use of administrative sources.

### 1.5 Date on which the legal unit ceased to be part of an enterprise (as defined in 3.3)

Purpose: This demographic characteristic is needed for monitoring the death and inactivity of the unit.

Definition: The legal unit ceases to be part of an enterprise when:

- (a) The legal unit ceases to exist. The death of the legal unit is marked in the register.
- (b) The legal unit ceases to be economically active and it is not part of the control chain within the enterprise group. The legal unit can either be kept in the register marked inactive or its death can be marked in the register.

Proxies: Registration of the year of the event is important, if the precise day and month of its having taken place is not known, as is often the case.

It is recommended that an annual 'cleaning' of the register be carried out by comparing the populations of t-2, t-1 and t in order to see which units were inactive during the two previous periods. Consequently, a date of cessation could be added and the unit would no longer appear



in the register as an active unit. Only after 24 months of inactivity may the unit be erased (marked dead) from the statistical business register and that is the date to be recorded. The register manager should be able to follow dormant (temporarily inactive) units and record the death date. The choice of 24 months as the relevant period allows for the possibility of the register being updated annually, and also meets business demography requirements that a unit should be inactive for two years before it can be considered a real death for statistical purposes. The 24 months rule does not concern units in the enterprise group control chain, e.g. special purpose entities (brass plates, empty shells etc.). They are considered as active and kept in the register. It should be possible to separate them by automatic procedure based on NACE class, chain of control and certain characteristics such as employment.

Sources: Administrative sources (from which the date often comes with considerable delay), surveys.

Comments: There is usually no interest on the part of a legal unit to officially announce its cessation of activity. This is often a slow process of diminishing activity but even if the activity completely ceases, the owner may still think it could resume in the future, hence it may be interested in retaining a legal name, fiscal number and other legal attributes.

Between activity and real death, there is therefore often a period of inactivity during which the unit may be regarded as 'dormant'. A sign of such a situation would be the lack of employees, the cessation of tax compliance or the inability to contact the unit after repeated efforts.

When the production factors are transferred from a legal unit to another, this is usually documented in a contract and so a record of its having occurred will exist. Even if the exact date of the event is not transmitted to the statistical institute, the year in which it occurred might be.

Most legal units in a register are not linked to any other legal unit, so that the relationship legal unit = enterprise holds in most cases. This means that an event such as change of ownership which may create a new unit in the administrative files may pass unnoticed, unless the new units are checked against existing units using, for example, location and activity as criteria. This may mean that the event occurred during the past fiscal year or that, having occurred earlier, it was only recently registered.

For statistical purposes, it would be sufficient to include a new link in the business register and to assume it took place during the previous period, though a direct check (e.g. a phone call) is recommended.

## ECONOMIC/STRATIFICATION CHARACTERISTICS

### 1.6 Legal form

Purpose: The legal form (also known as legal status) is useful for eliminating ambiguity in identification searches and as the possible criterion for selection or stratification for surveys. It is also used for defining the institutional sector (3.11). Statistics according to legal form are produced e.g. in business demography.

Definition: Defined according to national legislation.

Proxies: The character of legal or natural person is decisive in fiscal terms, because the tax regime applicable to the unit depends on this. It means that any statistical register fed with fiscal records will have that information. For the monitoring of the internal market, there is also an interest at European level in being able to distinguish publicly traded and incorporated companies. A recommendable breakdown of legal forms is given in ESA95 in Table 2.3.

Sources: Administrative sources, surveys.

Comments: Experience has shown that it will often be useful to make adjustments to information collection processes and questionnaires according to the legal form of the legal unit operating an enterprise. A code representing the legal form should therefore be recorded in accordance with the classification of legal forms or categories. The following legal forms can be found in most Member States:

- Sole proprietorship: Enterprise owned exclusively by one natural person.
- Partnership: Association of persons who conduct a business under a collective name. It can take the form of a limited partnership.
- Limited liability companies: Enterprises comprising joint-stock companies, limited partnerships with share capital and private limited company. Harmonised rules at European level governing the publication of accounts for these types of companies are laid down by the Fourth Council Directive.
- Co-operative societies: These are bodies set down by law in each country. They observe a number of general principles, for example they may only be entitled to provide their services to members, profits are often distributed in proportion to members' dealings with the society, etc.
- Non-profit making bodies.
- Enterprises with other forms of legal constitution: This group includes nationalised industries, publicly owned enterprises and state or local authority monopolies.

## LINKS WITH OTHER REGISTERS

### **1.7a Reference to the register of intra-Community operators set up in accordance with Regulation (EC) No 638/2004, and reference to customs files or to the register of extra-Community operators**

Purpose: Both the Intrastat (similarly Extrastat/customs files) register and the statistical business register can benefit from the link between them. The business register has access to a reliable tool for checking the quality of its own data regarding a limited (in number), but important, subset of units. The link may help to identify inconsistencies, e.g. if the product code of the exchanged goods declared by intra-Community operators is available, this can be compared with the activity code of the statistical business register. The links can be used to distinguish the units engaged in international trade in goods in the business register and this is an important stratification factor for several types of surveys.

Definition: The VAT number (1.3) is strongly recommended to be used for the link, because it is the same as the Intrastat number (or part of it) in almost all Member States.

Proxies: For other possibilities to create the link see 1.7b.

Sources: Administrative, for instance tax sources and registers.

Comments: Instead of being a separate register, the Intrastat register could also be integrated into the business register.

As both the Intrastat register and the business register benefit from the link, the best solution would be to have the references in both registers to allow for the use of the Intrastat register as a source for the business register and the use of the business register as a source for the Intrastat register and, more generally, for international trade statistics.

The latter reference contains the link to the register commonly known as Extrastat or, if this does not exist, the reference to customs files. The comments above for the Intrastat link apply in a similar way to the reference to the Extrastat register and to the customs files, although in Extrastat other numbers such as the VAT number are more commonly used.

### **1.7b Optional: Reference to balance sheet data (for units required to publish accounts), and Reference to the balance of payments register or foreign direct investment register, and Reference to the farm register**

*Purpose:* The first link concerns the balance sheet data. Many Member States use the published accounts as a source for business registers and combining the business register and published accounts data is likely to become very important in the future. It reduces response burden and serves the production of economic and financial statistics. Availability of accounts is also a requirement to distinguish SMEs, as these are defined by threshold due to balance sheet total.

The second link concerns the BoP and FDI registers and the usefulness of these links concerns the harmonisation of statistics related to globalisation. Conventional bank settlements data is becoming more and more frequently replaced by data based on direct surveys, for which the BoP compilers are increasingly relying on business registers.

The third reference, link to farm register, is important for the coverage of main agricultural enterprises and for updating the increasing rural multi-activities, where the role of agriculture as principal or secondary activity may often change.

*Definition:* The practical arrangement of the links, either from the business registers to the associated register or vice versa is a matter of subsidiarity.

*Proxies:* The links can be achieved in several ways, for example:

- a) Recording in the business register the reference number of the unit in the other register(s), together with the legal unit identity number referred to above.
- b) Adding one or more marks to the business register to indicate that the legal unit is also present in other register(s) under the same identity number.
- c) In the absence of a unique identifier, the link can also be built by name/address matching and possible use of other variables. This is less effective, but matching names/addresses can be useful for detecting errors. For every legal unit recorded in administrative sources, the different relations should be stored separately.

*Sources:* Administrative sources and registers.

*Comments:* The requirement to publish annual accounts depends on national legislation, which may vary between countries and usually concerns incorporated and publicly traded companies. The data stemming from published accounts could be considered free from confidentiality restrictions and suitable for exchange with other statistical institutes, but this is not always the case, e.g. when this data is linked to data collected via surveys. The link to balance sheet data can be used for the combining of register and accounts data, which is generally available in satellite registers. Either the central bank or the national statistical institute (NSI) is a member of the European Committee of Central Balance Sheet Data Office, which supplies data for an increasing number of Member States.

The second reference concerns the BoP register, which in most countries is in the national central bank (NCB). In that case, a close cooperation and exchange of information between the NSI and the NCB is vital for well targeted and good quality BoP and FDI surveys. The BoP register may also be in the NSI, or there may not be a separate BoP register, because the statistical business register is also used for BoP purposes.

The link between farm and business registers is examined in detail in Chapter 23.

The role of several other satellite registers (e.g. shop register, tourist establishment register, transport registers, educational institutes register, etc.) can also be important for updating the business register, especially in finding whether the units are active or not, because data on these can be collected more frequently. The harmonisation of the handling of units in these associated registers and in the business register is also an important issue. As links to these can often be created directly and some of them can be in the NSI, they are not mentioned separately in the Regulation.

Additional characteristics for legal units which are part of enterprises belonging to an enterprise group:

## LINK WITH ENTERPRISE GROUP

### **1.8 Identity number of the all-resident/truncated enterprise group (4.1), to which the unit belongs;**

*Purpose:* To identify the legal units belonging to a certain enterprise group.

See characteristic 4.1.

### **1.9 Date of association to the all-resident/truncated group**

*Purpose:* At least the year (if exact date is not known) is needed for the consolidation of groups at European level.

*Definition:* The date the unit is associated to the group.

*Proxies:* If no exact date is known, in practice the date when the identity number of the group (4.1) is first stored for the unit can be used as a proxy.

*Sources:* Sources used for updating the enterprise group information.

*Comments:* This cannot be earlier than the date of commencement of the group (4.5). Concerning the selling and buying of legal units, the Statistical Unit Regulation instructs to "discount temporary links of less than a year".

### **1.10 Date of separation from the all-resident/truncated group**

*Purpose:* At least the year (if exact date is not known) is needed for the consolidation of groups at European level.

*Definition:* The date the unit separates from the group or ceases to exist.

*Proxies:* If no exact date is known, in practice the date when the unit no longer appears in the source used can be used as a proxy.

*Sources:* Sources used for updating the enterprise group information.

*Comments:* The separation date cannot be later than the date of cessation of the group (4.6) and should also be consistent with the date on which the legal unit ceased to be part of an enterprise (1.5). It is to be noted that this characteristic is filled only for historical files, when the unit ceases to be part of the group. In such cases, all the characteristics from 1.8 to 1.16 become historical. The cessation of economic activity of the legal unit is not sufficient if the legal unit remains in the control chain.

## CONTROL OF UNITS

**1.11a Identity number(s) of resident legal unit(s) which are controlled by the legal unit**

**1.11b Identity number of the resident legal unit which controls the legal unit**

**1.12a (a) Country(ies) of registration and  
(b) identity number(s) or name(s) and address(es)  
of the non-resident legal unit(s) which are controlled by the legal unit**

**1.12b Conditional: VAT number(s) of non-resident legal unit(s) which are controlled by the legal unit**

**1.13 (a) Country of registration and  
(b) identity number or name and address  
of the non-resident legal unit which controls the legal unit**

**1.13b Conditional: VAT number of the non-resident legal unit which controls the legal unit**

*Purpose:* These characteristics (zero, one or several legal units may have to be stored for 1.11a and 1.12) define the control links in the national territory and to the first foreign parent and foreign subsidiary. Without this variable, the group structure cannot be established and it cannot be used for the delineation of enterprises within the group. The links are a key issue for the consolidation of truncated groups at European level.

*Definition:* Control is defined in the BR Regulation in accordance with the ESA Regulation and examined in detail in Chapter 21. It can have only two values, 1=yes and 0=no. For the identity numbers of resident units, see 1.1.

The non-resident identity numbers, names, addresses and VAT numbers should be in the same format as in the country where they are resident.

For the country of registration, the Balance of Payments Vademecum Annex II (available in CIRCA) is used as reference. It includes both the country and territory codes which are consistent with ISO 2-letter codes, and how classification is made, the inclusions (e.g. Monaco is classified under France) and exclusions (e.g. Jersey is excluded from the United Kingdom).

*Proxies:* The information available in the commercial sources can be used as a proxy.

*Sources:* The national business register, the business registers in other Member States, administrative and commercial sources, surveys, the EuroGroups register.

*Comments:* It is up to the country to decide whether they want to use the top-down or bottom-up method for the resident links (in a relational database both upward and downward links can be recorded; this is useful for consistency and error checking).

Matching the cross-border links with only names and addresses without the VAT number would be extremely difficult. Although obtaining information on the non-resident units both upward (first foreign parent) and downward (first foreign subsidiaries) may be difficult, it is necessary, because the links may be via a non-European country, so they cannot be obtained even by the exchange of the cross-border information in Europe.

## OWNERSHIP OF UNITS

### **1.14a Conditional (subject to the availability in administrative sources):**

- (a) Identity number(s) and**
  - (b) shares (%)**
- of resident legal unit(s) owned by the legal unit**

### **1.14b Conditional:**

- (a) Identity number(s) and**
  - (b) shares (%)**
- of resident legal unit(s) which own(s) the legal unit**

### **1.15 Conditional:**

- (a) Country(ies) of registration and**
  - (b) identity number(s) or name(s), address(es) and VAT number(s) and**
  - (c) shares (%)**
- of non-resident legal unit(s) owned by the legal unit**

### **1.16 Conditional:**

- (a) Country(ies) of registration and**
  - (b) identity number(s) or name(s), address(es) and VAT number(s) and**
  - (c) shares (%)**
- of non-resident legal unit(s) which own(s) the legal unit**

*Purpose:* Majority shareholding is very often used as a proxy to control and record the percentage-share ownership for identifying international indirect control links. The information is necessary for identifying units for foreign direct investment (FDI) relationships, both with (1 = yes) and without (0 = no) control. Shareholding is also necessary in distinguishing autonomous and partner SMEs from linked units. It is useful in identifying associate relationships and trade interest links and thus helps in dealing with monopolies policy.

*Definition:* The characteristics refer to the shareholding and to share ownership (the voting power is the criterion used for FDI), which are taken into account in the definition of control. Concerning the volatility of the ownership, the statement in the Statistical Units Regulation "discount temporary links of less than a year" is applicable.

*Proxies:* There is a lot of flexibility allowed for these characteristics. If the information or part of it (e.g. the VAT number) is not available in the administrative sources, it can be omitted.

*Sources:* Administrative sources and commercial sources, surveys. The EuroGroups register.

*Comments:* This is a group of characteristics, as several legal units and their shareholding may need to be stored for each case. The top-down or bottom-up method can be chosen.

In FDI statistics, as reported in the balance of payments, holdings of at least 10 % of the voting power are considered in the IMF Balance of Payments Manual and in the OECD benchmark definition of FDI. On the other hand, IAS 27 on consolidated accounts encompasses units where the stake of the parent company is 20 % or above and it may be possible that only data above this threshold is available in the administrative source. Recording shares below 10 % (portfolio investment) is likely to be too burdensome for register updating.

Joint ventures (50-50 % cases, as well as 3 x 33.3 %) belong to the ownership cases (control = 0) — unless there is evidence at national level that one partner has control. Control cases without majority ownership need to be proved as well. (The commercial providers in general just use majority ownership as proxy to control). However, joint ventures may require

special attention, as they may be large and important units and it is especially important to record the main and predominant shareholding.

## **5C — Local unit characteristics**

### **IDENTIFICATION CHARACTERISTICS**

#### **2.1 Identity number**

Purpose: To identify the unit and to follow its continuity.

Definition: It is recommended to use a register-specific identity number for local units. The identity number of a local unit should remain the same while the unit is considered as continuous according to the continuity rules as defined in Chapter 16 (even in the case that the enterprise to which it belongs may change).

Proxies: Using a unique administrative identity number is also possible (if it exists), but it may cause problems with the continuity of the local unit

Sources: Assigned in the business register procedure, unless the administrative number is used.

Comments: External (shared) identity numbers may exist for local units, but as these may change during the existence of the unit, it is recommended that external identity numbers be treated as variables, keeping track of their changes.

#### **2.2a Name**

#### **2.2b Address (including postcode) at the most detailed level**

#### **2.2c Optional: Telephone and fax numbers, electronic mail address and information to permit electronic collection of data**

Purpose: The necessary contact information for the unit.

Definition: The official name of the local unit is generally the same as the enterprise that controls it, with some additional part specifying usually location or activity. If there is only one local unit in the enterprise, a separate name may not exist. The actual address of the location of the unit and the contact information should always be recorded.

Proxies: Different local units within an enterprise may use different trading styles, also known as 'signboard names' or 'commercial names' and provision should be made for recording the different trading styles where they exist.

Sources: Administrative sources and surveys.

Comments: The address could be given a code referring to a national territorial nomenclature that at least corresponds to level 2 of the Local Administrative Units for Statistical Purposes (LAU; former Nomenclature of Territorial Units for Statistics, NUTS level 5). It would be preferable if that nomenclature or national geographical code enables the unit to be pinpointed as accurately as possible, at the level of the street, section of street and building.

It will always be useful to provide for the possibility of recording a correspondence address in addition to the physical address of the local unit if the unit wishes correspondence relating to statistical surveys to be sent elsewhere (see characteristic 1.2 for legal units above).

### **2.3 Identity number of the enterprise (3.1) to which the local unit belongs**

Purpose: The local unit must be linked with the enterprise to which it belongs.

Definition: This link can be included in the register by adding the identity number of the enterprise to the local unit file (and vice versa).

Proxies: Other ways are conceivable, for example when the enterprise consists of one local unit only another (simple) arrangement of the business register is possible.

Sources: Created in business register procedures.

Comments:

## **DEMOGRAPHIC CHARACTERISTICS**

### **2.4 Date of commencement of activities**

Purpose: The date is needed for monitoring the demography of local units.

Definition: This date should refer to the birth or other creation date of the local unit according to the continuity rules.

Proxies: If the exact date is not known, it should be estimated, but it must be consistent with the information on the corresponding legal unit and enterprise.

Sources: The date can be obtained from surveys or administrative sources or be estimated.

Comments:

### **2.5 Date of final cessation of activities**

Purpose: The date is needed for monitoring the demography of local units.

Definition: The date refers to the death or other deletion date of the local unit.

Proxies: As explained for the corresponding characteristic of legal units (1.5), this date may not be available with any precision; only the fact that the local unit has ceased to exist or has ceased its activities during the reference year may be known, in which case it should be estimated.

Sources: The date can be obtained from surveys or administrative sources, defined in a business register procedure according to established rules or estimated.

## **ECONOMIC/STRATIFICATION CHARACTERISTICS**

### **2.6 Principal activity code at NACE 4-digit level**

Purpose: The principal activity code is a stratification characteristic and important in the compilation of regional and small area statistics.

Definition: The activity code is determined according to the rules in the NACE handbook. The activities actually pursued in a local unit will be taken into account, even when they are ancillary in the context of the enterprise.

Proxies: Several criteria can be used for defining the principal activity code. Employment by different activities can be used (if available), but also activity descriptions, etc.



Sources: The code can be obtained from surveys or administrative sources.

Comments: If the activities are ancillary in the context of the enterprise, characteristic 2.8 should indicate this.

## **2.7 Conditional: Secondary activities, if any, at NACE 4-digit level; this point concerns only local units which are the subject of surveys**

Purpose: Secondary activities can be used for determining local kind-of-activity units (LKAUs), which are of key importance for national accounts. The LKAUs can be recorded in the register as separate units (this practice is commonly applied by many smaller countries); if this is not the case, characteristic 2.7 offers the possibility of analytically defining them.

Definition: The activity codes are decided according to the rules in the NACE handbook. The activities actually pursued in a local unit will be taken into account.

Proxies: Several criteria can be used for defining the secondary activity code(s). Employment by different activities can be used (if available), but also activity descriptions, etc.

Sources: The code can be obtained from surveys or administrative sources.

Comments: The characteristic concerns only local units which are surveyed in other surveys than the register update survey. Such units are generally large and important and the information should be requested and updated in the register.

## **2.8 Optional: Activity carried out in the local unit constituting an ancillary activity of the enterprise to which it belongs (yes/no)**

Purpose: To distinguish ancillary local units. This characteristic enables statistical analyses to reallocate the cost of ancillary activities to the activities for the benefit of which they are pursued.

Definition: Ancillary activities are defined in the Statistical Units Regulation.

Proxies: Certain NACE classes often constitute ancillary activities (see Chapter 19).

Sources: Administrative sources, surveys.

Comments: If the local unit has been identified as an ancillary unit, this fact should be positively indicated in the register, and if it has clearly been identified as a non-ancillary unit it should also be indicated. The absence of any mark should be interpreted as 'no knowledge' about this characteristic.

## **2.9 Number of persons employed**

### **2.10a Number of employees**

### **2.10b Optional: Number of employees in full-time equivalents (FTEs)**

Purpose: The register should record the actual numbers of persons employed and employees, both as head counts and the latter also in FTEs. The main aim is to obtain stratification variables as well as statistical information. Persons employed are preferable for stratifying survey samples for very small units. The business register employment figures are used especially for small area statistics, where the business register is the only comprehensive source. In addition, employment figures can be used by employment statistics where needed.

Definition: The structural business statistics definitions (variables 16 11 0, 16 13 0 and 16 14 0) should be used, with the exception that the requirement to measure the numbers as annual averages does not apply. For stratification purposes and according to the BR Regulation, the

intention is to use the situation at the end of year (including seasonally active units). As the end date approach is not harmonised the annual average can also be used as reference calculated for a certain period. The number of employees in full-time equivalents might be calculated for a full year as well as for the period in which the enterprise is active. If number of employees in full-time equivalents is used as stratification variable, the calculation for the active period should be used, while for statistics covering a year the calculation should cover the whole year.

Proxies: These figures can be obtained directly in some countries, while other countries may have an administrative source available only for the number of paid employees. However, the latter countries can obtain total employment by making a statistical adjustment to their figures on paid employees by adding a constant representing unpaid employment (including working proprietors), calculated e.g. according to legal form and activity:

For sole proprietors, total employment = paid employees + 1;

For partnerships, total employment = paid employees + 2.

Depending on the availability of administrative sources, more sophisticated methods have been devised in some countries. Note also that 0 means less than half a person, whether calculated as head counts or FTEs.

Sources: Administrative sources, surveys, calculations.

Comments: Note that the reference period used for the measurement of employment in business demography is a year, i.e. the labour force should be an annual average, though this can be approximated by using the number of persons employed at any given moment during the year if this is the only information available. How the annual average is calculated depends on the updating frequency of the register. If the unit operates during only part of the year (seasonal, new enterprises), the average should be calculated for that period.

Both head counts and FTE have certain advantages and the latter should be recorded if possible. Head count is the number of physical persons, full-time and part-time, employed by a unit. FTEs are defined in SBS (variable 16 14 0) and also in national accounts (FTE employment is the number of full-time equivalent jobs, defined as total hours worked divided by average annual hours worked in full-time jobs). FTEs are a more accurate measure of labour input but they are available in fewer countries. As the concept of 'full-time' may vary, the definition does not really make the FTE data comparable. Given the administrative origin of the data, it may not be possible to calculate FTEs in some countries. Another possibility would be to use 'hours worked' directly. This is gaining favour in employment statistics, but the comment on data availability is also likely to apply to this variable.

## **2.11 Geographical location code**

Purpose: The geographical location code complements the address and postal codes (2.2) and can be used to derive classifications relating to the geographical location of units at the most detailed level. Other national classifications such as administrative regions, travel-to-work areas, health or education regions etc. can also be derived from it.

Definition: Member States can decide which code is most useful for their own purpose.

Proxies: The geographical location code can refer to the LAU (see 2.2) classification at the most detailed level used in the country. It can refer to geocoding — the accurate geographical identification system according to latitude and longitude points recorded from a GPS unit in countries where the exact site of local unit can be recorded.

Sources: Administrative sources.

## LINKS WITH OTHER REGISTERS

### **2.12 Conditional: Reference to associated register(s) in which the local unit appears and which contain information which can be used for statistical purposes (if such associated registers exist)**

Purpose: The associated register(s) can offer one or more important administrative sources for updating the local unit information.

Definition: The practical arrangement of the links, either from the business registers to the associated register or vice versa is a matter of subsidiarity.

Proxies: For possibilities for creating the link see 1.7b.

Sources: Administrative sources.

Comments: This characteristic is very country-specific. There may not be any such files in some countries, while in other countries they may be important and there may be many references for one local unit. The associated registers (e.g. labour administration register) may refer to the local unit, but also to a legal unit (or local legal unit), so the reference unit should be checked carefully. This might be the case if the local unit is located at the residence of a legal unit which comprises several local units. In the case of a complex enterprise, there may be several legal units with a local unit at the same address, probably forming one local unit for statistical purposes. In this case, all links should be stored.

## **5D — Enterprise characteristics**

### IDENTIFICATION CHARACTERISTICS

#### **3.1 Identity number**

Purpose: To identify the unit and to follow its continuity and the demographic events leading to discontinuity.

Definition: Specific to the statistical business register. As the continuity rules for enterprises (see Chapter 14) should be applied, the identity number should remain the same while the enterprise is considered as continuous.

Proxies: If the legal unit equals the enterprise and the legal unit identity number is specific to the business register (the unique administrative legal unit identity number is stored as a separate variable and its changes are followed), the two identity numbers could be equal.

Sources: Assigned in the business register procedure.

Comments: In case of a 1:1 relation between the legal unit and enterprise, the same identity number is often used.

#### **3.2a Name**

#### **3.2b Optional: Postal, electronic mail and website addresses**

Purpose: Contact information, when necessary, in addition to 1.2 and 2.2. The website can also be used for statistical purposes.

Definition: Member States can decide what information to store to meet their needs.

Proxies: The enterprise name may be the same as the legal unit name, but it may also differ (trade name) even if it comprises only one legal unit. An enterprise often uses the name of the main legal unit that operates it. It is then unnecessary to record this name again, as long as a record is kept of the link between the enterprise and that legal unit.

An alternative solution is to record addresses for local units only and in the case of legal units and enterprises to record the identity number of the local unit that is their registered office (registered office is the location given by the legal unit to registration authorities). This solution is implicitly recommended by explanatory note 1 on the definition of the local unit, annexed to the Regulation on Statistical Units, which specifies: “*however, every legal unit must have a local unit as its registered office, even if no-one works there.*”

Sources: Administrative sources, websites, business register procedures, surveys.

Comments:

### **3.3 Identity number(s) of the legal unit(s) of which the enterprise consist(s)**

Purpose: The enterprise must be linked with the legal units it comprises.

Definition: This is simple for enterprises consisting of one legal unit only. In the case of complex enterprises, the identity numbers of all legal units must be recorded.

Proxies: None.

Sources: Created in business register procedures.

Comments: It is recommended that the dates when the links are created and dissolved are also recorded.

## DEMOGRAPHIC CHARACTERISTICS

### **3.4 Date of commencement of activities**

Purpose: The date is required for monitoring the demography of enterprises.

Definition: The date refers to the birth or other creation date of the enterprise.

Proxies: The date of birth is, in principle, the date on which the first financial commitments are made, although in practice it may refer to the registration date in the administrative source (and thus be the same as 1.4) if the unit starts its economic activities immediately after that. However, the legal unit may change and be re-registered, for instance, after a change of legal form, while the enterprise remains the same, because the continuity rules for enterprises should be applied.

Sources: Administrative sources, surveys.

### **3.5 Date of final cessation of activities**

Purpose: The date is required for monitoring the demography of enterprises.

Definition: The date refers to the death or other deletion date of the enterprise (when it becomes historical).

Proxies: As explained for the corresponding characteristic of legal units (1.5), this date may not be available with any precision, only the fact that the enterprise has ceased to exist or has ceased its activities during the reference year may be known, in which case it should be estimated.

Sources: The date can be obtained from surveys or administrative sources or defined in a business register procedure according to established rules.

Comments: The characteristic is interpreted in a way similar to the corresponding characteristic (2.5) for local units (see above). The links between local or legal units and enterprises should be checked, because the conditions relating to the continuity of the enterprise should be met.

## ECONOMIC/STRATIFICATION CHARACTERISTICS

### 3.6 Principal activity code at NACE 4-digit level

Purpose: The principal activity code is a key stratification variable. The code is also very important in judging the role of certain units in the enterprise group structure, mainly the group head, the head office and special purpose entities (SPEs included in NACE Rev. 2 class 6430), but also in general in enterprise group structuring and demography. The enterprise group's worldwide dispersion of employment by activity can also be studied by its constituent units.

Definition: The activity code is decided according to the rules in the NACE handbook. The activities actually pursued in the enterprise will be taken into account.

Proxies: Several criteria can be used to define the principal activity code, if value added is not available. Employment and turnover by different activities can be used (when available), but also activity descriptions, etc.

Sources: The code can be obtained from surveys or administrative sources.

Comments: Administrative sources may include a range of activities if the enterprise has a legal capacity to operate in different trades. However, the quantitative information on the importance of all such activities may not be available in the source, unless the enterprise has been the subject of surveys. If the enterprise is linked to just one local unit, the principal activity for both should be the same (see characteristic 2.6).

### 3.7 Conditional: Secondary activities, if any, at NACE 4-digit level; this point concerns only enterprises which are the subject of surveys

Purpose: Knowledge of secondary activities is very important to large enterprises, for instance when conducting short-term business surveys and for determining kind-of-activity units. If KAUs are not recorded in the register as separate units, characteristic 3.7 offers the possibility of analytically defining them. This may be necessary for the creation of links to associate registers (e.g. farm registers) which may include only a (KAU) part of the enterprise.

Definition: The activity codes are decided according to the rules in the NACE handbook. The activities actually pursued in the enterprise will be taken into account.

Proxies: Several criteria can be used for defining the principal activity code, if value added is not available. Employment and turnover by different activities can be used (when available), but also activity descriptions, etc.

Sources: The code(s) can be obtained from surveys (probably more accurately) or administrative sources.

Comments: The characteristic concerns only enterprises which are surveyed in surveys other than the register update survey. As such units are generally large and important, the information should be requested and updated in the register.

### 3.8 Number of persons employed

#### 3.9a Number of employees

**3.9b Optional: Number of employees in FTEs These characteristics are calculated in accordance with the rules given for local unit in 2.9–2.10.**

Purpose: The purposes given for local units in 2.9–2.10 also apply to enterprises. There are, however, additional uses.

SMEs are defined according to Commission Recommendation 2003/361/EC and consist of independent enterprises below 250 persons employed full-time. The share of SMEs and small (below 50 persons) and micro (below 10 persons) enterprises can be calculated.

The employment in the enterprises, of which an enterprise group consists, can be used to define the continuity of the enterprise group. The enterprise group's worldwide dispersion of employment by activity and the impact of offshoring can also be studied by its constituent units.

Comments: As the enterprise consists of one or more local units, it is clear that the size of the labour force in the former should equal the sum of the latter.

The consistency of the business register employment figures has been compared with other sources (structural business statistics, business demography, labour force survey). The employment figures should not be the same due to different definitions and methodologies but within a certain range. If this is not the case, an explanation should be provided.

**3.10a Turnover save as provided in 3.10b**

**3.10b Optional: Turnover for agriculture, forestry and fishing; public administration and defence, compulsory social security; activities as households as employers; and activities of extraterritorial organisations and bodies (NACE 2 sections A, O, T and U)**

Purpose: For some surveys, mainly cyclical ones and for some spheres of activity, it may not be appropriate to stratify according to employment. Moreover, for accurate calculation purposes, the size of enterprises should also be measured in terms of their turnover.

SMEs are defined according to Commission Recommendation 2003/361/EC and consist of independent enterprises defined according to employment (3.9) and turnover or balance sheet total (1.7b).

Turnover is not an additive measure which restricts its direct (non-consolidated) use for the enterprises in the enterprise group framework. However, it can be used in FATS for calculation of consolidated turnover at country level and for group-related research and development intensity calculations.

Definition: In principle, the structural business statistics (SBS) definition of turnover (variable 12 11 0) should be used.

Proxies: Fiscal sources will usually provide this information, either on the basis of corporate income tax or VAT returns. In cases where units are not subject to VAT, the information may be unavailable. One possibility is to estimate it based on the level of employment using a standard turnover per head ratio calculated by the NACE class. As turnover is most relevant for market units, it shouldn't be estimated for non-market units (as defined in 3.11). The optional turnover for agricultural, fishing and public sector units should be recorded if it is available, but not estimated.

Sources: Turnover can be gained from surveys or from different administrative sources.

Comments: The figure used should be the actual turnover. Turnover may be available with some delay, especially for newly created enterprises. This may cause problems mainly for business demography and it may be necessary to impute turnover for that purpose.

As turnover from different sources is not always the same, by using different sources a bias may arise.

Turnover excludes VAT. Turnover is an essential piece of accounting data (see characteristic 1.7b). Even if comparing turnover between enterprises across different NACE sections may not make much sense, it is the only parameter that permits a breakdown by product or allows exports to be ascertained.

### **3.11 Institutional sector and sub-sector according to European System of Accounts**

***Purpose:*** The institutional sector classification in business registers has at least five important functions.

1. National accounts: It is significant where business registers are used for national accounts, something which is becoming more and more important (although practice varies considerably between Member States).
2. Business statistics: It can be used for separating market and non-market activities for business statistics and business demography which cover only market activities.
3. Public enterprises: It can be used to separate information on public enterprises.
4. It can be used to separate privately and publicly controlled enterprises and to find the volume (e.g. share of employment in the market) of the state as the ultimate controller of enterprises in the economy.
5. It can also be used to distinguish foreign-controlled enterprises (e.g. for FATS) and ensure that the enterprise information is consistent with the corresponding legal unit and enterprise group information.

***Definition:*** The European System of Accounts (ESA95) gives the classification in its Table 2.1. The classification applies to the institutional unit and, according to the Statistical Units Regulation, the enterprise corresponds to the institutional unit in the corporate enterprises sector. For other sectors, the relationship is further examined in Chapter 24. Each enterprise should be capable of being classified in an institutional sector.

Separate recording of all the sub-sectors is included in the BR Regulation and strongly recommended. However, it is required only if it is necessary for national accounts purposes to fulfil uses 2 to 5. Some sub-sectors could be combined. The separation of the following sub-sectors is thus necessary: 'Public', 'National Private' and 'Foreign Controlled'. As far as this classification (S.12xx1, S.12xx2 and S.12xx3) is available, certain financial corporation sub-sectors could be combined. However, separating all of them according to their NACE class should pose no problems and would also be useful for checking the coherence and quality of the classification. Recording all the sub-sectors of general government is similarly strongly recommended but not required. Of the household sector, employers and own account workers S.141+S.142 are to be included. This sector includes sole proprietors and partnerships not recognised as independent legal entities. Household sectors S.143-S.145 fall outside the scope of the business registers. Non-profit institutions serving households (S.15; it is to be noted that this includes only part of the legal form 'non-profit institutions') and the rest of the world (NACE Rev. 2 section U, Activities of extraterritorial organisations and bodies) are also within the scope of the business register.

***Proxies:*** From the information available, it may not always be possible to define the sub-sector accurately. In such cases, large and important units could be checked manually. A proxy can be derived from NACE code, legal form and country of global decision-centre.

Sources: Defined in a business register procedure in cooperation with national accounts according to established rules based on business register information and using administrative sources when necessary.

Comments: In the vast majority of cases, it is possible to calculate the institutional sector code from other explicitly recorded characteristics, especially legal form (1.6), NACE code (3.6) and controlling country (4.16). Algorithms can be used for this purpose. The institutional sector must not conflict with the principal activity and whether the enterprise is foreign controlled must be consistent with the respective characteristics of the enterprise group to which it belongs.

The principal activity of the enterprise separates the financial and non-financial corporate enterprises. Two criteria can be applied to separate corporate and quasi-corporate enterprises from enterprises attached to the household sector: The legal form of the legal unit operating the enterprise and, if the legal unit is a natural person, whether or not it keeps annual accounts for the assessment of its tax liability. It may therefore be appropriate to provide an intermediate code indicating, in the case of enterprises operated by a natural person, if they keep accounts or not. That code might perhaps record whether the enterprise is taxed on profits on the basis of its accounts (actual profits) or on the basis of an assessment.

Business statistics cover only market activities and a code indicating whether the activity of an enterprise is market or non-market is essential for them. The distinction is sometimes difficult to make and can be definitively determined only by looking at the accounts. Market enterprises cover institutional sectors S.11, S.12, S141 and S.142.

Public undertaking is defined in Article 2 of Commission Directive 80/723/EEC as "any undertaking over which the public authorities may exercise directly or indirectly a dominant influence by virtue of their ownership of it, their financial participation therein, or the rules that govern it. A dominant influence on the part of the public authorities shall be presumed when these authorities, directly or indirectly in relation to an undertaking:

- Hold the major part of the undertaking's subscribed capital; or
- Control the majority of the votes attaching to shares issued by the undertakings; or
- Can appoint more than half of the members of the undertaking's administrative, managerial or supervisory body."

This could be one legal form or it could be obtained from an administrative source. It may be interpreted in different ways in different administrations. The key issue is that public authorities control public undertakings. The definition does not clearly specify whether public undertaking should be market-oriented and distinguishing between public undertaking and government unit is sometimes difficult and may require the information from its accounts (whether more or less than 50 % of production costs are met by sales). The precise method to be used for separating public enterprises is to define them by the sum of institutional sub-sectors: S.11001+S.12201+S.12301+S.12401+S.12501.

### **Additional characteristics for enterprises belonging to an enterprise group:**

## **LINK WITH ENTERPRISE GROUP**

### **3.12 Identity number of the all-resident/truncated enterprise group (4.1) to which the enterprise belongs**

Purpose: To identify the enterprises belonging to the enterprise groups. This is important also for the enterprise confidentiality treatment and to be able to separate SMEs, which have to be independent and not belong to enterprise group.



Definition: See characteristic 4.1.

Comments: The date of acquisition when the enterprise becomes part of the group should also be recorded.

## **5E — Enterprise group characteristics**

### **Characteristics for all-resident and truncated enterprise groups:**

#### **IDENTIFICATION CHARACTERISTICS**

##### **4.1 Identity number of the all-resident/truncated group**

Purpose: To identify the all-resident groups and the truncated groups and to follow their continuity.

Definition: The identity number of an all-resident group is given nationally in the business register or it may be common with other institutions. The identity number of a truncated group is given centrally in the EuroGroups register procedure. As the continuity rules for enterprise groups should be applied, the identity number should remain the same while the group is considered as continuous (defining the continuity is examined in Chapter 22). For all-resident groups, the general enterprise group continuity rules apply and different methods can be used, e.g. profiling for large groups and automated procedures based on administrative information for small groups. The continuity of the truncated group is based on the continuity of the global group.

Proxies: While the EuroGroups register does not yet cover all multinationals, the identity number of the truncated group, which is not yet covered, is given nationally in the business register (the national number may, of course, always be used additionally). As the continuity of the group may remain while the group head changes, it is not advisable to use the identity number of the group head as the identity number of the group.

Sources: The identity number of an all-resident group can be given internally in the business register or be obtained from an administrative source. The identity number of a truncated group comes from the EuroGroups register or, failing that, is given internally.

Comments: Within the national territory, there may be several seemingly unlinked truncated groups, which in fact belong to the same multinational group. In such cases, these separate groups generally have same type of NACE activities and it can be advisable to define them as separate enterprises. A truncated group can also consist of only one unit of the group, parent or subsidiary in the national territory and such cases may be difficult to identify nationally.

##### **4.2a Name of the all-resident/truncated group**

##### **4.2b Optional: Postal, electronic mail and website address of the resident/truncated head office**

Purpose: The storing of the name and address information may be important for survey or profiling purposes and there may be other national uses.

Definition: National standards for the name and address are used for the all-resident head office and for the truncated head office.

Proxies: The name of the truncated group should not be exactly the same as the name of the global group (4.12).

Sources: The name is given nationally in the business register or it may be common with other institutions. Administrative sources, surveys, profiling, internet, business register information can be used.

Comments: It is up to the country to decide on the information they wish to record for each unit and address. In some countries, at legal level the consolidated accounts may use the legal name of the group head when they refer to the whole group.

#### **4.3 Identity number of the all-resident/truncated group head (equals the identity number of the legal unit which is the resident group head).**

**Conditional: If the controlling unit is a natural person who is not an economic operator, recording is subject to the availability of this information in the administrative sources**

Purpose: To identify the all-resident group head and the truncated group head. The conditional recording of natural persons as controlling units is due to their importance in a number of countries where they may not be registered as a legal unit; in other countries this is generally the case. The difference is taken into account in the OECD Handbook on Economic Globalisation Indicators, which recommends inclusion of natural persons.

Definition: The identity number of the legal unit which is the resident group head or the identity number of the truncated group head.

Proxies: For natural persons who are not registered in the business register as economic operators, a quasi-unit with an identity number can be created when necessary. If this is done, it should be possible to identify natural persons separately.

Sources: Administrative sources, the control links in the business register.

Comments: For domestically controlled multinationals (group type 2 in 4.4), the global group head is in the national business register and in this case 4.3 and 4.13 can be the same.

The dates of commencement and cessation as resident group head must also be stored, either when the change is recorded in the register or preferably as separate variables when the real change takes place (if this is known).

The frequency and importance of natural persons as controlling units may depend on national legislation and thus vary considerably between countries. It would be useful to study the effect of their inclusion/exclusion on the consistency of data between Members States.

#### **4.4 Type of enterprise group:**

- 1. All-resident group;**
- 2. Domestically controlled truncated group;**
- 3. Foreign controlled truncated group;**

Purpose: The type is an important stratification variable and the importance of many other variables depends on the type. It allows calculation of many economic indices at national level by type, such as proportion of different group types (and independent enterprises) in employment, turnover per person employed, etc. The units belonging to foreign controlled truncated groups comprise the foreign controlled inward FATS population.

Definition: The difference between all-resident and multinational groups is defined in BR Regulation Article 2. The difference between domestically and foreign controlled groups is determined by the country of global decision-centre (4.16).

Proxies: None.

Sources: Administrative and commercial sources, surveys, the EuroGroups register.

Comments: Enterprise group type may also be inferred from other variables, but it is advisable to record it separately. This is especially the case if much of the national enterprise group information is in a satellite register where the coverage may vary according to the group type.

## DEMOGRAPHIC CHARACTERISTICS

### 4.5 Date of commencement of the all-resident/truncated group

Purpose: The date is needed for the demography of enterprise groups.

Definition: The date refers either to a date when a new all-resident group is born (definition of birth, see Chapter 22) or to other creation date of a new group (by merger, break-up, split-off or restructure).

Proxies: The birth of a new group may be difficult to define in practice, if the smallest groups of no statistical importance to the Member State are not monitored. The date from which the group is being monitored shall then be used as a proxy. However, the approximate dates are important in order to determine from which year a certain multinational group is monitored in different countries.

Sources: Administrative sources, surveys.

### 4.6 Date of cessation of the all-resident/truncated group

Purpose: The date is required for the demography of enterprise groups.

Definition: Cessation of a group means either death of the group (dissolution of the links of control between the units belonging to the group), or (more commonly) another cessation date by merger with or takeover by another group, break-up, split-off or restructuring into two or more groups.

Proxies: If no exact date is known, the approximate date is important in order to know the situation of multinational groups in different countries.

Sources: Administrative sources, surveys.

Comments: It should be noted that 4.6 is filled in only for historical files, when the group ceases to exist or is not monitored anymore. In such cases, all the characteristics from 4.1 to 4.17 become historical.

## ECONOMIC/STRATIFICATION CHARACTERISTICS

### 4.7 Principal activity code of the all-resident/truncated group at NACE 2-digit level

### 4.8 Optional: Secondary activities of the all-resident/truncated group at NACE 2-digit level

Purpose: The activities can be used for stratification, demographic and economic analysis. Secondary activities are important for observing the homogeneity of the group.

Definition: The activities are defined according to the NACE rules. The principal activity is identified by the top-down method as the activity which contributes most to the total value added.

Proxies: If value added cannot be used, it is recommended that employment be used as the criterion: The activities can be decided based on the activity codes and number of persons

employed in the units belonging to the group at national level. Turnover is less suitable because it is more sensitive to local sales and intra-group transactions.

Sources: The business register, administrative sources, surveys.

Comments: Principal and secondary economic activities can be inferred from the economic activities of the enterprises composing the truncated group. In order to give the group a principal and secondary activity, the standard methodology should be used according to the European principles of classification. When assigning the principal activity to the group, it is advisable to rank the main activities in descending order of importance, including their shares.

It is recommended that the principal activity be recorded as precisely as possible, at NACE 4-digit level. As this is not always practically possible in some countries, this is voluntary.

#### **4.9 Number of persons employed in the all-resident/truncated group**

Purpose: Employment can be used for stratification, demographic and economic analysis. Together with the activity code, it provides information on the role of the truncated group in the global framework.

Definition: The all-resident/truncated part of persons employed is added up from the register from the units which belong to the group.

Proxies: The number of employees.

Sources: The business register.

Comments: The difference between persons employed and employees is less significant for enterprise groups than for enterprises; therefore there is no need to list both and the former is recommended.

#### **4.10 Optional: Consolidated turnover**

Purpose: Turnover is an important size indicator for stratification. The availability of consolidated turnover at truncated group or subgroup level may be useful for profiling the group.

Definition: The turnover is defined in structural business statistics (see 3.10). For the consolidation rules (full consolidation), the Fourth and Seventh Council Directives and International Accounting/Financial Reporting Standards should be followed.

Proxies: There can be national specifications of the consolidation rules.

Sources: Administrative sources, surveys, profiling.

Comments: It is difficult to consolidate turnover of different enterprises in different activities and the consolidation rules are not the same everywhere. Also turnovers from different sources may not be consistent.

It could also be possible to add up the turnovers of legal units belonging to the enterprise group, but this would contain internal turnover which does not correspond to market prices when based on internal prices. Thus storing of any figure other than the consolidated turnover figure in 4.10 may be confusing and is not recommended.

#### **Additional characteristics for multinational enterprise groups (MNEs) at global level:**

The recording of characteristics 4.11 and 4.12a is optional until transmission of information on multinational groups, as stated in Article 11, has been established.

The term 'European' is used to cover not only the EU countries but also those EFTA countries that decide to participate in the EuroGroups register.

## IDENTIFICATION CHARACTERISTICS

### 4.11 Identity number of the global group

**Purpose:** To identify the global group and to follow its continuity and the demographic events leading to discontinuity. As the continuity rules for enterprise groups should be applied, the identity number should remain the same while the group is considered as continuous (defining the continuity is examined in more detail in Chapter 22).

**Definition:** The identity number refers to the whole group and must be unique. The identity number shall be given in the EuroGroups register to ensure a unique format.

**Proxies:** National numbers can be used until a system of unique Europe-wide identity numbers is established and also after that as a second identity number which may be useful when, for instance, an all-resident group becomes multinational.

**Sources:** The EuroGroups register; national number.

**Comments:** The continuity of the global groups is coordinated in Europe by Eurostat. The continuity is decided jointly by Eurostat and the country of decision-centre of the group (4.16) when this country is in the EU or in a participating EFTA country. When deciding on the continuity, the information in the commercial sources (which may not respect continuity rules) as well as consistency with other available sources (e.g. the EU Industrial R&D Investment Scoreboard) will be taken into account. The identity number will be distributed to all Member States within which the enterprise group operates.

### 4.12a Name of the global group

#### 4.12b Optional: Country of registration, postal, electronic mail and website address of the global head office

**Purpose:** The name is used to identify the global group in addition to the identity number. The address information is important contact information. The country where the global head office is located may, in certain cases, be the global decision-centre of the group (see 4.16). The global head office can be the reporting unit for the group if the global group head cannot supply the information, which may be the case, for instance, if it is in an offshore financial centre.

**Definition:** The name refers to the whole group. The name and other contact information is stored in the standard form used in the country of registration, if this is in Europe. For non-European countries, the form used in a commercial source must be used. The names and other contact information are coordinated by Eurostat to ensure their consistency.

**Proxies:** National names can be used until a system of unique Europe-wide harmonised names is established.

**Sources:** The EuroGroups register, commercial sources.

**Comments:** The name of the group is harmonised in the EuroGroups register. After that, a generally known unique Europe-wide global name is given to each group. The consistency of the name with other available sources (e.g. the EU Industrial R&D Investment Scoreboard) will be taken into account. The name and the contact information are distributed to all Member States where the enterprise group operates. The problem with different alphabets needs to be solved.

### 4.13a Identity number of the global group head, if the group head is resident (equals the identity number of the legal unit which is the group head). If the global group head is non-resident, its country of registration.

#### **4.13b Optional: Global group head identity number or name and address if non-resident**

Purpose: The global group head is used to define the country of global decision-centre (see 4.16) together with the global head office. The address information can be used as contact information.

Definition: A unique Europe-wide identity number should be used for each group head. This identity number should be the identity number of the unit in the business register in the country of registration of the group head, combined with the country code. If the global group head is a legal unit in the business register of a European country, its identity number from the origin of country registration of the global group head will be used.

Failing this, Eurostat should give the identity numbers to the non-European group heads, e.g. to use the number given by a commercial provider (which often use the local company registration numbers). At the very least, group head numbers should be harmonised at European level.

The identity number and other contact information is coordinated by the EuroGroups register to ensure their consistency.

Proxies: Nationally used identity numbers and names and addresses (when the identity number is not available) may be used until a system of unique Europe-wide harmonised numbers is established.

The recording of natural persons as controlling units is not required for the global group and it may be regarded as sensitive information. However, if data on natural persons is available in the commercial sources, or if they are included in 4.3 as quasi-units with an identity number, they should be included here as well.

Sources: The EuroGroups register, commercial sources.

Comments: The identity number and the contact information are to be distributed to all Member States where the enterprise group operates.

The dates of commencement and cessation as global group head must also be stored, either when the change is recorded in the register or, preferably, as separate variables when the real change takes place (if this is known).

The 'country of registration' may also refer to a territory. For a list of countries and territories, and which of them belong to the EU, other Europe, etc., the list given in the latest Balance of Payments Vademecum (which is consistent with the ISO 2-letter country codes) should be used as a reference (see CIRCA interest group BoP/Library/SSDS/BoP\_Vademecum).

## **ECONOMIC/STRATIFICATION CHARACTERISTICS**

#### **4.14 Optional: Number of persons employed globally**

Purpose: Employment is one of the key variables for the groups.

Definition: Number of persons employed is the consolidated figure from the units which belong to the group or, failing that, the figure obtained from the commercial sources.

Proxies: The commercial sources generally have the number of employees.

Sources: The EuroGroups register (consolidated figure), commercial sources, national business registers.

Comments: The global number may be available from commercial provider(s) or from the consolidated information of the global group. The NSIs should check and correct the truncated

national numbers obtained from the commercial sources and the numbers in the EuroGroups register will take into account these corrections. The consistency of the global number with other available sources (e.g. the EU Industrial R&D Investment Scoreboard) will also be taken into account. It is possible that the employment of some non-European countries is unavailable. If the global number and European employment are available, then at least the share of EU in the global framework can be calculated.

#### **4.15 Optional: Consolidated global turnover**

Purpose: Turnover is an important size indicator of the group.

Definition: Turnover is defined in structural business statistics (see 3.10). For the full consolidation rules, the Fourth and Seventh Council Directives and International Accounting Standards should be followed.

Proxies: It may be possible that a consolidated turnover figure is not available for the whole group, only for its subgroups. The proxies obtained, e.g. from the commercial sources, can then be used.

Sources: The EuroGroups register (consolidated figure), administrative and commercial sources, surveys.

Comments: If the consolidated turnover is available for the whole global group, this is to be used. It is difficult to consolidate turnover of different enterprises in different activities. The consolidated turnover may be available at several subgroup levels, but it may be very difficult to check their consistency.

The consistency of the global number with other available sources (e.g. the EU Industrial R&D Investment Scoreboard) will also be taken into account.

#### **4.16 Optional: Country of global decision centre**

Purpose: To allocate the enterprise group to the country where decisions on its global strategy are actually taken. Foreign affiliate statistics use the resident country of the ultimate controlling institutional unit (UCI, see FATS Regulation 716/2007), which is equivalent to the country of global decision centre. To use the global decision centre in a consistent way in various statistics related to economic globalisation would ensure their coherent production.

Definition: Country where the strategic decisions referring to an enterprise group are taken.

Proxies: In most of the cases the global decision centre equals to the global group head, the decisions referring to the group are taken by the group head. In these cases the country of global decision centre is the country where the global group head is located. In special cases the global group head is not able to act as a decision centre for the whole group. Units without substantial physical presence, significant economic activities, employment are not able to be engaged in decisions. In these cases the global decision centre should be appointed at the next level downwards in the enterprise group tree structure where the global decisions of the enterprise group are taken (for description of special cases and recommendations see 21.59 in Chapter 21).

Sources: Administrative and commercial sources; statistical surveys. The EuroGroups register provides standardised information on the decision centre of MNEs covered. Comments: The country where the decision-making centre is located is often referred to as the 'nationality of the group', although nationality can be understood in other ways, for instance to refer to the nationality of the owner. The roles of the group head and decision centre may vary a great deal. This cannot be taken into account in an operational rule, but can be proved in profiling. To gain further knowledge about how the group operates the group could be further analysed. Factors to be considered include where the main production activity is located, where value added is

created, and where research and development, which defines the future strategy of the group, takes place.

#### **4.17 Optional: Countries where enterprises or local units are located**

*Purpose:* The characteristic is essential information for outward FATS and for studying intra-group trade, which also needs the names, addresses and identity numbers of units belonging to the group.

*Definition:* Country codes (according to the BoP Vademecum, see 4.13).

*Proxies:* None.

*Sources:* Administrative (consolidated balance sheets) and commercial sources, the EuroGroups register.

Comments:

### **5F — Summary and possible additional characteristics**

The statistical business registers are used as survey frames, as a pivot for linking administrative and statistical registers and various statistics and as a source for certain statistics (business demography, small area statistics, statistics according to institutional sector, etc.). In Europe, they generally only include a limited number of variables (according to the BR Regulation) and are not used as a data warehouse for economic data, for instance. However, it is also possible that the business registers in some countries (cf. with the business register in the United States Census Bureau) include extensive data from administrative sources such as accounting data. In many EU Member States, the contents of the business registers are broader than what is mandatory. Some of the most important possible additional variables are briefly mentioned below. The EuroGroups register also includes additional characteristics obtained from private sources. These characteristics will be described in the EuroGroups register handbook.

#### **IDENTIFICATION CHARACTERISTICS**

Identity numbers must not change throughout the life of the unit identified (the possible exception is the legal unit as examined in 1.1). Thus, although the characteristics attached to the unit may change during the life of the unit, its identity number must be independent of those characteristics.

Experience has shown that a good solution is to give each unit a non-significant serial number and a computer control key.

It is important to avoid confusing the identity numbers of the different categories of units. It is therefore preferable to adopt different identity number structures (length and type of character) for each type of unit. Various solutions are possible.

External identity numbers and links to administrative sources

Since one function of the register is to enable information in administrative files to be mobilised, cross-links with those files must be maintained. The identity numbers used to record units in administrative files should therefore be included in the business register.

The problem is solved automatically in countries where a common identity number is used, at least for certain units. It should then be in the interests of statisticians to adopt this number for their own purposes. It is unlikely, however, that such units will meet the definition of the



statistical unit concerned (e.g. enterprise), so separate identity numbers for statistical units will usually be needed.

## DEMOGRAPHIC CHARACTERISTICS

The dates required in the BR Regulation must be recorded for each unit to permit an initial demographic analysis of the population of enterprises, local units and enterprise groups. Additionally, the dates of certain events are important to be recorded, as recommended above for certain characteristics. For certain purposes, e.g. the analysis of lags between real world events and their reflection on the business register, it may also be useful to hold additional information, for instance on the date of entry of legal or local units or enterprise groups in the register. If the real dates are not known, the date of entry can be used as a proxy, because estimation is much more useful than a missing date.

### State of activity or situation

The new BR Regulation applies (Article 3.5) only to economically active (as defined in the Article) enterprises, local units and enterprise groups. Whether the business register also includes economically inactive (but legally active) legal units or not, depends on how useful it is deemed nationally to include them. Thus some Member States include them and others do not.

In practice, there are reasons why it is necessary to take account of dormant (temporarily inactive) units in the register or to retain, for a certain period, enterprises or other statistical units that have ceased trading (at least the two years defined in business demography), apart from keeping historical records on them. The two main reasons are to be able to study the demography of these units, as described in Chapters 11–16 and 22, and to record the control links between legal units, which may also involve otherwise inactive units.

A code should then be used to specify at least the 'live', 'dormant' and 'dead' status of the unit, perhaps also other (sub-)categories, which may be available at national level (liquidation, etc.). For a legal unit that status will be legal; for statistical units it will be 'economic'. This sort of code is not required in the BR Regulation, but gives useful extra information beyond the compulsory characteristics of date of commencement and date of cessation.

An additional code also useful to be applied is to distinguish continuous activity from seasonal activity and the period of seasonality.

## ECONOMIC/STRATIFICATION CHARACTERISTICS

### Activity classification

Almost all countries have a more detailed national activity classification based on NACE, generally recorded at NACE five-digit level, in addition to the mandatory NACE four-digit level for enterprises and local units. The rules for defining the principal activity in the NACE Rev. 2 Introductory guidelines (NACE four-digit level) apply to all units, although it should be noted that, in the absence of information on value added, its best possible substitute may vary according to unit and NACE category. It is also important to follow the stability rule, i.e. that a secondary activity should exceed the principal activity for two years before it is changed.

An important point in the NACE Rev. 2 Introductory guidelines concerns outsourcing:

- The principal (company) which *completely* outsources the transformation process should be classified under manufacturing only if it owns the raw material used as input to the production process (and therefore owns the final output).

- A principal who outsources only part of the transformation process is to be classified under manufacturing.
- In all other cases, the principals should be classified according to the value added principle: It might be in Section G 'Wholesale and retail trade' (according to the activity and the specific good sold) or in other sections such as, e.g., M 'Professional, scientific and technical activities', or N 'Administrative and support service activities'.
- In the case of outsourcing of employment services, a distinction should be made between outsourcing on a temporary or a long-term and permanent basis (detailed instructions: See NACE Rev. 2 Introductory guidelines).

#### Value added

Value added is the basic concept for the determination of the classification of a unit according to economic activities. It is only included in business registers in a few countries, but when the registers are updated from survey results or administrative sources, the activity classification can be based on value added.

#### Size measures

A size measure for statistical units is essential for sample design, grossing-up the results to the population and analysing the business population. Several criteria may be used to construct a size indicator: Employment, turnover, balance sheet total, etc.

What matters is that this indicator can be updated (at least) annually for all units regardless of whether or not they were selected the previous year for inclusion in a survey sample. Only indicators that can be updated from exhaustive administrative sources should therefore be used. That constraint limits the choice of possible indicators.

#### Size based on balance sheet total or assets

After employment and turnover, the most requested size variable is balance sheet total, which is used in many statistics and in the definition of small and medium sized enterprises. That is why its inclusion in the EuroGroups register was preferred by stakeholders to assets, which were optional in the old BR Regulation.

For enterprises in the financial market sector with activity falling within section K (Financial and insurance activities) of NACE Rev. 2, the amount of assets can also be relevant. The optional inclusion of assets was omitted from the new BR Regulation and replaced by an optional link to balance sheets (see characteristic 1.7b), from which many useful variables can be obtained.

#### Wage and salary earners indicator

In addition to the size indicator based on employment, a binary indicator reflecting the existence of wage and salary earners will always be a useful addition. Some Member States have also included wages and salaries in their business register.

## LINKS WITH OTHER REGISTERS

The links are extremely important for the emerging role of the business registers to work as a pivot in connecting various registers and thus creating the possibility for integrated statistics, especially for the integration of economic statistics. Because the national situations differ greatly, the requirements are rather limited in the BR Regulation and the linking is, apart from the links to international trade registers, on a conditional or optional basis.

## LINK WITH ENTERPRISE GROUP

The link is required for both legal units and enterprises which belong to enterprise groups, but it can also be created for local units via their link to enterprise. For local units and kind-of-activity units, it can be useful to establish the link to the group, for instance in the context of profiling.

## CONTROL AND OWNERSHIP OF UNITS

Although majority ownership (over 50 %) of voting rights is generally used as a proxy to control, the two characteristics must always be kept separate. Control can only have two values, 1 (yes) or 0 (no), and can be exercised only by one unit, while ownership can vary between 0 and 100 percent. Control of legal units is compulsory according to the BR Regulation, while ownership is conditional (subject to availability in sources).

### Special purpose entities (SPEs)

SPEs are intended to be included in the EuroGroups register, although this term has not yet been precisely defined. NACE Rev. 2 codes 6420 (activities of holding companies) and 6430 (trusts, funds and similar financial entities) are attributed to entities which could be characterised as SPEs. They are units that are foreign-controlled and own subsidiaries abroad. They are set up for obtaining tax advantages or are simply steps in a chain of control within a multinational group. They do not exercise any real economic activity (including management), but are usually involved in sizeable international financial transactions. Therefore distinguishing SPEs is very important for foreign direct investment, national accounts and other statistics.

## **5G — Relation to the BR Regulation**

This chapter describes the characteristics to be held for each unit to be included in the register by the Regulation. The operational instructions for the characteristics of the Regulation should therefore be regarded as aiding the implementation of the Regulation. As presented in this chapter they are recommendations. To become legally binding, the definitions and continuity rules can be later defined in an implementing Commission Regulation according to Article 5 of the BR Regulation.

## COVERAGE OF THE REGISTER

# 6

## CHAPTER 6 — COVERAGE OF THE REGISTER

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### 6A — Introduction

6.1 In principle, business registers should record all enterprises (and associated legal and local units) and all truncated, multinational and all-resident enterprise groups that are active in the national economy, i.e. contributing to the gross domestic product (GDP). This may not always be possible in practice, often for cost reasons, but for the purposes of international comparison it is desirable that the coverage of business registers should meet agreed standards and the omission of any groups of units must involve an assessment of their economic importance. The BR Regulation defines the units that must be included, the units to which inclusion does not apply (Article 3.2) and those that may be excluded (unless their inclusion is later defined in a Commission Regulation; Article 3.6). The inclusion of other units such as (local) kind-of-activity units is a matter of subsidiarity.

### 6B — Activities of households

6.2 Article 3.2 of the Regulation states that its requirements shall not apply to households insofar as:

- the goods and services they produce are for their own consumption or
- they involve the letting of own property (part of group 68.2 of the statistical classification of economic activities in the European Community — NACE Rev. 2).

6.3 In the first point, production may be consumed by the household, e.g. production from domestic gardens, or invested in the household, e.g. do-it-yourself activities. Households are generally only regarded as enterprises, and hence included in statistical business registers, if their production is greater than that required for their own consumption and the surplus is sold or traded in some way, e.g. surplus vegetables sold on a market stall. Households producing services for their own use should similarly be excluded from business registers. However, there are two special cases, which merit further comment:

#### **a) NACE Rev. 2 group 68.2, Renting and operating of own or leased real estate**

This class includes:

- The renting and operating of self-owned or leased real estate:

- Apartment buildings and dwellings
- Non-residential buildings, including exhibition halls, self-storage facilities
- Land

The provision of homes and furnished or unfurnished flats/apartments for more permanent use, typically on a monthly or annual basis.

This class also includes:

- Development of building projects for own operation
- Operation of residential mobile home sites

This class excludes:

- Operation of hotels, suite hotels, holiday homes, boarding houses, camp sites, mobile home parks and other non-residential or short-stay accommodation.

6.4 It is recommended that household lessors — but no other lessors — be excluded from the register in order not to inflate the register unnecessarily, as their letting generally occurs on a small scale. For larger-scale letting activities, an enterprise is generally established and this should be included in the register. However, in the administrative source used the difference between household and enterprise lessors may sometimes be difficult to define. In that case, the NSI may be compelled to also include household lessors (or some of them) in the register. It should also be noted that legal units are sometimes created to own property let to other legal units under the same control. Such legal units could be regarded as separate factors of production and are considered in more detail in Chapter 19.

#### **b) NACE Rev. 2 section T: Activities of households as employers; undifferentiated goods- and service-producing activities of households for own use**

6.5 In NACE Rev. 2, section T is split into 2 divisions:

97 Activities of households as employers of domestic personnel,

This class includes the activities of households as employers of domestic personnel such as maids, cooks, waiters, valets, butlers, laundresses, gardeners, gatekeepers, stable lads, chauffeurs, caretakers, governesses, babysitters, tutors, secretaries, etc.

It allows the domestic personnel employed to state the activity of their employer in censuses or studies, even though the employer is an individual. The product produced by this activity is consumed by the employing household.

This class excludes:

- Provision of services such as cooking, gardening etc. by independent service providers (companies or individuals), see according to type of service.

98 Undifferentiated goods- and service-producing activities of private households for own use.

This division includes the undifferentiated subsistence goods-producing and service-producing activities of households.

Households should be classified here only if it is impossible to identify a primary activity for the subsistence activities of the household. If the household engages in market activities, it should be classified according to the primary market activity carried out.

Division 98 should be excluded from business registers.

6.6 Division 97 is strictly limited to the activities of households as employers of domestic personnel as listed in the NACE explanatory notes above. Units classified in this division are generally out of scope for business surveys, but their inclusion in a statistical business register allows that register to be used in connection with employee or household-based surveys such as the labour force survey and the population census, where employees of these units are likely to be included.

6.7 Division 97 is not explicitly excluded from the scope of statistical business registers in the BR Regulation and in most Member States it is included, at least to some extent. Information on units in this division can generally be obtained from administrative sources concerning employers. A potential benefit of including units in Division 97 is that households employing persons are very often also involved in other ('real') businesses and having them in the register may help in keeping the two activities separate. The conclusion is that although the inclusion of Division 97 may be useful, it can be considered as optional, depending on the national circumstances.

6.8 Both section T and group 68.2 should be distinguished from the business activities of a natural person (a legal unit) entered in the register as the legal basis of an enterprise. If they also employ domestic staff, these people should not be included in the count of employees for this enterprise. Similarly, the amount of rent received by that person for their buildings must not be included in the turnover recorded for their enterprise, nor should the value of the buildings be included in the assets if this variable is recorded, unless those buildings are actually used as a factor of production by the enterprise.

## **6C — NACE section U: Activities of extraterritorial organisations and bodies**

6.9 Section U of NACE Rev. 2 includes:

- Activities of international organisations such as the United Nations and the specialised agencies of the United Nations system, regional bodies etc., the International Monetary Fund, the World Bank, the World Customs Organisation, the Organisation for Economic Cooperation and Development, the Organisation of Petroleum Exporting Countries, the European Communities, the European Free Trade Association, etc.

This class also includes:

- Activities of diplomatic and consular missions when being determined by the country of their location rather than by the country they represent.

The international organisations, embassies and foreign government representations can be split into two groups:

(i) Those whose sites are deemed to form part of the economic territory of another country (e.g. embassies, consulates, military bases), which should therefore be included as units in the business register of that country. Such units would probably come under NACE Rev. 2

section O in the controlling country. These units should not be included in the business register of the host country.

- (ii) Those whose sites do not form part of the economic territory of another country. This group includes units such as international organisations (e.g. the United Nations and its agencies, European Communities, OECD, IMF, World Bank, etc.) which may not technically be part of the economic territory of the host country (according to the definition in the European System of Accounts (ESA95) paragraphs 2.05 - 2.06), but should be included in the business register of that country for the sake of completeness, as they would not appear in any other business register. National statistical institutions can then decide whether or not to include such units in their various outputs. This is in accordance with the BR Regulation and allows the employees of this type of extraterritorial organisation to state the activity of their employer in censuses or studies.

## **6D — Inclusion of previously optional NACE sections**

6.10 The previous BR Regulation stated that the inclusion of units, the main activity of which falls in the following NACE Rev. 2 sections was optional:

- A — Agriculture, forestry and fishing
- O — Public administration and defence; compulsory social security

6.11 It is now compulsory to include these sections in business registers, although derogations for their coverage may be granted until 25 March 2013. The inclusion can be achieved by establishing at least a link to statistical or administrative registers of farms, government units.

6.12 The inclusion of the previously optional sections greatly helps in the handling of enterprises that have significant activities in different sections. This is very common, e.g. a farm can also have accommodation for tourists, and the most important activity may vary from year to year. The activities of such units should now be fully and consistently recorded in business registers.

6.13 The definition of statistical units in Section O is often a problem, further complicated by the way public-sector units are defined in administrative sources, which varies from country to country. This problem is examined in greater detail in Chapter 24.

## **6E — Very small enterprises**

6.14 In principle, all enterprises should be included in the register, whatever their size. In Article 3(6) of the Regulation, however, it is stated, that *"The extent to which enterprises with less than half a person employed, and all-resident enterprise groups of no statistical importance to the Member States are to be included in the registers, and the definition of units consistent with those for agricultural statistics, shall be decided in accordance with the regulatory procedure with scrutiny referred to in Article 16 (3)".* Once the associated issues have been clarified, discussion on the preparation of a Commission Regulation may take place. There are many difficulties, mainly due to the dependence of business registers on administrative sources, in which various thresholds exist, possibly even within the same country.

6.15 The Regulation on statistical units states in the definition of local units that, save for certain exceptions, one or more persons must work, even if only part-time, in a local unit (and therefore also in an enterprise). It is deemed impossible to create an enterprise without a combination of factors of production involving a minimum amount of labour. Thus, an enterprise



must provide employment, be it voluntary or paid. This is why the BR Regulation states that all enterprises employing at least half a person (i.e. one person half-time) must be included in the register. Using a lower threshold is naturally also in line with this Regulation and should then be done in a consistent way for all NACE sections.

6.16 However, even if nobody works even part-time in the enterprise, it should not automatically be excluded. Other information, especially turnover must be checked first. There may be reasons for the lack of employment, e.g. due to the arrangement of legal units and enterprises within an enterprise group (see handling of complex enterprises in Chapter 19). The major exception to the employment rule concerns holding companies, which must be recorded as enterprises if they control more than one enterprise, even if they do not declare any employment.

6.17 One of the most problematic areas of under-coverage in registers concerns self-employed professionals (non-employers or one-person enterprises), who play a very important role in several NACE sections. Many countries have administrative sources covering at least some of these, e.g. social security sources, tax files on persons, files of Chambers of Crafts, lists of doctors, etc. Nevertheless, attempts should be made to include these units in the statistical business register wherever possible.

6.18 There are also entities which constitute an 'organisational unit producing goods or services' and could, therefore, be regarded as enterprises and included in the registers, but they fail to meet the employment and turnover thresholds, and thus may not be included in the administrative sources used to maintain the register. These can be, for example, statistically insignificant non-profit institutions (significant NPIs should show at least voluntary employment). Ideally these units should be included in the register, but updating such units may be difficult and very costly. Possible solutions are to exclude them from the register, or to include them in the register but exclude them from surveys and analyses.

## **6F — Relation to the BR Regulation**

6.19 This section deals with the interpretation of Article 3 of the Regulation, concerning the scope of business registers, and is therefore considered an interpretation of the Regulation.

# LEGAL UNIT AND ENTERPRISE

# 7

## CHAPTER 7 — LEGAL UNIT AND ENTERPRISE

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### 7A — Introduction

7.1 The purpose of this chapter is to explain the concepts ‘legal unit’ and ‘enterprise’ and the connection between them. It also examines why, and in what form, several legal units may jointly form an enterprise.

### 7B — Definitions

#### Legal unit

7.2 While confirming that they are not directly regarded as statistical units, the Statistical Units Regulation (Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community) states that legal units include:

- "legal persons whose existence is recognised by law independently of the individuals or institutions which may own them or are members of them;
- natural persons who are engaged in an economic activity in their own right."

The term ‘legal person’ is used in the legislation of a number of countries, though not all. It corresponds to all forms of legal construction organised by the constitution and laws of countries and endowed with rights and obligations which characterise legal personality.

7.3 The most widely used types of legal persons present in the Member States are listed in the Fourth Council Directive (78/660/EEC) on the annual accounts of certain types of companies. A recommendable typology of legal forms is presented in ESA 1995 Table 2.3.

7.4 The restriction concerning natural persons means that only those people who are engaged in an economic activity in their own right are relevant for business statistics. Otherwise

even persons not engaged in an economic activity would be legal units in the strict sense. In some Member States, natural persons engaged in economic activities must be recognised by law.

7.5 In some countries (e.g. Germany), special legal forms exist where a group of natural persons may be treated as a legal person, though usually with certain restrictions. If these are economically active, they should be included in statistical business registers as legal units. If any of these persons also has an economic activity in their own right, this should be recorded as a separate enterprise. If the group of natural persons is not recognised as a legal unit, the natural persons involved must be stored as separate legal units in the business registers.

## **Enterprise**

7.6 An enterprise is defined in the Statistical Units Regulation as "the smallest combination of legal units that is an organisational unit producing goods or services which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations."

The relationship between an enterprise and a legal unit is therefore defined as "the enterprise corresponds either to a legal unit or to a combination of legal units, provided that the result is an organisational unit with a certain degree of autonomy."

An enterprise produces goods or services, i.e. it is always economically active.

## **7C — Relationships between enterprises and legal units**

7.7 Enterprises and legal units have different purposes. The legal unit is a part of the legal and administrative world. Only a legal unit may enter into contracts or be an owner of property, rights or goods (i.e. factors of production). However, legal units are a construct of law and administration and thus do not always reflect economic reality. There may be legal or fiscal advantages to separating production factors into two or more different legal units. In the economic view, these individual legal units cannot act without the others.

7.8 To give a correct description of the economic world, a unit must be created in which the production factors are combined in a way that production is possible and manageable. This economic unit is the enterprise. The enterprise is therefore a statistical unit, consisting of one or more legal units for which statistical data can be provided.

7.9 The BR Regulation follows the SU Regulation which describes this relationship in various ways:

- In order to define units that are recognisable and identifiable in the economy, legal or institutional criteria must be applied. In some cases, legally separate units must be grouped together as they are not sufficiently autonomous in their organisation. In order to define some types of unit, accounting or financial criteria must also be applied.
- To constitute the enterprise unit, use is made of legal units that exercise, wholly or partially, a production activity.
- The legal unit always forms, either by itself or sometimes in combination with other legal units, the legal basis for the statistical unit known as the 'enterprise'.

In some countries, there has been an argument to construct enterprises based on parts of legal units in certain cases. This has been discussed at the Statistical Units meetings, but a unanimous opinion on this question has not been reached. This may require an amendment of the SU Regulation.

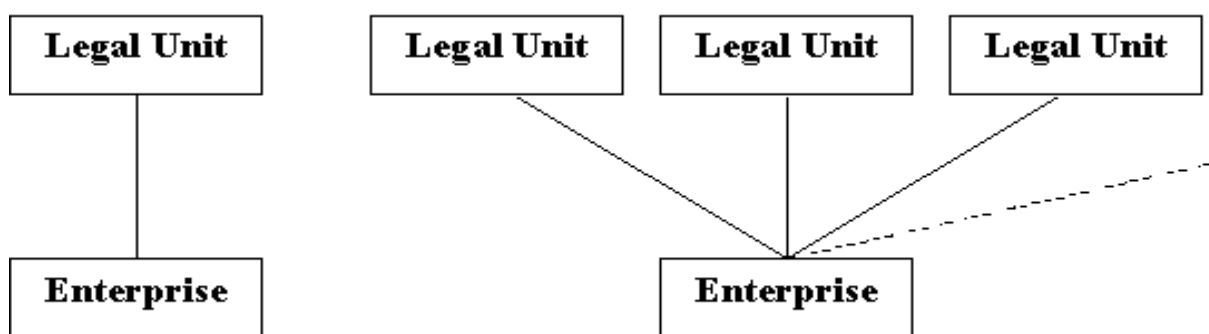
7.10 To understand the relationship between enterprises and legal units, it is also necessary to consider the definition of the enterprise group. An enterprise group may be situated in more than one country. However, although this is not specified in the SU Regulation, for purposes of business registers (e.g. national accounts has a similar restriction), enterprises have been restricted in the BR Regulation Article 2(e) to exist only within national boundaries.

7.11 An enterprise group is defined as "an association of enterprises bound together by legal and/or financial links.... Provisions regarding the control of the power to appoint directors must be taken into account. Behind financial (majority) control, the aim is to take into account where the control really is" (SU Regulation, Annex III c). An enterprise group can be seen as a cluster of legal units which are linked by relationships of control and structured by a strict hierarchy. Inside that enterprise group, several sub-clusters of legal units may exist which form (complex) enterprises (see Chapter 19). These enterprises have a certain economic autonomy and form organisational units. As the group head controls the legal units, it can determine the organisation of the group and thus the organisational units, which may form enterprises.

7.12 Control is secured according to the European System of Accounts (ESA 1995), paragraph 2.26, by owning more than half of the voting shares or otherwise controlling half of the shareholders' voting power (e.g. by controlling the shareholder or by a contract of control). This type of control can be registered as it has a legal basis. Informal control might be gained by one enterprise taking a high proportion of the output of another enterprise. This is difficult to recognise and to define and thus a neutral judgement is difficult. Therefore informal control cannot serve as a criterion for constructing enterprise groups or enterprises.

7.13 The cooperation of several independent legal units cannot be regarded as an enterprise. However if these legal units set up a new legal unit with sufficient autonomy, then this legal unit may fulfil the enterprise definition. Also, in this case, the other legal units are not included in the same enterprise as this new legal unit and may form separate enterprises in their own right.

7.14 The relationships between legal units and enterprises in statistical business registers may be summarised by the following examples:



## 7D — Enterprises with multiple legal units

7.15 An enterprise consisting of more than one legal unit under the same control can be referred to as a 'complex enterprise'. They may exist for various reasons as set out in the paragraphs below.

## **Historical reasons**

7.16 One legal unit buys another and integrates it completely into its own production process. The legal form is not changed. For example, a retail business obtains the ownership of a legal unit which owns a shop. This shop no longer has autonomy, because the decisions are taken on a level outside that legal unit.

## **Operational reasons**

7.17 Certain activities may have been outsourced into separately controlled legal units for reasons of operational efficiency. For example, it may be more efficient to have one legal unit responsible for marketing and advertising the products of several other legal units within an enterprise.

## **Tax or subsidy reasons**

7.18 Particular activities undertaken by an enterprise may be taxed differently to others or may attract subsidies. In such cases, it can make sense to have them carried out by a separate legal unit to maximise the tax advantage for the business or to meet simpler administrative requirements.

## **Other reasons**

7.19 In some countries, all employees of a particular legal unit are subject to the same wage settlement regardless of their occupation. To pay different wages, the activities in question would have to be legally externalised. For example, it may make sense to employ the staff of the canteen of a legal unit, which is classified as metal processing, in a separate legal unit, if market wages for catering staff are lower than for metal processing staff.

7.20 This list is not complete; other reasons for organising an enterprise in different legal units are conceivable, e.g. to facilitate the sale or closure of part of an enterprise group. The reasons will vary between Member States due to different historical, political or administrative factors.

## **7E — The role of legal units in administrative sources**

7.21 The legal unit is usually recorded in one or more administrative sources. The sources used for statistical business registers do not necessarily provide identical views of legal units. These units can vary both between different sources within a country and between countries. Thus the legal unit is not suitable as a statistical unit, particularly for international comparisons.

7.22 In many countries, it is often possible to find taxation units that are aggregations or parts of legal units, e.g. for value added tax (VAT) purposes. It is possible that several legal units under the same ownership and control pay VAT via one legal unit. This makes it possible to eliminate turnover based on intra-group transfers and thus reduce both the amount of tax to be paid and the amount of refund to be claimed.

## **7F — Inactive legal units**

7.23 Legal units can exist without carrying out any economic activity, as defined in the BR Regulation Article 3(5) (note that different statistics have different definitions for 'economically active' units, usually more restricted than in the BR Regulation). They are legally alive and have legal personality but are economically 'inactive' or 'dormant' (the latter term is commonly used for periodically inactive units). There are a number of different reasons for this. The following list identifies the main types, but is not exhaustive:

- Businesses set up to facilitate inward or outward overseas investment or for other international trade purposes;
- Businesses that are not yet trading but have registered with the intention of starting trading in the future;
- Businesses that are temporarily dormant, including those set up to manage occasional activities, e.g. organising events;
- Businesses that have ceased trading but not yet de-registered as legal units;
- Businesses registered purely to protect a trading name, e.g. an active enterprise might create a number of legal units with names similar to its own to stop potential competitors from registering and using these names;
- Businesses registered by agents to sell as 'off the shelf' companies to entrepreneurs who want to avoid the delays and paperwork involved in setting up new businesses themselves.

7.24 The obligation to include economically inactive legal units in statistical business registers concerns only direct and indirect holdings of active legal units. Otherwise they may be included or excluded depending on their usefulness in national practice. Some of the above categories may be required to reconstruct the chain of control from which the enterprise group is derived. An active legal unit might control an inactive one and this in turn might control another active legal unit. Even a group head might be a legal unit without any employment, though it controls the whole enterprise group and thus several enterprises. Direct and indirect holding of active units is therefore defined as being economically active for business registers purposes.

7.25 Defining economic activity in terms of turnover and/or employment (as in business demography) is problematic for these types of legal units and therefore business registers need a wider definition for 'economically active' than business demography. Control of one or more other legal units has already been mentioned above and it must be stored in statistical business registers. The controlling units are important to help construct enterprise group relationships and thus to derive enterprises. The same is true for legal units that own patents or other types of capital which may be relevant for financial statistics as well as those set up to facilitate cross-border flows and transactions which may be needed for overseas trade and investment statistics. They may also be of more general relevance to enterprise statistics if they are part of an enterprise.

## **7G — The limits of enterprises**

7.26 The definition of an enterprise as containing one or more legal units could lead one to consider that all the legal units of the truncated enterprise group form one enterprise. While this is possible, in many cases such a conclusion would be contradictory to the two other elements of the definition of an enterprise. It must correspond to the smallest combination of legal units and it must be an organisational unit producing goods or services which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. In the light of this definition, the enterprise does not correspond generally to the whole group of legal units in the national territory.

7.27 The explanatory note on the definition of enterprises in the SU Regulation provides further guidance:

The enterprise thus defined is an economic entity which can therefore, under certain circumstances, correspond to a grouping of several legal units. Some legal units, in fact, perform activities exclusively for other legal units and their existence can be explained only by administrative factors (e.g. tax reasons), without them being of any economic significance. A

large proportion of the legal units with no persons employed also belong to this category. In many cases, the activities of these legal units should be seen as ancillary activities of the parent legal unit they serve, to which they belong and to which they must be attached to form an enterprise used for economic analysis.

7.28 This note can be compared with part of the actual definition: "...an enterprise is an organisational unit producing goods or services...". An enterprise therefore combines factors of production and this combination must be complete in order to enable it to produce.

7.29 The statistician's aim is to establish full accounts for the enterprise, i.e. the complete sequence of accounts within the national accounts framework (ESA 1995). The availability of data can therefore be stated as a necessary condition for the existence and construction of a complex enterprise. Legal units are generally required to keep accounts, e.g. for tax purposes, and in the case of an enterprise consisting of one legal unit, all the data required may be included in the accounts of that legal unit. Legal unit accounts may not, however, make sense for statistical purposes where enterprises comprise more than one legal unit. If an enterprise consists of more than one legal unit, the managers of that enterprise need accounts at their disposal which describe the economic processes independent from the legal construction. These management accounts might often be more relevant for statistical purposes than accounts based on legal units.

7.30 Thus, if a legal unit is connected to other legal units which serve as the legal bases for certain factors of production, they should be deemed to act as joint legal bases for one enterprise. The rules for combining legal units into one enterprise are examined in more detail in Chapter 19.

## **7H — Relation to the BR Regulation**

7.31 This chapter describes the concepts of 'legal unit' and 'enterprise' along with the relationships between these units. It is not therefore a direct interpretation of the Regulation, but is intended to assist with the implementation of the provisions of the Regulation relevant to these units.



# LOCAL UNITS IN BUSINESS REGISTERS

# 8

## CHAPTER 8 — LOCAL UNITS IN BUSINESS REGISTERS

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### 8A — Introduction

8.1 The BR Regulation stipulates that local units must be recorded in business registers. Local units are defined by the Council Regulation on statistical units:

“The local unit is an enterprise or part thereof (e.g. a workshop, factory, warehouse, office, mine or depot) situated in a geographically identified place. At or from this place economic activity is carried out for which — save for certain exceptions — one or more persons work (even if only part-time) for one and the same enterprise.”

8.2 The SU Regulation supplements this definition with four explanatory notes which offer criteria for deciding in cases where there is doubt regarding the nature of a local unit in certain locations where business activity is carried out and thus regarding the obligation to include them in the register. The first is the most important:

- (i) “If a person works in more than one place (maintenance or surveillance) or at home, the local unit is taken to be [the] place from which instructions emanate or from where the work is organised. It must be possible to specify the employment attached to any local unit. However, all legal units that serve as the legal basis for an enterprise or a part thereof must have a local unit, which is the registered office, even if nobody works there. Moreover, a local unit can comprise only ancillary activities.”
- (ii) “A geographically identified place must be interpreted on a strict basis: Two units belonging to the same enterprise at different locations (even within the smallest administrative unit of the Member State) must be regarded as two local units. However, a single local unit may be spread over several adjacent administrative areas, in which case, by convention, the postal address is the determining factor.”
- (iii) “The boundaries of the unit are determined by the boundaries of the site, which means for example that a public highway running through does not interrupt the continuity of the boundaries. The definition is similar to the one in paragraph 101 of the introduction to ISIC Rev.3 in that it concerns localisation in the strict sense of the term, but differs from the

definition in paragraph 102 in that this strict sense may not vary according to the statistics under consideration. In addition, the criterion of persons working in the unit is normally applied.”

- (iv) “The ESA-REG (the regional application of the ESA) uses the same definition of local unit for regional accounts purposes.”

8.3 The purpose of this chapter is to ensure that bodies maintaining statistical business registers in European Union countries analyse the most common borderline cases in a uniform manner. It does not deal with questions of the demography of local units which are covered in Chapters 15–16.

## **8B — Local units — the limiting case**

8.4 A local unit must normally have one or more persons working at least part-time to be included in a statistical business register. An exception to this rule is where registered offices of legal units act as the legal basis for the enterprise and must be registered as local units even if they are merely domicile addresses with no real activity, and no-one working there. This exception means that the register can, in theory, be maintained by recording addresses of local units only, the addresses of legal units and enterprises being those of their local unit which is the registered office. In reality, other addresses may also need to be stored, for example, mailing addresses may not coincide with any of the local unit addresses within the enterprise if forms are completed by an accountant or an enterprise group head office.

8.5 The fact that local units may not be recorded for all locations where an enterprise carries on its activities should not lead to the conclusion that some activities of such an enterprise are not covered by any local units. Although a local unit corresponds to a place where activity is carried out, it is not confined to the activity carried out at that location but includes all activities carried out from that location.

8.6 Thus, for example, an electricity substation belonging to an electricity distribution enterprise is not a local unit if it is not allocated any permanent staff. However, that substation is run by a regional agency employing permanent staff who check the substation and may go there to work if necessary. The local unit corresponding to the regional agency includes not only the building where the agency is established but also all unstaffed locations, the operation of which is controlled by the agency, thus including the substation. The unstaffed substation does not form an additional local unit.

8.7 In this situation, a survey of investment per local unit will show up all fixed capital investments by enterprises, even those which are not situated at a location to which the enterprise has staff permanently allocated.

8.8 The definition of a local unit takes good account of the problems encountered in the case of activities that are not carried out from established premises.

8.9 Such activities may take place at the customer’s address (e.g. door-to-door sales, visits by doctors), at fairs and markets and at working sites. The rule is that these locations where the enterprise carries out its activities on a transient basis are not local units. Statistically, such activities are handled as if they were carried out at the location from which they are organised.

8.10 However, there may be some demarcation problems in the case of major, long-term sites and activities carried out at the address of a customer under a long-term contract (office cleaning, surveillance). In such cases, it is useful to consider some basic pre-requisites for a local unit to exist:

- (v) A local unit should be self-contained within a permanent or semi-permanent structure. This means that it should be possible to identify the physical location of the local unit at any time.
- (vi) A local unit must be capable of receiving deliveries and of storing products, materials or stock. This implies that the local unit should have a postal address.
- (vii) A local unit is taken to be a place from where the work is organised or from which the enterprise is controlling this local unit.

Consequently, the place of work for an office-cleaning enterprise does not exist as a local unit.

## 8C — Major sites

8.11 Major long-term sites constitute an exception. It is deemed desirable to record them as local units if they meet the following three criteria:

- The planned duration of the site is at least two years at the time that the site is opened;
- The enterprise employs more than 50 people at the site;
- Recruitment and administration of a significant proportion of the labour force are performed locally.

8.12 In practice, these criteria can be adapted by each country to correspond to the criteria actually used by the administrative sources which normally supply the information needed to detect local units for the purpose of maintaining the register.

## 8D — External sourcing of ancillary services

8.13 The question of activities carried out at the address of a customer under a long-term contract is rather similar. For example, it is common for an external enterprise to be put in charge of a staff canteen or restaurant, a school canteen or the provision of cleaning or security services.

8.14 Should a separate local unit be recognised and hence recorded for each enterprise working on the premises of a customer enterprise? The question is important in view of the present trend in most countries towards outsourcing of a number of ancillary services.

8.15 Where a legal unit provides ancillary services on a subcontracting basis for a parent legal unit, the general view taken for statistical purposes is that only one enterprise exists, unless the services are also provided for other, unrelated units. *In this case, there is only one local unit even if paid employees of several different legal units work there.*

8.16 In the case of genuine outsourcing, i.e. where the enterprise providing services on a subcontracting basis is not controlled by the contracting enterprise, there are two possibilities:

- (viii) The service contract is a contract for a specified long term (at least 2 years) providing for the permanent allocation of employees of the subcontractor to premises placed at its disposal. This is often the case with restaurants and canteens put out to contract. The subcontractor will then be deemed to have its own local unit on the premises allocated to it.
- (ix) The service contract is: Either for an unspecified period; or for a specified short term (less than two years) even if it is renewable; or it is long term but makes no provision for the subcontractor to be provided with premises which it is responsible for running. In these three cases, the subcontractor's activity will be handled as a site activity. This means that no local unit will normally be recorded. The subcontractor's activities are deemed to be

carried out by the local unit (of the subcontracting enterprise) in charge of administration for the workers used at those sites.

## **8E — Activities of workers under exclusive contracts**

8.17 There are many activities that involve the services of workers under exclusive contracts: Commercial representatives, travelling salesmen, insurance agents. Such workers may or may not be treated as employees of the enterprise, depending on the nature of the contract binding them to the enterprise. The decision to be taken on this matter, which is an important one for maintenance of the register, must be consistent with the choices made for employment statistics.

8.18 In cases where such workers are to be treated as employees of the enterprise, they will carry out activities of the enterprise away from established premises and must be included in the workforce employed by the local unit which gives them their instructions and organises their work in the same way as employees working at home.

8.19 On the other hand, where these workers cannot be treated as employees, each of them must be deemed to constitute an enterprise with a local unit normally situated at the worker's own home.

## **8F — Relationship with other units**

8.20 The local unit is defined in terms of the enterprise, i.e. *"an enterprise or part thereof ..... situated in a geographically identified place"*. It is therefore necessary to determine the enterprise before its local units can be delimited. Local units may have more than one activity, and can, for statistical purposes, be seen to consist of one or several local kind-of-activity units (LKAUs). The LKAU is not required to be included in statistical business registers according to the BR Regulation, but is recorded in the business registers of several Member States. The main reasons for including the LKAU in a statistical business register are that it is a valuable tool in the production of regional statistics, important for national accounts and that secondary activities can be better represented in business statistics. It should be noted however that the LKAU can still consist of more than one activity, particularly where data on the activities is not available separately.

8.21 To estimate data on particular activities at a specific site it may be necessary to use the local unit of homogenous production (LUHP). This unit is purely a statistical construct and is often unobservable in practice and would therefore not normally be recorded in a statistical business register.

8.22 Article 3(3) of the BR Regulation states that "Local units not constituting separate legal entities (branches), which are dependent on foreign enterprises, and classified as quasi-corporations in accordance with ESA95 and SNA93, shall be deemed to be enterprises for the purposes of the business registers". This means that, in such cases, the enterprise is considered to be equivalent to the local unit or group of local units under common foreign control. Typical examples are the offices of overseas airlines in major airports.

## **8G — Relation to the BR Regulation**

8.23 This section concerns the interpretation of a compulsory statistical unit, the local unit, which must be recorded according to the Regulation and it is therefore considered an interpretation of the Regulation. However, as the detailed rules for defining local units extend beyond those given in the definition of statistical units, exceptions to these can be made due to

unavailability of the necessary information, providing the regional knowledge based on information on local units is maintained.

## **ANNEX — Local unit guidelines for specific activities**

8.24 Specific guidelines are given below for the identification of local units depending on type of activity. These guidelines are presented according to the highest level (sections) of the NACE Rev. 2 activity classification, with the exception of Section H which is further broken down due to the nature of the activities involved.

### **Section A — Agriculture, forestry and fishing**

8.25 Agricultural and hunting activities can, by nature, take place over wide areas and may not be confined to any geographically distinct location. The one local unit is generally located at the address of the farm building or the place from which the farming activities are directed.

8.26 Activities within group 01.6 'Support activities to agriculture and post-harvest crop activities' are often carried out on behalf of third parties on the land of customer enterprises. Typically, these are site activities, which are generally of short duration. These sites are not recorded as separate local units.

8.27 Forestry and logging work generally takes place over large areas and covers tree planting, maintenance and felling for commercial purposes. These activities are often directed from an office located in the forest or nearby. This office is then used as the address of the local unit. If the operation in question covers plots of forest which are not adjoining but are managed from that address, all these lands must be regarded as a single local unit.

8.28 Like ancillary agricultural services, 'support services to forestry' activities in group 02.4 are often site activities on behalf of third parties and are treated as such; they should not be regarded as giving rise to a local unit unless the contract relates to a period of at least two years. In this case, the site specified in the contract should be regarded as a local unit of the enterprise conducting forestry activities on behalf of third parties.

8.29 Fish farms and hatcheries are covered by the definition of local units. Fishing boats pose particular problems, as do other commercial vessels. Under social and maritime legislation, each vessel is often handled as an establishment of the ship-owner. However, for the purpose of maintaining the register, the recommendation is that they be regarded as a working tool used for itinerant activities from the office of the ship-owner, generally situated in the port of registry of the vessels. In the case of small-scale fishing, the local unit where the enterprise is established will often be the home of the fisherman owner.

### **Section B — Mining and quarrying**

8.30 Most mining and quarrying activities concern mineral deposits requiring large amounts of capital investment for their exploitation. Ore is an exhaustible asset and reserves of such a product must be sufficient to justify the capital outlay and the use of labour over a long period. The mine and the point to which the ore is delivered correspond to the definition of the local unit.

8.31 However, some methods of extraction do not entail the installation of permanent fixed equipment and can be handled in the same way as working sites.

8.32 Some large deposits of peat are worked over long periods and can be appropriately defined as local units. Small deposits are often worked for short periods and in that way are like forests managed for comparable periods by enterprises working on behalf of third parties. Such deposits cannot be regarded as local units unless the extraction activities last for at least two years, or are expected to do so.

8.33 A group of oil wells worked by the same enterprise at the same deposit, on land or offshore, is conventionally regarded as forming a single local unit. The same applies to a group of prospecting sites.

### **Section C — Manufacturing**

8.34 Manufacturing is generally a process carried out at a fixed site, therefore the definition of a manufacturing local unit is normally clear. One case where complications may arise is where a manufacturing unit has some retail activity, e.g. a factory shop selling products directly to the public. In general, it is better to have a separate local unit for the retailing part if possible, particularly if the retail part occupies a clearly identifiable part of the main site and/or sells products bought in from other sources.

### **Section D — Electricity, gas, steam and air conditioning supply**

8.35 Activities relating to the generation or production of electricity, gas, steam or air conditioning take place in local units similar to those found in manufacturing industries and are covered by the definition of the local unit. In contrast, in the case of the operation and maintenance of distribution networks — high voltage lines, sub-stations, gas, steam or air conditioning pipelines, pumping stations, etc. — according to the definition of a local unit, installations which do not use any permanent staff (even part-time) are not regarded as autonomous local units but are incorporated in the local units from which they are operated and controlled.

### **Section E — Water supply, sewerage, waste management and remediation activities**

8.36 The rules for section E are generally the same as for section D above. Un-staffed distribution and collection facilities are not recognised as separate local units, whereas processing, treatment and administration sites where staff are employed should be recorded as local units.

### **Section F — Construction**

8.37 Activities under this section of NACE employ large numbers of people and a strict interpretation of the definition of the local unit would lead to the inclusion of all construction sites (building or civil engineering). However, considering all construction sites as local units would result in a vast register of very short-lived units (from less than one month, for example, in the case of most repair work, to around one year for most housing or factory building sites).

8.38 Although it is sometimes necessary to have information on such construction sites, even if they are short-term, or on the labour force employed at such sites, it does not seem appropriate to incorporate them in the business register.

8.39 On the other hand, it is felt that large, long-term sites should be incorporated in the register as local units. Their labour force — and particularly unskilled labour — is recruited on a temporary basis for the site in question.

8.40 The distinction between large sites and ordinary sites not to be recorded in the register as local units can be drawn in terms of both duration and cost of the work. The general criterion for working sites should be used for these construction sites.

8.41 For large, long-term construction sites, the location of the local unit is represented by the site itself. For instance, a structural engineering firm is in charge of the day-to-day organisation of the work on the site (from recruitment of casual workers to planning the delivery of materials and coordination of the various aspects of the project). For some construction sites, the engineering firm may assign several sub-contractors to specific tasks. In this case, the engineering firm only acts as coordinator (one local unit) whereas the sub-contractors run massive activities (each comprising one local unit). For projects such as large-scale road or



bridge building or the laying of pipelines, the choice of address of the local unit must also be practical if it is arbitrary. The postal address of the engineering firm office should be chosen. Its office is liable to move as the site progresses; such a move is comparable in some ways to a change of location of the site. A choice must then be made: Either amend the address of the local unit or record the disappearance of a local unit followed by the creation of a new one. In view of the rules on continuity of local units defined in Chapter 13, this move of the centre of gravity of a site will be treated as a change in the address of the local unit.

### **Section G — Wholesale and retail trade; repair of motor vehicles and motorcycles**

8.42 The definition of a local unit is set out in terms of manufacturing industry. There are no specific references to a 'shop' or 'store'. A retail store is defined in the Commission Regulation concerning the definitions of characteristics for structural business statistics as follows: "*Stores are defined as fixed sales premises, which the customers enter to make their purchases.*". The term 'shop', which is in equally common use, may be regarded as defined identically.

8.43 Clearly, there are many local units in retailing which are not stores. These are examined below. However, it is desirable that, where relevant, retail local units and stores are precisely equivalent. In almost all cases, this will automatically be the case.

8.44 Two aspects of the definition are worth noting. First, there is the issue of 'shops-within-shops' — the letting out of space within, say, a department store to individual retailers. Here, while to a casual customer there may appear to be only one shop, the definition of a local unit as a part of an enterprise implies that there are a number of local units and an equal number of shops.

8.45 A more difficult case is where there are two geographically distinct but reasonably close outlets of a retailer. If the two outlets have different addresses, they should be regarded as two stores and two local units (even if employment may have to be allocated in a slightly arbitrary manner between them). If the outlets share the same address, it is desirable to regard them in general as representing a single store and a single local unit, although there may be special circumstances where the lack of any internal routes from one part to another of the combined store suggests they should be regarded as two distinct stores.

8.46 The Structural Business Statistics Regulation seeks information (in addition to the number of local units) on 'Number of retail stores (17 32 0)', which links closely to the concept of local units.

8.47 There are also potential problems of interpretation where retailing is not carried out via a traditional store as defined above. Various forms of distance selling, ranging from mail order to the use of the Internet, are relevant. These are relatively straightforward — the major activities will be carried out centrally at one or more sites, which will correspond to local units. Individuals employed by these enterprises, essentially to deliver goods or possibly to coordinate orders, and operating from their own homes should not be regarded as defining separate local units. A centralised distance selling operation may have more than one local unit, however, if various aspects — such as taking orders, dealing with payments and dispatching goods — are handled at separate locations.

8.48 There is also a range of problems relating to selling via stalls, either fixed or mobile, and selling by fully itinerant traders. Some aspects of this are clear. A fully itinerant trader, travelling from place to place — perhaps in a specially adapted vehicle — will represent one local unit, generally located at their home or, if it exists, their business address. At the other extreme, an enterprise owning fixed stalls operating at distinct markets or locations will represent one local unit per stall and one also for the business address of the enterprise. In cases where an enterprise operates a number of mobile stalls or vehicles that, by definition, are not permanently sited at any one location, these activities should be covered by a single local unit at the enterprise address.

8.49 Different issues are relevant in wholesaling. Here the main problem is the extent to which it is possible to seek a reasonable range of information for individual local units. The contrast with retailing is clear. For retailing, it is almost always possible to seek information on turnover of a local unit; for wholesaling — where the local unit may be a distribution depot — it may not be possible to define this basic variable.

8.50 In some countries, the registration of local units for activities in group 46.1, 'Wholesale on a fee or contract basis', presents some difficult practical problems. Some enterprises may in fact have a large volume of activity conducted by telephone by the head of the enterprise from their home address, but are legally obliged to register at a different address if the building in which they live is not licensed for commercial activities. Which address should be used in this case? It is recommended that the address of the local unit should be deemed to be the one supplied by the enterprise for value added tax purposes, since the tax authorities in some Member States refuse to take account of addresses used only as letter boxes. If the business is not registered for value added tax, it is possible to take the address on the letter heading as the address of the local unit.

## **Section H — Transportation and storage**

8.51 This section contains various diverse activities that pose a number of problems in relation to the delineation of local units. There are few general rules for this section so the different activities are handled in turn below.

- Division 49 Land transport and transport via pipelines

8.52 Rail transport enterprises pose complex problems for the definition of local units. Their activities may fall into various NACE classes relating to the operation of rail services as well as passenger and freight facilities. In such cases, the primary activity will normally be the operation of the rail service (within division 49), with the other activities (typically in division 52) being treated as ancillary.

8.53 Often, the various activities connected with the operation of rail freight transport do not take place in specific buildings or structures but outdoors in goods yards or marshalling yards. In such cases, it should be possible to identify a base location, from which these operations are directed and this should be regarded as the local unit.

8.54 The continuous maintenance of track and signals presents problems similar to those already examined in connection with local units involved in the operation of energy distribution networks. It is not desirable that all structures on a section of railway — such as shelters used by plate layers — should be regarded as local units. Nor is there any advantage from the statistical viewpoint in regarding each signal box as a local unit. In the case of 'linear' work on railway tracks, the address of the smallest unit responsible for managing a function such as continuous track maintenance or signalling on a particular section should be deemed to be the local unit. Another possibility is to define the local unit of a railway company as all the infrastructures situated on a section of track corresponding to a certain administrative district.

8.55 If several enterprises carry on their activities at the same station, whether or not the activities relate to railways, then obviously each enterprise has a local unit at that location. For example, a stall in a station booking hall, rented to a retailer by the railway company, is a local unit of the retailer (and enterprise, if the stall is the only one belonging to the retailer in question).

8.56 According to a strict interpretation, the definition of a local unit would mean that taxi ranks and bus stations ought to be deemed to be local units of the enterprises using them. This strict interpretation may often be impractical, and generally a local unit should be deemed to exist wherever the road transport service operator has a building for administrative or other uses (depot) in connection with that service.

8.57 The local units for businesses engaged in transport via pipelines will generally be the sites from which pipelines are controlled, monitored and/or maintained. This is similar in principle to the guidelines for railways set out above.

- Division 50 — Water transport

8.58 Vessels — barges, lighters and other inland waterway, coastal or ocean-going vessels — will not be deemed to be autonomous local units but equipment of the local unit of their ship-owner at their usual port of mooring, which may be other than their home port if operating under a flag of convenience.

- Division 51 — Air transport

8.59 The guidelines for water transport above should also be applied to air transport. Aircraft are not considered to be local units.

- Division 52 — Warehousing and support activities for transportation

8.60 For most of this division the delineation of local units is generally straightforward. There are, however, two issues relating to class 55.22 that need further comment:

- (i) In the case of navigable waterways, where locks may or may not be manned, local units should be defined in a similar way to 'linear' railway functions, i.e. a local unit corresponds to the section of navigable waterway attached to the smallest administrative unit.
- (ii) Permanently manned lightships and lighthouses are increasingly rare, but where they exist they must be deemed to be local units of the enterprise (legal entity) responsible for their maintenance.

- Division 53 — Postal and courier activities

8.61 Post delivery personnel and couriers should be regarded as employees of the sites from which they receive their orders.

8.62 Post offices are generally local units in their own right, except where they form a minor part of another business (e.g. a retail shop), when they are considered to be merely a part of that local unit, which should be classified under its principal activity.

### **Section I — Accommodation and food service activities**

8.63 Hotels and restaurants do not generally present any problems. Each hotel, restaurant, bar or similar site generally conforms to the definition of a local unit. Several restaurants at the same address owned by the same enterprise should be combined as a single local unit.

8.64 The problems in defining local units are often similar to those in distributive trade and the two activities often operate in parallel: Souvenir shops are very common in hotels and, likewise, restaurants are very common in supermarkets and department stores.

8.65 Mobile stalls offering cooked or otherwise prepared food to take away or to be consumed at the stall are quite similar to retail sale via stalls and markets, so the same rules should be applied.

## **Section J — Information and communication**

8.66 Local units in section J are generally well defined, though there may be problems in division 63 (Information service activities) where computing facilities may be at a different location to the staff operating them, or may be leased from a third party. In such cases, the location of the staff should determine where the local units are. In extreme cases where the staff work from home or are located in other countries, the location from which the business is administered should be considered to be the local unit.

## **Section K — Financial and insurance activities**

8.67 Local units in section K are generally well defined. The case of insurance agents is dealt with in section 8E above.

## **Section L — Real estate activities**

8.68 A real estate or property rental enterprise may own a large number of properties. These would not normally be handled as separate local units unless the enterprise employs people on a permanent basis at the site, such as a concierge or security staff. Casual or occasional services such as cleaning or maintenance are not normally sufficient to merit separate local units.

## **Section M — Professional, scientific and technical activities**

8.69 Most professional, scientific and technical services involve clearly defined local units, though for smaller businesses these services may be provided at the premises of clients on an occasional basis. In such cases, the local unit is the location from which these activities are organised, which may be an office, or the home of the owner of the business.

## **Section N — Administrative and support service activities**

8.70 Cleaning and employment agencies are two activities that can be problematic. If a cleaning enterprise has a permanent presence at the site of another enterprise and a clearly defined physical location within that site (e.g. a separate room for its exclusive use), this should be handled as a local unit. It is, however, impractical to consider a site where a cleaner is present for only one or two hours per week to be a local unit.

8.71 In general, staff employed by an employment agency, working under contract at the site of another enterprise, do not constitute a separate local unit of the employment agency. They should be counted under the site from which they receive their orders.

## **Section O — Public administration and defence; compulsory social security**

8.72 Local units are usually much easier to identify and delineate than enterprises in section O. There are however two cases requiring special comment:

(iii) Embassies, consulates, military bases and similar sites in other countries should be counted as local units of the appropriate enterprise in the controlling country, when they are part of the economic territory of that country. They should not be included in the statistical business register of the 'host' country. For example, the French embassy in Madrid should be counted as a local unit of the French administration and should not be present in the Spanish business register. See also Chapter 6 and section U below. Such local units that are part of the economic territory, but not the geographical territory, of a country should be identified in the statistical business register of that country by means of a special geographical code.

(iv) The activities of an organisation such as a local council may be spread over several buildings within a town. These buildings may not always occupy a continuous block of land,

and so following the definitions in paragraphs 8.1–8.2 above in their strict sense would often require them to be identified as separate local units. In practice, this separation might not be meaningful in either the statistical or real world contexts, so a degree of flexibility and pragmatism is needed. A good general rule would be to handle such cases as a single local unit unless the enterprise (institution) requested otherwise.

### **Section P — Education**

8.73 The second case under section O above is also likely to apply to section P, particularly where multi-site schools/universities or similar education institutions are concerned. It may not be very meaningful to record separate units where a department of a university is split between two buildings in the same town.

### **Section Q — Human health and social work activities**

8.74 The notes under sections O and P above also apply where a hospital is split over several locations within a relatively small geographical area, particularly if staff move between sites on a daily basis. Separate local units are only generally justified where a site has a certain degree of autonomy, for example a site containing a distinct department or function that is at least semi-autonomous from the remainder of the hospital.

### **Section R — Arts, entertainment and recreation**

8.75 Most cases in this section should be straightforward. Some activities, however, could be considered itinerate, and should be handled as in section M, where the local unit is the location from which the business is organised. This may be the home address of the owner.

### **Section S — Other service activities**

8.76 In general, local units in this section are fairly easy to identify and delimit. The only areas likely to cause problems are those concerning mobile services, for example a hairdresser who visits clients in their own homes or a travelling fair. In these cases, the rules concerning mobile retail outlets set out in section G above should be applied.

### **Section T — Activities of households as employers: Undifferentiated goods- and service- producing activities of households for own use**

8.77 See paragraphs 6.5–6.8 regarding the coverage of statistical business registers. Local units classified to this section of NACE are likely to be fairly straightforward to define and delimit, though care must be taken to avoid including employees of any legal units owned by members of the household. These must be kept separate and classified under their main activity.

### **Section U — Activities of extraterritorial organisations and bodies**

8.78 See paragraph 6.9 regarding the coverage of statistical business registers. Units in section U can be split into two groups:

- (v) Those whose sites are deemed to form part of the economic territory of another country (e.g. embassies, consulates, military bases). These sites should be included as local units in the business register of that country, and identified by means of a special geographical code. See section O above.
- (vi) Those whose sites do not form part of the economic territory of another country. This group includes units such as international organisations (e.g. the United Nations and its agencies, European Communities, OECD, IMF, World Bank, etc.). In this case, the local unit is generally easy to identify, although the guidelines in section O above regarding multiple

buildings in close proximity are also likely to be relevant here. Data collection may be an issue as extraterritorial organisations would normally be exempt from compulsory surveys.

## ACCESS TO THE REGISTER

# 9

## **CHAPTER 9 — ACCESS TO THE REGISTER**

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### **9A — Introduction**

9.1 Chapter 3 analyses the uses for which statistical institutes must develop business registers and how they can be a useful means of satisfying the growing needs of a large number of economic operators. All users, by definition, require access to register data. Some just need aggregate data, which, as long as they meet national and European data confidentiality requirements, can usually be made available. Other users, such as administrative authorities, public bodies, enterprises, researchers, etc. may require access to more detailed data, often micro-data relating to individual units.

9.2 The response by National Statistical Institutes (NSIs) to the demand for micro-data differs profoundly from country to country. In some countries, a legal or other administrative register meets this demand so well that demands for access to micro-data from the statistical business register are minimal, whereas in other countries, the statistical business register may also operate as an administrative register, so demands for access are much greater.

9.3 The divergences in access to data from national statistical business registers are due in part to differences in national laws and regulations on statistical activities and on the protection of data on individual units recorded in the files. They may also be due to different practices relating to confidentiality or to formal or informal codes of practice developed by the NSIs. Regulation No 223/2009 on European Statistics provides in Article 20 the basic frame for protection of confidential data. It should be noted that Member States should not flag as confidential a data which is obtained from sources lawfully available to the public (stated in Article 25 of the same Regulation on European Statistics).

9.4 Thus, some countries handle all information in the register as strictly confidential and reserved for use within their NSIs or, in many cases, within certain other government statistical authorities. Others publish some information about individual enterprises, but only after obtaining the agreement of the units concerned. Finally, others do not impose any legal constraints on the publication of certain register information which is deemed to be public and therefore make it available.

9.5 The main reason for these differences is that some countries have specific regulations on business registers which state that one of their functions is to serve all economic operators. Even where such regulations entrust the maintenance of these registers to NSIs, they do not define them as statistical registers. They are therefore not covered by general rules on statistical secrecy. This is particularly justifiable where the reporting procedures under which the register data is compiled and updated are general legal obligations rather than statistical requirements.



9.6 Where such legislation does not exist or there is legislation stating that the business register is purely statistical, rules regarding confidentiality of data are usually based on the general policy for release of data by the statistical office or the rules of the administrative sources supplying the register. The ‘Fundamental Principles of Official Statistics’ produced by the United Nations Statistics Division (<http://unstats.un.org/unsd/goodprac/bpabout.asp>) give further guidelines on data confidentiality. These are adhered to by most countries.

### **Exchange of data between different statistical authorities**

9.7 The BR Regulation opens potential routes for exchanges of disclosive data, for statistical purposes only, between the NSIs, national central banks (NCBs), Eurostat and the European Central Bank (ECB). These provisions concern data on multinational enterprise groups (MNEs) and their constituent units. However, the format, procedure, security and confidentiality measures for the transmission of data on individual units are to be defined in implementing Commission Regulations. Further details will be covered by future chapters of this Manual.

9.8 Regulation No 223/2009 defines the transmission of confidential data in Article 21. Transmission of confidential data from an ESS authority that collected the data to another ESS authority or an ESCB (European System of Central Banks) member may take place provided that this transmission is necessary for the efficient development, production and dissemination of European statistics or for increasing the quality of European statistics. For the transmission to central banks it is essential that it takes place within the respective spheres of competence of the ESS and the ESCB and that this necessity has been justified.

9.9 The exchange of individual data between the different institutions is defined in the BR Regulation at very different levels. Between Eurostat and the NSIs, it is mandatory (Article 11). Implementing Regulation No 192/2009 on the exchange of confidential data between Eurostat and NSIs prescribes the format, procedure, security and confidentiality measures for the transmission of data on individual units. Between Member States data exchange is optional and subject to national legislation (Article 10). Between Eurostat and central banks — both ECB and NCBs — it is optional and must be explicitly authorised by the appropriate national authority (Article 12). The draft of the implementing Regulation for the data exchange with central banks is already prepared.

9.10 The exchange of data between the NSIs and NCBs is a special case. According to BR Regulation Article 4, the NSIs may use *“any sources that they consider relevant”*. They are thus allowed to use the data from the NCBs; national legislation cannot prohibit it. On the other hand, in Article 3 of Regulation No 184/2005 on balance of payments, international trade in services and foreign direct investment, there is similar wording and an addition *“These may include administrative data sources such as business registers”*. As these statistics are, in most cases, produced in the NCBs, they may have access to the NSIs’ business registers. However, the exchange of data between the NSIs and NCBs is not mandatory, which means that the data exchange in practice needs to be agreed at national level between the statistical authorities.

## **9B — Limits of access**

9.11 Two principles may serve as a guide:

- (i) The statistical authority must not divulge data on individual units if the data collection provisions or the units themselves deem that information to be confidential.
- (ii) Any information on businesses that is required to be published by law, e.g. the accounts of certain types of businesses, is not, by its nature, confidential.

9.12 There is therefore no ethical principle preventing statistical authorities from collecting such information, organising it into a database and helping to circulate it (though this may be impractical or illegal). Whether there is any advantage in doing so is another question.

9.13 If we apply these principles to business registers, it is apparent that equal access cannot be provided for all the information contained in the register.

9.14 Information on legal units — their name, address, legal form and sphere of activity — may be deemed non-confidential where the law requires these characteristics to be published. The same is often true, though not necessarily in all countries, of the locations where these legal units conduct their activities.

9.15 On the other hand, the grouping of legal units into enterprises and enterprise groups, along with any splitting of these units for data reporting purposes, should normally be considered as confidential, as such structures are constructed purely for statistical purposes.

9.16 In some countries, the legal obligation to disclose business accounts etc. only applies to certain businesses, e.g. those incorporated as limited companies. In this case, the corresponding information relating to enterprises controlled exclusively by natural persons (sole proprietors and some forms of partnerships) must remain confidential.

9.17 Disclosure of register information about the size and principal activity of units can be problematic, particularly where this information has been gathered as a result of a statistical survey. In legal terms, the possibility of disclosing a size indicator or activity code updated from survey results depends on an interpretation of the statistical secrecy rules. If those responsible for a statistical business register consider it appropriate for such information to be divulged, they must negotiate an agreement on this question. In countries where such negotiations have been successfully conducted, the outcome has been that enterprises agree that:

- The disclosure of a unit size indicator is unlikely to embarrass enterprises, provided that it is not premature. In practice, it should be updated only once a year and should reflect a situation which is at least six months old.
- The disclosure of a code representing the principal activity of units causes no harm to enterprises, provided that it is correct. Thus, it can be updated from the results of statistical surveys. However, it should be clearly stated in the survey form that replies from enterprises may be used to update that information, and each enterprise should be given the option of refusing to allow such use and hence the disclosure of its activity code.

## **9C — Desirability of access**

9.18 Although statistical ethics do not necessarily prevent access to statistical business registers, they may impose certain restrictions. Therefore the desirability of such access by various groups of users should be considered.

9.19 In many countries, there is a demand for access to a central reference register of businesses. In several countries of the European Union, this demand is at least partly met by non-statistical institutions responsible for maintaining registers of legal units (chambers of commerce, trade or company registers etc.). In this case, it is neither necessary nor even desirable for statistical institutes to enter into competition with those bodies, especially where they provide an essential source of information for updating the statistical business register.

9.20 One key point on which statisticians disagree is the advisability of access to the principal activity code of enterprises, determined by statisticians. This information is often valuable to users, and statistical institutes are often better placed than other organisations to determine accurate codes. Access to classification data can in fact, if not in law, give such data a wider

reference or policy role which could entail fiscal, social or financial consequences for enterprises. If such micro-level data is made available, the users should be reminded that the classification has been determined for statistical purposes and therefore may not meet the classification criteria for other purposes. This situation can have both negative and positive effects. On the negative side, enterprises may tend to bias their replies to surveys in order to obtain an activity code which they regard as more favourable to them, whereas on the positive side, the enterprise's interest in this variable ensures a reaction if there is any error in the code given. Obviously this can result in disputes, as the body maintaining the registers must justify its interpretation of the classification.

9.21 Increased access to the register can help to improve its quality, but there is also a danger of being caught up in commercial considerations, giving preference to the needs of paying customers to the detriment of those of statisticians.

9.22 The quality criteria used by commercial clients do not, however, always conflict with those of statisticians. Commercial uses of register data, particularly relating to mailing details, can lead indirectly to improvements in register quality at very low cost. Feedback from customers can help with the early detection of address changes and site closures.

## **9D — Relation to the BR Regulation**

9.23 This chapter explores the issues surrounding access to business register data and data confidentiality. With the exception of what is examined in 'Exchange of data between different statistical authorities', it is not therefore considered to be an interpretation of the Regulation.

QUALITY POLICY

10

## CHAPTER 10 — QUALITY POLICY

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### 10A — Introduction

10.1 Users of statistical business registers want those registers to be ‘of good quality’. It is therefore important to establish what level of quality is required, to have a policy to monitor and, where necessary, to improve the quality of the register. This approach is consistent with the definition of quality in the ISO standard 9000:2000, which states that quality is the “*degree to which a set of inherent characteristics fulfils requirements*”. Therefore the quality of statistical business registers can be determined by the extent to which they meet user needs.

10.2 This definition of quality based on user needs may conflict to some extent with the traditional view that the quality of a business register is determined by how closely its contents reflect reality. In certain cases, demands for statistical consistency, e.g. between short-term and structural indicators, may require temporary distortions of reality, such as the postponement of certain updates until a specific point in the annual statistical cycle. Users may see this as improving rather than diminishing the quality of the register.

#### *Which users?*

10.3 There are many actual and potential users of statistical business registers. The different uses of register data are explored in Chapter 3. Each user is likely to have different needs and priorities. The first step in determining register quality is therefore to identify the users and to assess their relative importance. Usually official users, such as the national statistical institute and other government departments, are considered to be relatively important users, whilst occasional users of register data in the private sector may be seen as of lower importance.

#### *What are their needs?*

10.4 As mentioned above, each user will have different needs and priorities. Some of these needs may be well known and documented. This is likely to be the case for more important and regular users, whereas little may be known about the needs of occasional or potential users. A

survey of user needs can be a very useful tool for gathering further information, particularly if it is possible to identify and include potential users.

10.5 Once user needs are known, they should be prioritised depending on the number and importance of the users that express them. This will then allow a framework of criteria to be developed for assessing the quality of statistical business registers.

## **10B — Quality criteria**

10.6 Eurostat-led work on quality in statistics identified six criteria or aspects of quality relating to official statistics. Many of these also have several sub-components. Completeness was previously presented as a separate criterion, but it is now presented as a sub-component of relevance. It is of specific relevance to statistical business registers. The aim of this approach is to assess statistical outputs against each of these criteria to get a complete picture of their overall quality. It is likely that these criteria would coincide with those derived from a study of register user needs, therefore they are described below, and their application to statistical business registers is considered.

### *a) Relevance*

10.7 Statistical business registers should be relevant to the needs of their users. They should contain relevant units and characteristics and should allow the derivation of relevant populations and samples for statistical surveys.

### *Completeness*

10.8 A statistical business register can be said to be complete if it includes all units in the target population and all required characteristics. In reality, complete coverage is impossible to achieve, due at least in part to the issue of lags. Completeness should, however, be an aim, and measures of completeness should be compiled which provide useful quality indicators.

10.9 Register coverage is examined in Chapter 6, which defines the target population in terms of size and activity. It should be noted, however, that completeness can mean different things to different users. For most statistical purposes, coverage in terms of economic relevance (e.g. the percentage of gross domestic product generated by the units in the register) is the most important measure; therefore, coverage of very small units with an insignificant contribution to the variables of interest is unlikely to be seen as important. For other users, however, particularly those with an interest in business demography, coverage in terms of the numbers of units and available characteristics present will be a key quality criterion.

### *b) Accuracy*

10.10 Accuracy, in terms of correctly reflecting reality, has previously been considered to be of great importance for the quality of statistical business registers. It has, however, become apparent that this is not necessarily a priority for users, many of whom consider consistency and comparability over time to be of at least equal importance.

10.11 Accuracy is, however, one of the easier quality criteria to measure. Examples of how accuracy has been assessed include register quality surveys and comparing businesses actually present in certain geographical areas with those held in the register. Similar checks by economic activity are also possible and may be undertaken jointly with relevant trade associations. Sub-components of accuracy may consist of different types of errors: Sampling, non-response, coverage, measurement, processing and model assumption errors and revisions.

### *c) Timeliness and punctuality*

10.12 The speed at which statistical business registers are updated to reflect real world events can be an important quality criterion for many users, however this may be in conflict with the need for comparability and coherence as mentioned below. With regard to the updating of variables, one solution that has been adopted in several Member States is to hold two versions of certain variables, one that reflects the latest available information, and one that is frozen for a certain period of time, e.g. one year. Users can then choose the version best suited to their purposes. This approach is examined in more detail in Chapter 17.

10.13 Most users would agree, however, that timeliness of information regarding whether a unit is currently active or not, is important. Units that are active in the real world, but are not yet present on the business register, are a major source of under-coverage, which in turn is an important element of sampling frame error, leading to increased bias in statistics and surveys derived from the register. Units that have ceased activity in the real world, but are still shown as active in the register will similarly lead to bias in outputs, as well as reduced sampling efficiency and probably increased response-chasing costs for survey managers.

10.14 The time difference between an event occurring in the real world and it being recorded on a statistical business register is usually referred to as a 'lag'. Where data comes from administrative sources, there are generally two elements to the total lag, the lag between the event and notification to the administrative source, and the additional lag before this information is passed to the statistical business register. The measurement of lags can give important indicators of register quality.

### *d) Accessibility and clarity*

10.15 Clarity is not a particularly relevant criterion for statistical business registers; however, there are two aspects of accessibility that may be important to users. The first concerns how easily users and potential users can access the information held in the register. Access can range from being able to view the data for individual units directly from the database holding the register, to being able to access output such as sample details or summary analyses. Direct access to information on individual units is often restricted by legal or policy considerations, so it may be the case that it is not possible to meet user needs in this respect. Indirect access to non-disclosive data is likely to cause fewer problems, so the ease of access to this type of data can be considered to be a component of quality.

10.16 The other aspect of accessibility concerns the ease of interpretation of register information. Quality measures here should focus on the availability of the necessary documentation to allow users to interpret the information correctly and the suitability of this documentation for a range of users.

### *e) Comparability*

10.17 There are three sub-components to comparability: Comparability through geographical space, comparability over time and comparability over statistical domains. In terms of statistical business registers within the European Union, comparability through space is comprehensively covered by the BR Regulation. Thus the obvious quality measure is the degree of compliance with this Regulation. This sort of comparability is very important, as statistical business registers are vital for many areas of business and other statistics. Comparable registers make the task of harmonising the statistics derived from them considerably easier. Comparability of units and classifications used within statistical business registers is also an aim of European statistical legislation.

10.18 Comparability over time may be less important to many users; however, there is often a need to look at data at both the unit and the aggregate level for different points in time. This

implies the need for full documentation of changes and mechanisms to link data, such as look-up tables, particularly where unit reference number schemes or classification systems change.

#### *f) Coherence*

10.19 Coherence with respect to statistical business registers can be considered both in terms of internal coherence and coherence with other registers. Internal coherence refers to the consistent handling of data within the register, e.g. the consistent application of updating rules or profiling the units. Coherence with other registers is best achieved through the use and storage of reference numbers. This allows the matching of data and units between these registers, e.g. storing the value added tax (VAT) reference number in the statistical business register allows data from the VAT register to be linked relatively easily. The use of a common reference number across all official business registers (administrative and statistical) is one way to achieve greater coherence, though this may also prove restrictive, as the definitions of units may vary between registers depending on the purposes for which those registers are used.

### **10C — Cost — a related constraint**

10.20 Cost is not regarded as a criterion for quality, but as a constraint. It limits the extent to which quality can be improved. Two components of cost can be considered, the cost to the statistical system and the burden on the data suppliers (enterprises, parts of enterprises or enterprise groups). The use of administrative data drastically reduces the burden on businesses and may reduce costs for the statistical office, although this is likely to have a mixed impact on quality, leading to improvements in some criteria (an example could be timeliness, though there are huge differences between countries) but deteriorations in others (possibly relevance). This is considered further in Chapter 20.

### **10D — Reasons for quality defects**

10.21 Quality defects in a statistical business register may be due to systematic or random errors in the processing of administrative or statistical information, such as the non-transmission of some declarations or keying, coding and programming errors. The handling of errors is considered in Chapter 18. Some of the more common reasons for quality defects are considered in detail below.

#### **a) Gaps in declaration procedures**

10.22 Statistical business registers are usually maintained from declarations by enterprises to administrative agencies, but the regulations that impose these declaration formalities on enterprises may fail to stipulate that certain events should be declared. For example, events resulting from a court decision rather than the will of the enterprise, such as compulsory winding up, may not be covered by a declaration formality. Similarly, the regulations may waive certain formalities for some enterprises according to their legal form, activity or size. Additional sources of information must therefore be made available for such events or sub-populations.

10.23 Even where there is a statutory declaration requirement, an enterprise may ignore this obligation, particularly if this has no practical consequences for the enterprise.

10.24 The creation of a legal unit may be declared immediately if the legal unit needs an identity number or certificate of registration to be able to carry on its activities. Cessations of activity may, however, not be declared, either by negligence or simply because the entrepreneur does not know whether the cessation is final or merely temporary.



### *b) Inaccurate declarations*

10.25 Inaccurate declarations may be deliberate or unintentional. Where declarations are made to tax authorities, it is possible that incomes may be under-recorded, and/or expenses over-recorded. Principal activity is another variable that may be the subject of inaccurate declarations, this could be due to various reasons, including:

- When setting up a business, the entrepreneur may not know what the principal activity will be.
- The law may require the declaration of the company object, which may not be the same as the principal activity.
- The business does not understand the statistical concept of principal activity, particularly the application of the 'top-down' method.
- In cases where the administration is trying to encourage certain economic activities, enterprises may tend to declare themselves to be engaged in those activities to try to derive some benefit.

### *c) Coding errors*

10.26 Coding errors can arise either in the administrative source or in the process of updating the statistical business register. This type of error typically affects stratification variables, such as size or principal activity, and will introduce bias into estimates. By increasing the variation in results, coding errors can necessitate an increase in sample size and thus raise the cost of surveys.

### *d) Falsely active units*

10.27 Allowance can be automatically made in a survey for this type of error, but the expected percentage of falsely active units must be taken into account in determining sample size. It increases the cost of the survey since it will be necessary to ascertain for a larger number of non-respondents whether they have ceased trading or whether they are refusing or omitting to reply to the survey.

## **10E — Quality standards**

10.28 When user needs, quality criteria and potential quality defects have been identified, it is necessary to establish certain quality standards against which register quality can be measured. These quality standards will vary greatly from country to country, depending on specific national circumstances, but the following general examples should be suitable in most circumstances:

- X % of entities created during year n must be registered before the end of year n+1. A suitable value for x is probably in the region of 95 %.
- The rate of multiple registrations of the same unit should be less than x %. In this case, x should be less than five, and ideally very close to zero.
- The rate of falsely active units in each size class should be less than double the rate of cessations of activity.
- X % of units should hold valid values for key variables. The choice of x will vary according to the variable concerned and may also be influenced by the size of the unit.
- Stratification variables should be updated and checked on a regular basis. The BR Regulation requires entries in and removals from the register to be updated at least

annually. This is the minimum standard. Ideally, size indicators should be updated each year for all units and the updating interval should be less than 12 months. Other updating rules can be decided in the future according to the comitology with scrutiny procedure.

## **10F — Quality measurement**

10.29 Some ideas regarding quality measurement have already been considered under the quality criteria above. Quality measurement can be seen as a one-off exercise, but it is preferable to see it as an ongoing process, monitoring changes to a set of quality indicators over a period of time. The following paragraphs consider different methods of measuring register quality.

### *a) Control surveys*

10.30 The most traditional method of measuring the quality of a register is to conduct control surveys specially designed to measure register accuracy. This allows the measurement of errors in classification by activity or size and an estimation of the proportion of falsely active units. Surveys of enterprises using a random sample drawn from the register for other statistical purposes may often be substituted for quality control surveys. It is important, however, to deal fully with the question of non-response in order to find out whether units that do not respond have ceased trading or whether they are omitting or refusing to reply to the survey.

### *b) User needs surveys*

10.31 More recently, however, the definition of the quality of statistical business registers has moved away from pure accuracy and towards meeting a wider range of criteria based on differing user needs. This means that carrying out a survey of user needs periodically is important to determine the aspects of quality that should be measured. Such a survey is not necessarily an easy task; identifying users can sometimes be problematic, and including potential users is even more difficult. It is therefore recommended to keep a record of users of the register, including the uses or output they are interested in, as well as a record of queries from potential users. This can then form a sampling frame for surveys of users and even allows an element of stratification by type of user. Potential users should be asked why they did not use the register following their query.

10.32 User surveys should be conducted on a regular basis to reflect changes in register use and user needs over time. An interval of three to five years is probably about right for large-scale surveys, though smaller surveys can also be very useful on an annual basis. The survey should give prominence to the needs of key users, either through the stratification method used or by weighting the results. The results should then be used to determine the most important quality criteria for which indicators should be developed and regularly monitored during the period between surveys. It may also be useful to set up user groups, through which key users can more rapidly give feedback or be consulted about possible developments to the register.

### *c) Coverage checks*

10.33 Users of statistical business registers will require a certain level of coverage. As mentioned above, under the criterion of completeness, this coverage takes two main forms: Coverage of economic activity and coverage of units. There are three possible methods for measuring coverage. Ideally a combination of all three should be used.

- Comparison with external records — Every country has sources of data on enterprises, local units and probably enterprise groups, which are maintained separately from the statistical business register and which, in principle, provide good coverage of a limited field. These can include public sector administrative sources, telephone directory records (Yellow Pages) or those of utility companies, business data consultants or trade associations. Examination of

these records identifies units that seem to be absent from the statistical business register. Further investigation is then needed to check whether these units actually exist and are not errors in the other sources or are already present in the statistical business register in a different form.

- Area control survey (cluster sample) — A more expensive but more accurate method is to conduct mini-economic censuses on a representative sample of geographical areas to record all production units by a systematic sweep of the territory and to detect those not in the register. However, this method is not suitable for all activities, particularly certain services.
- Indirect check via employment — A comparison between employment estimates by geographical area and major sector of activity derived from the statistical business register and those obtained from other sources of employment data can give a general indication of register coverage defects.

10.34 It is more difficult to design a way of measuring register quality as regards the risk of duplication or multiple recording, since this risk depends very much on the sources and procedures used to update the register. Duplication may be the result of confusion between the name of the local unit and that of the enterprise or the use of an address other than the trading location for the purposes of registration. An example of the latter is where businesses register for VAT purposes using the address of their accountants. Possible solutions to the problem of quantifying duplication are to monitor unmatched records where more than one source is used or to compare register count, employment and turnover data with other sources.

#### *d) Process quality audits*

10.35 Quality audits are a useful tool for monitoring the quality of clerical processing and automatic updates. They can be achieved through regular analyses of key variables, clerical checks of a representative sample of update actions or, preferably, a combination of the two approaches.

10.36 The analytical approach to quality audits should focus on regular monitoring of the effects of changes in the register. This can take the form of comparing counts of units tabulated by key variables before and after an update to assess the impact of the update on different categories of units and to ensure that all changes can be adequately explained. Where a register is continually being updated, such analyses should be produced on a regular, e.g. monthly, basis. As well as comparing the analysis for period  $t$  with that for  $t-1$ , it is important to look at data for previous periods to build a more complete picture of longer-term trends. Changes that may not seem significant between two periods can start to become more so if they are repeated in successive periods. One main advantage of this type of analytical approach is that it often gives register managers early warning of quality issues, so that they can be investigated and resolved before they impact on users.

10.37 Sample checks of clerical updates are a useful way to monitor the quality of the clerical input to a register. These checks should be regular, as random as possible in nature, and should also cover a representative selection of updates. Clerical audits are normally undertaken by experienced staff, who investigate the work of others to see if the actions taken comply with the current guidelines. The rate of clerical errors can then be monitored over time and reduced where possible.

10.38 It is recommended that both approaches are used together. The analytical approach is more suited to auditing automatic updates, whereas clerical audits ensure the quality of manual interventions is known. Both approaches should be closely linked, preferably producing regular summary reports to inform managers and users. In order to be fully effective, the quality audit function should be closely linked to the documentation and training functions in a form of 'quality circle' so that issues identified are resolved, documented and covered in future staff training. This should make it possible to ensure sustained improvement in quality over time.

### *e) Benchmarking*

10.39 It can be useful to compare the quality of business registers in different countries. This gives an appreciation of relative quality and usually leads to quality improvements through the exchange of ideas and methods. An important tool for benchmarking is the annual business register questionnaire covering EU, EFTA and EU candidate countries, administered by Eurostat, and the similar (biennial) questionnaire by UNECE sent to other UNECE and OECD member countries. International meetings such as the Business Registers — Statistical Units Working Group and the Wiesbaden group on business registers (a UN city group, formerly the International Roundtable on Business Survey Frames) often also involve an element of benchmarking.

## **10G — Quality improvements**

10.40 The following are examples of ways in which the quality of statistical business registers could be improved in certain circumstances. This list is not meant to be exhaustive, but aims to give ideas that could be adapted to national circumstances.

### *a) Improve the operation of data supply channels*

10.41 A thorough knowledge of the methods and processes followed by data suppliers is vital to an understanding of register inputs from these sources. This should be achieved through close contacts and good working relationships. This also helps the data suppliers to gain an appreciation of why their data is needed and what it is used for, which can, in turn, encourage them to make changes to improve data quality.

10.42 It is often useful to have some form of written agreement with the main data suppliers. This would not normally take the form of a legally binding contract (unless the agreement is with a commercial data supplier), but it should set out roles and responsibilities, data specifications, delivery formats and dates, and a statement on quality. It can also include provision for the return of feedback, including individual or aggregate data where appropriate and the mechanism for resolving queries regarding the data. Such agreements are sometimes known as 'service level agreements'.

10.43 When a good working relationship has been established with a data supplier, it may be easier to influence their data collection methods and the nature of data collected. In some countries, statistical organisations have a legal right to influence administrative data collections, but this rarely works in practice without close cooperation at a working level.

### *b) Improve metadata*

10.44 The availability of relevant metadata greatly enhances the usefulness of data. This is particularly true in the case of statistical business registers, where metadata can take several forms:

- **Source codes** — These usually take the form of alphanumeric codes, and are linked to particular variables to indicate the source of the information, e.g. they can be used to indicate whether the turnover figure for a particular enterprise comes from a statistical survey or an administrative source. This then allows assessments of the relative quality of variables.
- **Dates** — Like source codes, these can be linked to data items to indicate the date to which the data relates and/or the date on which that particular data item was last updated in the register. Again, this gives a valuable quality indicator, as more recent information is often regarded as being of higher quality.
- **Documentation** — Information about sources and processes is vital in helping users to assess the quality of register data. This is normally held as text and should be in a format

that is readily available to users. It is very important that such documentation is kept up to date.

10.45 It is recommended that, as a minimum, source codes and dates should be stored for the main stratification variables: Employment, turnover and economic activity classification. These should be displayed alongside the data for direct register users (as a sampling frame, source of information etc.). The Internet is becoming an increasingly suitable location for the storage of documentation. Access to metadata documentation on the Internet should be free of charge and open to the public.

*c) Use supplementary data sources*

10.46 Supplementary data sources can be used to enhance coverage of units or variables; they can also help to resolve cases of conflicting data from primary sources. It is therefore important to be aware of potential sources and the sort of information they can provide. The use of administrative sources and associated registers is examined in greater detail in Chapter 20.

10.47 Statistical business registers are used as sampling frames for statistical surveys. It is important that the flow of information between registers and surveys is two-way, so that information from surveys can be used to update the register in the same way as administrative sources. Surveys are particularly useful for the early detection of units that have ceased trading or changed their principal activity.

*d) Develop the uses of the register*

10.48 Developing the range of uses and the number of users for a statistical business register increases the likelihood of feedback and the early detection of errors and inconsistencies. Extending the customer base can sometimes also help to finance or justify the funding of measures to improve quality.

*e) Improve information processing*

10.49 The quality of a statistical business register also depends to a great extent on the management procedures and the rigour with which they are applied. For example, it should be common practice that before creating a new unit in the register, checks should be made to ensure that this unit does not already exist in some other form, such as with another economic activity or at another address.

10.50 Checks can be incorporated into the register system to validate new data, whether taken on automatically or input manually and to report out errors and inconsistencies for clerical checks. Monitoring the number and type of errors reported can provide useful quality indicators.

10.51 The value of documentation for users has already been mentioned above, but it is equally important for those involved in maintaining and updating the register. Clear written instructions easily available to staff are vital for ensuring the consistency of information processing. This is particularly important where new staff are concerned.

*f) Focus on key units*

10.52 Most users of statistical business registers are likely to be interested primarily in those units that make a significant contribution to national economic activity, thus a small number of units may have a disproportionate effect on the user perception of quality. It is therefore logical to focus efforts to improve quality on the units that are of most interest to these users. Such units are generally large and/or complex and are often best maintained through profiling. This subject is dealt with in detail in Chapter 19. It is worth remembering, however, that there are other users, such as those interested in business demography or the development of small and medium-sized enterprises, whose needs will not be met by profiling the largest units, so a policy to ensure sufficient quality for smaller units is also required.

## **10H — Relation to the BR Regulation**

10.53 This chapter explores the definition of quality in statistical business registers and considers how quality can be measured and improved. It is not therefore an interpretation of the BR Regulation. A Commission Regulation (with scrutiny) on the measures relating to common quality standards as well as the contents and periodicity of the quality reports is foreseen in the future in accordance with Article 6 of the BR Regulation.

**THE GENERAL APPROACH TO  
THE HANDLING OF CHANGES**

**11**

## CHAPTER 11 — THE GENERAL APPROACH TO THE HANDLING OF CHANGES

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### 11A — Introduction

11.1 The previous ten chapters have concentrated mainly on statistical business registers as they exist at any point in time. The next eight chapters focus on changes in statistical business registers, i.e. specific attention is paid to the dimension of time. The time dimension is important for many reasons, including the following:

- There is a large demand for information on business demographic changes and their economic impact, e.g. survival and growth rates, numbers of births, deaths, mergers, etc.
- Many economic statistics based on populations of units from statistical business registers also have a time dimension. The handling of changes in statistical business registers clearly has an impact on all these statistics.
- The handling of changes affects the consistency and compatibility of register-based statistics. For instance, it influences how short-term statistics are related to structural statistics. If the sampling frames of different statistics with the same reference moment or period are established at different dates, the handling of changes occurring — or detected — between these dates may have an effect on the mutual consistency of these statistics.
- Survey statisticians are confronted with changes in survey populations, for instance enterprise panels. They are interested in how the statistical business register links survey units over time, what changes are reported by the statistical business register, what are the causes of changes, etc.

11.2 When describing how to handle changes, it is important to avoid confusion in terminology. For instance, the word 'birth' used in the first example above can have different meanings. It could mean the registration of a new legal unit in an administrative register that serves as a source of the statistical business register, the addition of a new enterprise record in the statistical business register or the emergence of a new business in economic reality, whether or not registered anywhere. Section 11B deals with the different frames of reference involved and related terminology.

11.3 The handling of changes is inevitably linked to what is registered in statistical business registers at any point in time, i.e. units, characteristics and links between units. In other words, whatever events in the outside world are deemed relevant to consider, their



consequences for registration in statistical business registers must be described in terms of changes in units, changes in their characteristics and changes in links between units. Since dealing with changes in links between units tends to be complex, a recapitulation of the links between the units of statistical business registers is given in section 11C for reference purposes.

11.4 Section 11D explains how the discussion of changes in Chapters 12 to 16 is structured. However, it should be noted that the scope of that discussion has been limited in three respects:

- The first has to do with the fact that the BR Regulation refers to three types of statistical units (enterprise group, enterprise and local unit), but these are not the only statistical units used in economic statistics. For instance, other regulations mention the kind-of-activity unit (KAU) and the local KAU. These units are also relevant when discussing changes. Therefore, the discussion on handling changes is framed by an identification of what types of changes are considered relevant in general, irrespective of what is mentioned in the BR Regulation. In Chapters 12–17, the handling of changes has been considered only insofar as such changes relate to the enterprise and the local unit. Chapter 22 considers similar issues at the level of the enterprise group. An effort has been made to make these chapters self-contained, so that when, at a later stage, other units are considered in this Manual, the recommendations regarding the current units will remain unaffected as far as possible (with the exception of possible extensions).
- The scope of the chapters on handling changes is also limited in terms of economic sectors. It focuses on market producers. The handling of changes as presented for market producers may, to a large extent, also be used for units in the general government sector and for private non-profit institutions, but specific adaptations may be necessary in some cases.
- In general, national statistical business registers cover only the national economic territory of the Member State. Enterprises and all lower level statistical units are therefore restricted to the national economic territory, although they may be part of a multinational group. In Chapters 11–17, the international dimension has not been taken into account specifically. This is considered further in Chapters 21–22 with regard to enterprise groups.

## **11B — Frames of reference and terminology**

### Frames of reference

11.5 To avoid the confusion referred to above, it is useful to make a distinction between the real, observable world and its reflections in administrative files and in statistical business registers. It is assumed that in the context of this Manual the real world is only relevant insofar as it is observable. Administrative files are based on the application of administrative concepts when observing the real world and statistical business registers on the application of statistical concepts to the real world.

11.6 Reality cannot be observed or measured without applying an observation framework or model and concepts. These are, to a large extent, derived from the purposes of observation. In the case of statistical business registers, the main purpose is to produce a sampling frame for economic statistics. The purposes of non-statistical administrations (social security boards, chambers of commerce, tax authorities, etc.) are different. A tax administration, for instance, has files of taxable units such as VAT-paying units or units subject to company taxation.

11.7 However, differences in purpose of observation do not necessarily result in incompatible measurements of reality. A business in reality, for instance, may very well be reflected in the statistical business register as an enterprise, and at the same time in the files of the tax administration as a taxable unit. For this reason, statistical business registers do not only observe reality directly by means of surveys (direct register surveys, ‘profiling’ or ‘proving’ of large business organisations, and feedback from statistical surveys), but also indirectly by analysing administrative files. In practice, such files are often much more important to the updating of the statistical business register than direct observation, at least for smaller units. The relevance of administrative files to statistical business registers is also clear from the fact that the legal unit — which is defined by administrations other than the statistical institute — is part of the statistical business register, and is the ‘building block’ of the enterprise. In fact, in most cases it equals the latter.

11.8 It is useful to bear in mind that, even if the statistical business register and an administrative register happen to contain similar units, the correspondence does not necessarily carry over to changes. For example, if an administrative register replaces a legal unit equalling an enterprise with another legal unit, the enterprise could still be the same. If the distinction of the frames of reference depicted above is useful when discussing units, it is even more useful when discussing changes. The use of administrative data for statistical purposes is examined in greater detail in Chapter 20.

### Terminology

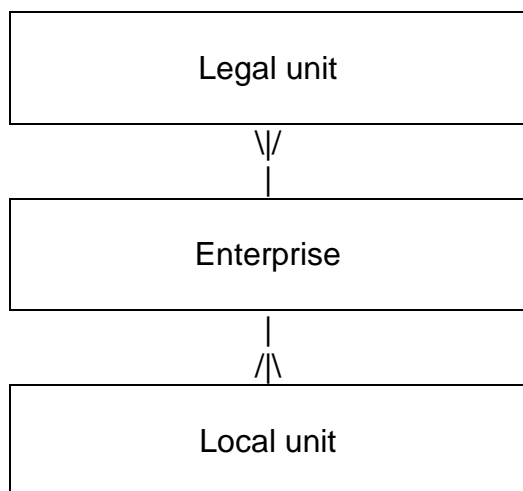
11.9 If a distinction is made between different frames of reference, it may be wise to reflect this in the choice of terminology. In other words, statisticians should try to avoid using a term like ‘birth’ without qualifying it, or use different terms when referring to the different frames of reference. In this Manual, the following convention is applied:

- Changes in the real, observable world are referred to as ‘events’. Each event that is deemed important enough for its statistics to be recorded is identified as a statistical concept which will be given a name, where possible tuned to the terminology of the users of those statistics. An example would be ‘birth’. (A complete terminology is presented in Chapters 12, 13 and 15, including definitions.) To emphasise that a statistical concept refers to the real, observable world, it may be preceded by the word ‘real’ (e.g. ‘real birth’).
- Changes in statistical business registers are referred to as ‘updates’ (or ‘register updates’). The two most important updates are the addition of a new statistical unit record to the business register (e.g. following the real birth of an enterprise) and the removal of an existing record. These updates are referred to as a ‘creation’ (or ‘register creation’) and ‘deletion’ (or ‘register deletion’) respectively. Where the term ‘business register’ is used in the following, it refers to the statistical business register; this will also be evident from the context.
- Changes in the administrative files are called ‘administrative changes’. The two most important administrative changes are the registration of a new administrative unit (e.g. the creation of a VAT unit in a VAT register) and its deregistration.

11.10 In some cases, it is not necessary to specify the frame of reference. The terms ‘business’ and ‘changes’ will be used in such cases, for instance when referring to ‘the handling of changes’ in general.

## 11C — Recapitulation of the links between units

11.11 As explained in earlier chapters, the legal unit, the enterprise and the local unit are linked to each other in a particular way. Their relationship can be depicted as follows:



11.12 This diagram represents the fact that each enterprise is linked to (i.e. consists of) one or more legal units and each enterprise is linked to (i.e. consists of) one or more local units. It is worth noting that *some legal units, e.g. inactive units, are not necessarily linked to any enterprise*, but local units are always linked to an enterprise.

11.13 The BR Regulation also requires the recording of links representing control between legal units. Such links are not restricted to legal units belonging to the same enterprise. They also determine relationships between legal units within an enterprise group. Such links are recorded for the legal units of the same enterprise to allow the legal unit with ultimate control to be determined. This means that the concept of 'controlling legal unit' is applicable to the following chapters.

11.14 As stated in earlier chapters, it is recommended that the business register contains separate records and identity numbers for the legal unit, the enterprise group, the enterprise and the local unit, even if they coincide. However, it was also stated that if separate records for different units are not explicitly recorded and this does not lead to any reduction of the information that can be provided by the business register, this would be acceptable. Therefore, it may be assumed for the purposes of the chapters regarding the handling of changes that the units and links of the diagram above are explicitly recorded in all cases.

## 11D — A structured approach to the handling of changes

11.15 The purpose of a business register is to record statistical units, their links and their characteristics to an agreed level of quality at any point in time. This should take into account the demand for information, the available resources, the need for coherence between structural and short-term statistics along with the effects of information collection on the response burden placed on businesses. If the dimension of time is added, a similar statement holds. Then the purpose is to record changes in the existence of statistical units, changes in links and changes in characteristics over time. Similarly, these register changes should as truly as possible reflect the changes in the real, observable world in view of the considerations mentioned.

11.16 Therefore, if one wants to know the rules for carrying out updates in business registers, it is recommended to start with an overview of events, which is in line with the demand for information. A general overview is given in Chapter 12. It primarily identifies events with an impact on the existence of statistical units and the links between them, that is, on so-called demographic events. An event may have an effect on one type of statistical unit only, but it may equally affect different types of statistical units and their links at the same time. It may also influence characteristics of statistical units.

11.17 It is useful to bear in mind that the phrase "with an impact on the existence of statistical units" is not self-evident. The question is not just whether or not the definition of a statistical unit is fulfilled at any point in time, but it is also just as relevant to determine whether a unit has the same identity as before. In other words, what might be called the existential and the essential components of the statistical unit must both be considered.

11.18 The overview of Chapter 12 forms the basis for specific chapters on enterprise changes (Chapters 13 and 14), local unit changes (Chapters 15 and 16) and enterprise group changes (Chapter 22). In Chapter 13, a typology of demographic events that may occur to the enterprise is derived, followed by a description of their consequences in terms of updates in business registers. The typology of events is justified in terms of information demand. The availability of information and the cost of information collection, both for the statistical institute and the respondent, are key considerations in the discussion of how to reflect events in business registers. Chapter 14 describes the identity continuity rules for the enterprise, both conceptually and in terms of register updates. The chapters on local unit and enterprise group changes have a similar structure.

11.19 Although Chapters 12–16 and 22 focus on demographic changes, the scope of these chapters is somewhat wider. Demographic and non-demographic changes are entangled in several ways and too strict an application of the metaphor of human demography to the field of economic statistics would not be desirable. Therefore, where relevant, changes to characteristics of statistical units are taken into account as well. For instance, demographic events may have an impact on the characteristics of units, such as their principal economic activity or size. Links between legal units are also relevant when discussing demographic changes, because they determine the constitution of the enterprise group. Some of the users of business registers and statistics based on them may not be very interested whether changes in the population surveyed are called demographic or not. Some changes to characteristics, however, do not have any clear connection with demography, therefore a separate chapter (Chapter 17) on changes to characteristics complements Chapters 12–16 and 22.

11.20 As stated above, in principle, register updates should reflect the changes in the real, observable world as closely as possible. Obviously, the ideal of precisely and instantaneously reflecting all relevant events can never be achieved, just as the ideal of truly representing all relevant real world units at any point in time can never be achieved. (in fact, from the viewpoints of cost-efficiency, response burden and coherence between structural and short-term data, it is not even desirable that the ideal is realised.) As a consequence, there will always be some false register information, some information will always be missing and some register updates will be false. This entails the need to carry through corrections in the business register if errors are detected. Since this is a major concern in the management of business registers, a separate chapter (Chapter 18) is devoted to this.

11.21 Finally, a remark on the timescale of events and register updates must be made. It is helpful to imagine the real world units to be represented in the form of a film. At certain moments, the picture changes, meaning that events have occurred. But changes also occur gradually. For instance, the start-up of a business or a merger of businesses may take some time. Three problems relate to this issue.

- First, there is a problem of dating changes. At what moment is a new business that goes through a long start-up process considered to be in existence, entailing a register creation? This problem is dealt with in Chapters 13 and 15 on enterprise and local unit events, respectively.
- The second problem consists of what changes to take into account at all. In the metaphor of the film, certain events will or will not be perceived depending on the speed of the film. Comparing enterprises or local units after a number of years would, in many cases, lead to the conclusion that they have changed considerably, implying changes of identity. But if the same enterprises and local units are compared every week, it is entirely conceivable that in any single week there was no change great enough to change identity. This Manual takes a pragmatic approach. Since most statistics using business registers have a frequency of at least once a year and register updating is often carried out continually or very frequently, only events taking place within the period of a year (not necessarily a calendar year) are taken into account. This implies that it is possible for more than one event to occur during a year, in which case they are all taken into account.
- The third problem is maintaining consistency between short-term and long-term statistics. If within a year several changes occur concerning the same unit(s), the long-term change would be the 'consolidation' of the short-term changes. It is even possible for the short-term changes to cancel each other out, for instance if a birth is followed by a death. This problem is not dealt with in the chapters on the handling of changes. The register updates can be carried through in accordance with real events, i.e. continuously. However, this results in consistency problems between short-term and structural statistics. One solution is to hold two versions of key variables, one that always reflects the latest information and one that remains unchanged over an agreed period (usually one year).

## 11E — Summary

11.22 Chapters 12–17 on the handling of changes cover the enterprise and the local unit, whereas enterprise groups are covered in Chapter 22. These chapters focus on market producers and Chapters 12–17 are restricted to the national economic territory covered by each national business register. Only events that take place within the period of a year are taken into account. A distinction is proposed between different frames of reference: The real, observable world; administrative concepts; administrative files; statistical concepts; and the statistical business register. The word 'event' refers to reality, 'administrative changes', refer to the administrative world, and '(register) updates', '(register) creation' and '(register) deletion' refer to the business register. Register updates are changes in the existence of units, links between units, and characteristics. It is assumed that every enterprise has a so-called controlling legal unit.

## 11F — Relation to the BR Regulation

11.23 Since this chapter merely prepares the ground for subsequent chapters, it is not, as such, considered an interpretation of the BR Regulation. However, insofar as those parts of the following chapters that do constitute an interpretation of the Regulation refer to this chapter, explicitly or implicitly, regarding terminology or other elements, this chapter is, of course, relevant to the interpretation of the Regulation.

**A GENERAL OVERVIEW OF  
DEMOGRAPHIC EVENTS**

**12**

## CHAPTER 12 — A GENERAL OVERVIEW OF DEMOGRAPHIC EVENTS

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### 12A — Introduction

12.1 This chapter describes the main demographic events to be distinguished from a user's point of view. The focus is on the three main statistical units, enterprises, local units and enterprise groups, but similar events could be applied to other statistical units. No assumptions are made to the actual or recommended structure, contents or updating procedures of business registers. The chapter also serves as a general framework for other chapters in which the demographic events occurring to the main statistical units are considered, as well as their consequences in terms of register updates.

12.2 This chapter focuses on demographic events, i.e. events with an impact on the existence of statistical units and the links between them. The scope is slightly wider, since demographic events cannot be handled entirely in isolation, particularly from the user's point of view. Therefore the relationship between demographic changes and changes to some characteristics of statistical units is also considered. The demographic events of legal units are not discussed. Their events and continuity depend on national legislation and are commented on in Chapter 5 in relation to their characteristics.

### 12B — Criteria for the identification of demographic events

12.3 A statistical business register reflects the businesses of the real, observable world insofar as they are considered relevant to the users of statistics. Such a projection of reality is necessarily limited in the sense that it is the result of a choice as to what aspects of the real, observable world are taken into account. A similar choice must be made if one tries to reflect the dynamics of the real world. In principle, these dynamics can be described in many ways, but it stands to reason that such a 'dynamic view' in this Manual be considered in such a way that is consistent with the 'static view' represented by the statistical business register at any point in time. Therefore the criteria developed below focus on the dynamics of the combined populations of statistical units of different types and their relationships.

#### Categories of use

12.4 When formulating criteria, it is important to take the uses to be served into account. One can distinguish between external and internal uses, i.e. between the use for statistical

outputs depending on the business register and the use within the statistical institute. The external uses can, in turn, be subdivided into business demographic statistics and other statistics to which demographic categories are relevant. An example of the former are statistics on the births and deaths of units, an example of the latter are time series for populations of statistical units such as enterprise panels, in which, for example, the number of births and deaths of units are specified and their impact on the variables measured possibly quantified.

12.5 Although the criteria for the identification of demographic events are derived in principle from the demand for information by external users, it should be remembered that information on events is also important for survey statisticians. They want to know how surveyed units relate over time and what causes entrance to and exit from survey populations. They need this information not only for obvious practical reasons of data collection and processing, but also for the interpretation of the data collected.

### **Criteria**

12.6 What demographic events are relevant? At a high level of abstraction, this question is not difficult to answer. By definition, demographic events have an impact on the existence of statistical units and links between them. The statistical units have been identified and defined in view of the observation and analysis of the production system, as stated in the Statistical Units Regulation. Therefore, changes in the constituent factors of the production system as well as in the structure of business organisations in terms of statistical units are relevant. But what factors exactly and what changes in structure are most relevant to take into account?

12.7 An important consideration must be that the enterprise is the central unit of the statistical system. All statistical units are defined in terms of the enterprise, at least insofar as they are observable. They are either a part of the enterprise in terms of economic activity or location (kind-of-activity unit (KAU), and local unit, respectively), or a combination of enterprises bound together by legal and/or financial links (enterprise group). It stands to reason to identify and group demographic events in a way that reflects the central position of the enterprise in the statistical system.

12.8 The enterprise is defined as "...an organisational unit producing goods or services which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources...". Changes in the existence of such combinations of production factors must be important events to the users of statistics based on the units concerned. The same goes for changes in the existence of parts of those combinations of production factors, if these parts are distinct in respect of economic activity or location. Moreover, it would be relevant to determine whether a change in the existence of an enterprise also affects the existence of the group to which it belongs.

12.9 Apart from changes in the existence of production factors as combined in statistical units, changes in the distribution of existing production factors are relevant to the users of economic statistics. If it is assumed that such changes are demographic, they must result in changes in the existence of the statistical units involved or in the links between them. Again, distribution changes can be considered at several levels. If the enterprise level is taken as the level of reference, redistribution can take place within the enterprise and can involve changes at the KAU and/or local unit level.

12.10 A redistribution can also take place among enterprises which may result in a decrease in the number of enterprises (concentration, for instance resulting from the merger of enterprises) or in an increase (de-concentration, for instance as a consequence of a split-off of an enterprise from an existing enterprise). The number of enterprises may also remain the same; in which case, the redistribution may take the form of a KAU or local unit transfer; in other cases it may be called a restructuring. If the enterprise group level is taken into



account, redistribution among enterprises may or may not concern more than one group, and an enterprise may be transferred from one group to another.

12.11 The text above covers all main requirements concerning data on business demography. However, if uses connected with time series were considered, the above approach would not be sufficient. If populations of statistical units are followed over time, the criteria mentioned would certainly be relevant, but their effect on unit characteristics, especially if they are used for frame definition or stratification, would also be very important. Examples of such characteristics are size, economic activity and location. Changes to characteristics may, however, be caused by non-demographic events. From the user's point of view, it seems logical not to separate the discussion of demographic and non-demographic changes for those characteristics that may be affected by demographic changes.

12.12 Finally, one concept that deserves special mention is the entrepreneur of an enterprise. This concept is often referred to in demographic analyses. Although, strictly speaking, changes of entrepreneur are not demographic — the entrepreneur is as such not a statistical unit or a link between statistical units — the controlling legal unit can be seen as an approximation of the concept of entrepreneurship, especially if it is a natural person. For this reason, changes in controlling legal unit could be considered relevant for uses closely related to business demography.

## 12C — A general typology of demographic events

### Typology

12.13 Application of the criteria and considerations mentioned above results in the general typology of demographic events given below. The typology is in the order presented in this Manual (enterprise, local unit and enterprise group), followed by some explanatory remarks.

1. Changes of existence of combinations of production factors
  - 1.1 *Emergence of combinations of production factors*
    - 1.1.1 Birth of an enterprise
    - 1.1.2 Birth of a local unit
    - 1.1.3 Birth of an enterprise group
  - 1.2 *Disappearance of combinations of production factors*
    - 1.2.1 Death of an enterprise
    - 1.2.2 Death of a local unit
    - 1.2.3 Death of an enterprise group
2. Changes in the distribution of production factors
  - 2.1 *Redistribution of the production factors within one enterprise*
    - 2.1.1 Redistribution of production factors across local units
  - 2.2 *Redistribution of the production factors of more than one enterprise*
    - 2.2.1 Concentration of enterprises
      - 2.2.1.1 Concentration with no enterprise group involved
      - 2.2.1.2 Concentration within an enterprise group
      - 2.2.1.3 Concentration involving more than one enterprise group
    - 2.2.2 De-concentration of enterprises
      - 2.2.2.1 De-concentration with no enterprise group involved
      - 2.2.2.2 De-concentration within an enterprise group
      - 2.2.2.3 De-concentration involving more than one enterprise group
    - 2.2.3 Transfer of production factors between enterprises
      - 2.2.3.1 Transfer of a local unit with no enterprise group involved
      - 2.2.3.2 Transfer of a local unit within an enterprise group
      - 2.2.3.3 Transfer of a local unit between enterprise groups

- 2.2.4 Enterprise restructuring
  - 2.2.4.1 Restructuring with no enterprise group involved
  - 2.2.4.2 Restructuring within an enterprise group
  - 2.2.4.3 Restructuring involving more than one enterprise group
- 2.3 *Redistribution of the production factors within one enterprise group*
  - 2.3.1 Redistribution of production factors across local units of more than one enterprise
  - 2.3.2 Redistribution of production factors across enterprises
- 2.4 *Redistribution of the production factors of more than one enterprise group*
  - 2.4.1 Concentration of enterprise groups
    - 2.4.1.1 Concentration involving more than one enterprise group
  - 2.4.2 De-concentration of enterprise groups
    - 2.4.2.1 De-concentration involving more than one enterprise group
  - 2.4.3 Transfer of production factors between enterprise groups
    - 2.4.3.1 Transfer of an enterprise between enterprise groups
  - 2.4.4 Enterprise group restructuring
    - 2.4.4.1 Restructuring involving more than one enterprise group

### **Explanatory remarks**

12.14 For a proper understanding, a couple of remarks must be made. The categories of the typology are the main types of events distinguished. Each event must be classified into one, and only one, category of the typology. However, a real-life event may not match the definition of any category precisely. For instance, it is possible that a business organisation is restructured and at the same time some production factors disappear. As is the case with many other classifications, in such cases the most appropriate category must be determined.

12.15 Another remark concerns category 1, changes in the existence of combinations of production factors. The application of the subcategories should be consistent. For instance, if an enterprise and its local unit are born, the birth may take place within an existing enterprise group or, most often, as the newly born enterprises are in general small, without an enterprise group involvement. There are thus no direct relations between the births and deaths of the different statistical units but a logical one: An enterprise group cannot be born without enterprise(s), nor an enterprise without local unit(s).

12.16 The next remark concerns concentration and de-concentration. These terms are known to have a wider meaning. In daily usage, they may be understood to refer to the enterprise level or to the enterprise group level, meaning a reduction or increase in the number of groups. The use of the terms in the typology should then also always indicate the reference unit.

12.17 Finally, it should be noted that the typology may only be applied if a precise interpretation is given for the (dis)continuity of the identity of each of the statistical units mentioned. Since this is an elaborate exercise, which is by definition unit-specific; this is covered in the chapters dealing with changes concerning the specific statistical units.

### **Possible extensions**

12.18 The above typology can be extended in several ways. For instance, the birth and death of an enterprise can also be subdivided into births and deaths of KAUs and further — birth of a KAU which is a local unit, birth of a KAU which is not a local unit, birth of a local unit which is not a KAU, etc. A similar remark applies to the transfer of production factors between enterprises. The categories of concentration and de-concentration can be subdivided by the various forms in which they may take place. The enterprise group categories can be divided into multinational groups and all-resident groups and the effect on the truncated enterprise groups may be taken into account explicitly.

12.19 Another possible subdivision is by the effect of the event on characteristics of the statistical units concerned. For example, if an enterprise is split off (de-concentration), it would be very relevant for users to distinguish between the case where the split-off unit carries out the same principal activity as the original enterprise and the situation where the principal activities are different. But, strictly speaking, such subdivisions would not be demographic subdivisions.

12.20 If non-demographic events are taken into account, the typology could be extended by different categories of changes to characteristics. One relevant change to characteristics closely related to business demography is the change of controlling legal unit.

## **12D — Typologies of demographic events for specific statistical units**

12.21 The requirements for a statistical system to allow for the full application of the typology presented above would be extraordinarily high. In practice, only one type of statistical unit is usually considered for a particular purpose, even for business demography statistics at the moment. In most cases, surveys are also based on only one type of statistical unit (there are exceptions such as job vacancy surveys); therefore typologies of events applied to time series tend to be restricted to events related to the unit concerned. This means that there is a need for a typology of demographic events for enterprises, local units and enterprise groups (possibly also for other units such as KAUs and LKAUs).

12.22 The typology in paragraph 12.13 forms a good starting point for such unit-specific typologies. It offers a coherent framework and allows a description of the relationship between the different unit-specific typologies. However, when working out a typology for a specific statistical unit, several points must be taken into account:

- The categories of the typology above will have to be validated in terms of measured demand. A full picture of the demand for information on the specific categories that are deemed relevant to the statistical unit under consideration is still required.
- The categories of the typology above are not necessarily all that is relevant to the statistical unit under consideration. At the level of the specific statistical unit, subdivisions are possible and some changes to characteristics may be relevant.
- Considering the fact that each statistical unit can be linked to a higher-level and/or a lower-level unit, a unit-specific typology could very well incorporate changes in the links with the next higher and/or lower level.
- Each unit-specific typology of demographic events must be complemented by a set of rules concerning the (dis)continuity of the statistical unit.
- For reasons of consistency and statistical coordination, and in order to have the possibility to relate statistical information about different types of statistical units, it is important to describe the relationship between the different unit-specific typologies applied.

12.23 The last point may be complicated. One may note that even if very similar typologies are applied, the events occurring to the different types of statistical units may be classified differently. (Compare classifying enterprises and their local units according to the same classification of economic activities: The local units are not necessarily all classified into the same industry as the enterprise to which they belong.)

## **12E — Summary**

12.24 This chapter presents a typology of demographic events which is not restricted to any type of statistical unit, although the enterprise plays a central role in it. The typology is based primarily on changes in the existence of production factors and their distribution within and among business organisations, while taking into account their structure in terms of organisational units of production, economic activities, locations, and legal/financial links. The typology can serve as an integrating framework for typologies of unit-specific events.

## **12F — Relation to the BR Regulation**

12.25 Since this chapter merely prepares the ground for Chapters 13–16 and 22, it is, as such, not considered an interpretation of the BR Regulation. However, insofar as those parts of the following chapters, which do constitute an interpretation of the Regulation, refer to Chapter 12, explicitly or implicitly, it is, of course, relevant to the interpretation of the Regulation.

**DEMOGRAPHIC CHANGES  
CONCERNING THE ENTERPRISE**

**13**

## CHAPTER 13 — DEMOGRAPHIC CHANGES CONCERNING THE ENTERPRISE

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### 13A — Introduction

13.1 This chapter describes the demographic events concerning enterprises and the associated updates in business registers. Where appropriate, changes to characteristics are also taken into account. The demographic events described are those that are considered relevant to users of statistics based on business registers. These statistics comprise most economic statistics, notably business demography statistics themselves. This Manual is consistent with the Eurostat Business Demography Recommendations Manual. However, the Demography Manual is restricted to market enterprises in main business economy NACE sections and its definition of active enterprise is more restricted than in business registers.

13.2 Regarding the relationships between statistical units, changes in the links between enterprises and enterprise groups have been taken into account. Changes in the links between enterprises and local units and relations between the typologies of demographic events for the enterprise and the local unit are examined in Chapter 15. The relationship between enterprise identity and local unit identity is covered in Chapter 16.

13.3 Statistical business registers represent the existence of an enterprise by the attachment of a unique identity number to a record for the enterprise. The creation and deletion of records are logically linked to the creation and deletion of identity numbers and are meant to correspond to changes in the existence of enterprises. Similarly, if there is no discontinuation of the enterprise, its identity number should not change. The specific continuity rules which describe the conditions under which identity numbers should be created or deleted are given in Chapter 14. (This is done for reasons of transparency; the rules will be better understood after the explanation of their purpose and application in this chapter.)

13.4 This chapter is structured as follows. A typology of demographic events is given below, including explanatory notes and an indication of the relevance of the events. These events are then translated into register updates, under the assumption that continuity rules are available.

### 13B — Typology of demographic events for the enterprise

13.5 In the general typology of demographic events presented in Chapter 12, the relevant classes were defined in terms of changes of specific statistical units. This chapter will concentrate on the effects of the events listed in the general typology on the enterprise with subdivisions where relevant. Proceeding like this has several advantages:

- A 'cross-section' of the general typology for a specific statistical unit is useful for those statistical institutes that do not use all statistical units mentioned in the general typology.
- For reasons of survey processing, it is very useful to have a typology that applies specifically to the units of the survey.
- The typology can be adapted to particular needs related to specific statistical units. By using a separate, derived typology for the enterprise, the general typology does not become too intricate.

## Criteria

13.6 The criteria for distinguishing demographic events presented in Chapter 12, namely the existence and distribution of (combinations of) production factors, must be applied to the enterprise in a systematic way. This must be done in accordance with the user needs. The demand does not only concern business demography statistics, but also other economic statistics that are affected by these events. Users in this context include both users of statistics and statistical staff who need this information to manage surveys.

13.7 At the level of the enterprise, the categories of general typology appear to be different in two respects:

- The continuity of the enterprise — For example, in case of a death of an enterprise, it loses its identity, whereas redistribution of production factors does not necessarily involve identity loss.
- The number of enterprises involved in an event — Both the numbers of enterprises before and after the event are relevant. For instance, the birth of an enterprise (in the sense of the setting-up of a new business from scratch) and the concentration of two existing enterprises differ in the number of enterprises involved.

13.8 Application of these two criteria yields the categories of the general typology at the enterprise level plus some subcategories as will appear below. It also makes it possible to systematically derive and define all possible demographic events at the enterprise level. In particular, they allow the redistribution of production factors to be handled in a more precise and elaborate way.

13.9 In order for the continuity of the link between the enterprise and the enterprise group to also be taken into account, a corresponding criterion must be added.

## Demographic events

13.10 Application of the criteria results in the events at the enterprise level as listed below. The events are followed by explanatory notes and an indication of the related demand for statistical information. The terminology chosen is intended to be in accordance with what is common among the users of the statistical information. The events listed are mutually exclusive. Since the list is also exhaustive, it is a full typology of events.

Existential changes (events involving only one enterprise after the event and none before or only one enterprise before and none after)

- Birth
- Death

13.11 Births and deaths of enterprises are not the same concepts as new enterprises created or enterprises deleted by the creation and deletion of identity numbers, for two reasons. Firstly, births and deaths are events concerning the real, observable world and the creation and

deletion of identity numbers are register updates. Secondly, births and deaths involve only one enterprise, whereas other events involving many enterprises may also result in the creation and deletion of identity numbers, for instance mergers. The convention of this Manual to restrict births and deaths to involve only one enterprise is very important, because the use of these terms is often confusing. The convention is chosen because it is in line with the terminology of users who are interested in questions such as "How much employment is generated by enterprise births?". If the term 'birth' is used in this type of question, enterprises emerging from mergers or split-offs, for instance, are not to be included.

13.12 Thus, the birth of an enterprise is the bringing into being of an enterprise where no enterprise existed before and no other enterprises are involved. The death of an enterprise is the opposite. Since the enterprise is an organisational unit producing goods or services (according to its definition), a birth amounts to the creation of a combination of production factors and a death amounts to the dissolution of a combination of production factors, both with the restriction that no other enterprises are involved in the event. The definitions of number of births of enterprises and number of deaths of enterprises for the purposes of structural business statistics in Commission Regulation (EC) No 2700/98 are fully consistent with those used in this Manual. A more detailed discussion on distinguishing enterprise births from other creations and enterprise deaths from other cessations is in the Eurostat Business Demography Recommendations Manual.

13.13 One problem associated with births and deaths is the date of occurrence of these events. At what point in time is an enterprise considered to be born, conceptually? In principle, the date could be determined by referring to the definition of the enterprise: The birth takes place at the (first) moment the conditions of the definition are met, i.e. the moment there is an organisational unit producing goods or services. Paragraphs 13.29—13.30 give an operational answer to the question of the date of occurrence of birth and death.

13.14 It is also important to consider the concept of reactivation in connection with births and deaths. If an enterprise becomes dormant, but re-starts activity within 24 months, it is considered to be a reactivation and therefore not a death or a birth. This subject is handled in more detail in Chapter 14.

Changes within an enterprise (events that do not involve creations or deletions)

- Change of ownership
- Restructuring within an enterprise
- Change of enterprise group

13.15 A change of ownership is where a new legal unit is formed to take over the activities of an existing enterprise. An example is where a sole proprietor retires and sells the enterprise to a new entrepreneur. Although the legal unit changes, this event should not in itself affect the continuity of the enterprise; therefore there are no creations or deletions of enterprises.

13.16 Restructuring within an enterprise does not affect the continuity of the enterprise, but changes its structure in the process. An example could be the creation or deletion of a local unit. Restructuring may affect key characteristics such as size or principal activity. It could be argued that this is not really a demographic event at the level of the enterprise, but it is included here for the sake of completeness and because it could affect the way the enterprise is included in demographic statistics.

13.17 Change of enterprise group could be regarded as a special case within the definition of a complex restructure given below. However, it is worth distinguishing it at the level of the enterprise, as it does not involve a creation or deletion. In this case, the same combination of production factors exists before and after the event. After the event it belongs to a different



enterprise group than before. The phenomenon of change of group has been prominent in the economic and financial press for many years. There is certainly a high demand for information on it.

Concentration (events involving more than one enterprise before and one enterprise after the event)

- Merger
- Takeover

13.18 Enterprises may integrate to the extent that the number of existing enterprises is reduced, i.e. concentration takes place. Such integration may take different shapes. If two enterprises integrate entirely, the enterprises involved may either lose their identity because they are dissolved beyond recognition in the new organisation or one of the enterprises may remain relatively unchanged. In the latter case, the other enterprise is generally much smaller; it is merely absorbed by the larger enterprise. If both enterprises lose their identity, the event is referred to as a merger; if one of them retains its identity, it is referred to as a takeover. In such cases, it is not possible for both enterprises to retain their identity, because then the number of enterprises would not change.

13.19 As will be clear from what was said in Chapter 12, the term 'concentration' is used here in a specific sense: It refers to events which reduce the number of enterprises. In other contexts, the term is sometimes used to denote that the population of enterprises gets fewer owners or is spread over a reduced number of enterprise groups. However, since such phenomena relate to the enterprise group level, they are to be handled later in this Manual.

13.20 Although the number of enterprises is reduced in the case of concentration, mergers and takeovers do not involve the death of units, as explained earlier. Death is a different event. But these events may all entail the deletion of records in the business register. Likewise, the emergence of a new enterprise from a merger of enterprises is not considered a birth. It should also be pointed out that as a consequence of a takeover, some characteristics of the enterprise that retains its identity may change. For instance, it may enter a different size class or get a different principal economic activity. Such effects are very important, especially to survey statisticians.

13.21 The demand for information on concentration clearly exists; the integration of production capacity into a reduced number of units is a very relevant economic phenomenon. The distinction between a merger and a takeover may, however, be of less importance for users of statistics, especially if the frequency of occurrence is taken into account (the terminology is not established: 'merger' can be used to cover both mergers and takeovers, or 'takeover' can be restricted to hostile takeovers). This distinction is, however, very relevant to statistical survey managers, since it affects which units in samples and sample frames remain the same over time. If concentration is studied from the point of view of the statistical business register, the distinction between the two events is easy to make, due to the rules concerning the continuity of enterprise reference numbers.

De-concentration (changes involving one enterprise before and more than one enterprise after the event)

- Break-up
- Split-off

13.22 The events of de-concentration mirror those of concentration: The counterpart of the merger is the break-up and the counterpart of the takeover is the split-off. In a break-up, the enterprise is divided in such a way that neither (none) of the new enterprises retains the identity

of the original enterprise. In a split-off, the new enterprise(s) is (are) generally much smaller and the identity of the original enterprise is retained by the larger enterprise. The remarks on the terminology for mergers and takeovers apply here as well.

Changes involving more than one enterprise before and more than one enterprise after the event:

- Creation/cessation of a joint venture
- Restructuring within an enterprise group
- Restructuring involving more than one enterprise group (complex restructuring, this comprises other possible events)

13.23 A joint venture is created when two or more independent enterprises agree to commit a certain amount of resources to work together on a common project or on continuous business relationship (generally on an equal basis, e.g. a 50–50 % shareholding or three partners each holding 1/3 of the shares). In most cases, none of the original enterprises exercise outright control over the joint venture created, but there may be exceptions, for instance due to national legislation, which may allow e.g. only 50 % foreign ownership in some countries or activities. The legislation concerning joint ventures may vary by country, but irrespective of their legal structure they are considered to be an enterprise (or quasi-enterprise). The two or more original enterprises remain in existence and retain their identity, so there is an increase in the number of enterprises by one. Similarly, the cessation of a joint venture results in a reduction of the number of enterprises by one. The demand for data on joint ventures is clear, because some joint ventures involve the transfer of considerable parts of production capacity to the new enterprise, while others involve the transfer of financial capital or know-how.

13.24 Restructuring within an enterprise group is a change (e.g. creation and/or cessation of one or more enterprises) involving more than one enterprise before and more than one enterprise after the event, where all enterprises involved are under common control. It affects the identity of at least one enterprise, though the total number of enterprises before and after the event may be the same.

A typical example is the complete reorganisation of the production capacity of a large enterprise group involving many enterprises and possibly, but not necessarily, entailing a change in the number of enterprises of the group.

13.25 Complex restructuring is a similar event, but this is not constrained to one enterprise group. An example is the transfer of a number of enterprises or parts of enterprises between groups.

13.26 Restructuring may affect characteristics of the units that retain their identity; their principal economic activity and size class may change, for instance. Since the economic interests involved may be considerable, restructuring is relevant both from an information demand point of view and for statistical staff, although its heterogeneous nature and infrequent occurrence make it a difficult phenomenon to cover in statistics.

### **Possible extensions**

13.27 There are several possibilities for extension, for example the category of creation of a joint venture could be split into the creation of joint ventures that obtain their production capacity from their creating enterprises and other joint ventures. Whether such subdivisions are desirable depends on the demand for information, the frequency of occurrence, availability of information sources and cost considerations.

13.28 As was mentioned above, demographic events may alter characteristics of units that retain their identity. In this respect, size and principal economic activity are particularly

important. Of course, changes to these characteristics may also occur without any demographic event taking place. The demand for information about changes in size class and in principal economic activity is clear, both as such and in relation to other statistical information. Within size, changes in both employment and turnover class are important, partly because small and medium-sized enterprises (SMEs) are defined in terms of both employment and turnover. Changes to characteristics are also very important for survey management because they may lead to changes in the population of units covered by a survey and they may be used for stratification. Dealing with these changes to characteristics in statistics is not simple in practice; the nature of the complications is indicated in Chapter 18.

### **13C — Register updates reflecting demographic events**

13.29 The following paragraphs examine the translation of the events of the typology into the world of statistical business registers for each event in turn. This is followed by some remarks on information sources and on the reconstruction of events on the basis of register information. It is assumed that all enterprises involved in an event are within the scope of the business register, in line with the requirements of the BR Regulation.

#### **Translation of events into register updates**

##### **Births and deaths**

13.30 The representation of births and deaths in business registers is straightforward: This involves creating new identity numbers or deleting existing ones respectively. It is more of a problem, however, to determine the date of birth or the "date of commencement of activities" (characteristic 3.4 of the BR Regulation). Is the date of the first investments the date of birth? Or is it the date on which the first product is sold? Or delivered? Or when labour is employed regularly? These dates do not necessarily equal the date of registration of corresponding administrative units with administrative sources. The same applies to the determination of the date of death or the "date of final cessation of activities" (characteristic 3.5 of the BR Regulation).

13.31 The convention of this Manual is that, in principle, the date on which the first financial commitments for investments are made should be taken as birth. This may seem somewhat early, since actual production will take place afterwards, but this allows for the statistical coverage of all important variables, such as investments, from the outset. This date is not considered too early since serious commitments have been made; however, from the point of view of cost-efficiency and response burden it may not always be desirable to actually collect the date of birth from the enterprise. In that case, the registration date at the administrative source must be used as a proxy. The way of measuring the date of birth should depend on user quality requirements.

Changes within an enterprise (change of ownership, restructuring within an enterprise, change of enterprise group)

13.32 Changes of ownership and restructuring within an enterprise are events that do not impact on the demographic variables relating to the enterprise. They will, however, be reflected through changes to relationships or characteristics recorded in the register.

13.33 The way a change of enterprise group is registered depends on the way the enterprise group itself is registered. If it is explicitly registered in the sense that it has its own record, as required under the BR Regulation, the link between the enterprise and the enterprise group of origin is deleted and a link between the enterprise and the enterprise group of destination is added.

##### **Mergers and takeovers**

13.34 In the case of a merger, all identity numbers of the enterprises existing before the event are deleted and an identity number for the emerging enterprise is created. In the case of a takeover, the enterprise that takes over the other enterprise(s) retains its identity number, so no register creation takes place and only the identity numbers of the enterprises that are taken over are deleted in the register. The date from which the change is considered to take effect is the date on which the autonomy of decision-making, mentioned in the definition of the enterprise, is lost by the merging enterprises or the enterprise which is taken over.

#### Break-ups and split-offs

13.35 Since break-ups and split-offs are the counterparts of mergers and takeovers, respectively, their registration in business registers is analogous to the registration of mergers and takeovers. In the case of a break-up, all identity numbers of the enterprises are created after the event and the identity number of the original enterprise is deleted. In the case of a split-off, a new identity number is only given to the split-off enterprise(s).

#### Creation/cessation of a joint venture and restructuring

13.36 The creation of a joint venture is reflected in a business register by the creation of a new identity number for the joint venture; similarly, a cessation is reflected by the deletion of an identity number. The starting date of the joint venture is the date on which it assumes its role as an autonomous decision-making unit. Restructuring within an enterprise group, or complex restructuring, may entail any number of register creations and deletions.

#### Information sources

13.37 In practice, most events are detected after reception of signals from the administrative sources of the statistical business register. These signals concern administrative changes and, depending on the quality, meaning and relevance of the administrative information, action may have to be taken to update the business register. In some cases, additional data will be needed, either directly collected or from other sources. However, in all cases, cost-efficiency must be considered. As a consequence, the policy of register updating may differentiate between micro, small, medium and large enterprises.

13.38 Although administrative sources differ widely from country to country, a few observations may be useful, particularly concerning the birth and death of enterprises. Administrative creations and cessations do not necessarily result in births and deaths of enterprises and enterprises may be born and may die without a change in the legal unit(s) of the enterprises. Nevertheless, in most cases, administrative information about new enterprises can be a good start for updating the business register in respect of register creations.

13.39 However, there is one complicating factor, the existence of inactive and dormant administrative units, particularly legal units, which are dormant at the outset. The administrative creation of a dormant legal unit should not result in the register creation of a record for an enterprise. If a dormant unit later commences activities the business register may not detect this. This may lead to under-coverage of enterprise births. The same is true for active legal units that become dormant and later resume activities. The issue of reactivations is examined in Chapter 14 section 4E.

13.40 The situation regarding the detection of enterprise deaths is more difficult than for births. The signals received from administrative registers concerning administrative cessations are, in many countries, an insufficient source for updating the business register in respect of enterprise deaths, because there may not be any incentive for the unit to de-register with the administrative source after ceasing activities. This is a main cause of register over-coverage. It can be partly solved by survey feedback, particularly for larger units, which are usually more likely to be included in samples. Combining information from several sources can improve the situation.

## **Reconstruction of demographic events from business register information**

13.41 If one knows how demographic events can be represented by business registers in terms of creations and deletions, the question arises how data on demographic events can be derived from business registers. Let us consider which events can cause a register creation and which a register deletion. *The cause of an enterprise creation can be a birth, a merger, a break-up, a split-off, a joint venture or a restructuring. The cause of a deletion can be a death, a merger, a takeover, a break-up or a restructuring.* Therefore, mere registration of creations and deletions would not allow the register to derive data on the different demographic events; more is needed.

13.42 For reconstruction of a demographic event, one needs to know which enterprises were involved in the event. For birth and death this is no problem, but for the cases of concentration and de-concentration, for the creation of a joint venture and for restructuring it is necessary to register a link over time between the enterprises involved, that is, insofar as enterprises are not continued. For instance, in the case of a merger, the original enterprises must be linked (e.g. by pointers on the records) to the emerging enterprise and, in the case of a takeover, the enterprise which is taken over must be linked to the surviving enterprise. If such links are recorded with dates, all events can be reconstructed.

13.43 The above implies that the business register is a historical register, i.e. that it keeps track of the deleted enterprises. In fact, in a historical register, units are not actually deleted; rather, 'deleted' records are kept and marked as historical. Unfortunately, there are circumstances that complicate matters. The business register may have to correct past errors. This leads to 'false' creations and deletions and substantially complicates the consistent use of business registers for statistical purposes.

## 13D — Summary

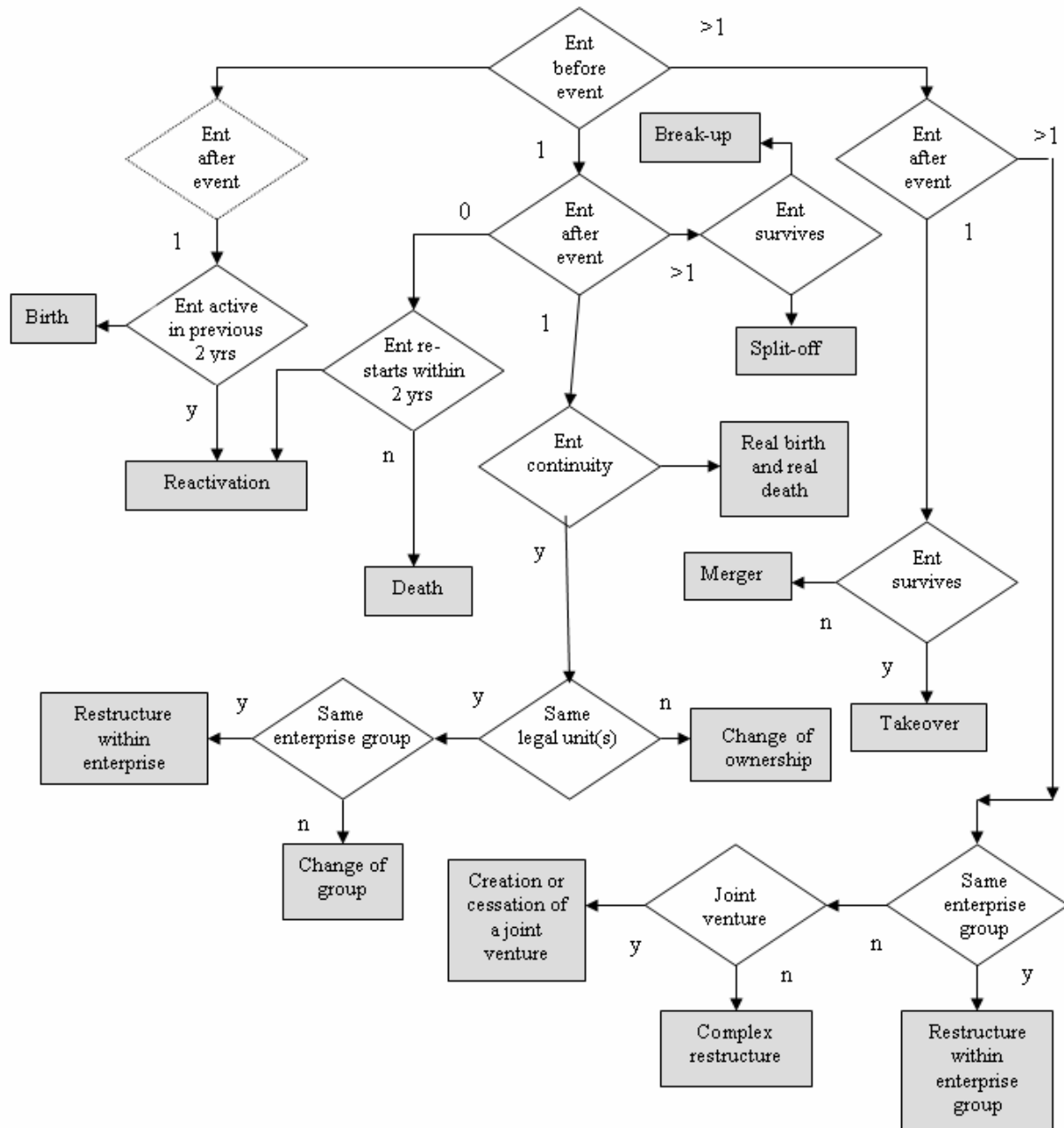
13.44 The table below contains the main demographic events for which there is demand for data, the number of enterprises involved in the events and their consequences for business registers in terms of number of register creations and deletions.

<i>Event</i>	<b>Real, observable world</b>		<b>Business register</b>	
	<i>Number of enterprises before the event</i>	<i>Number of enterprises after the event</i>	<i>Number of creations</i>	<i>Number of deletions</i>
Birth	-	1	1	-
Death	1	-	-	1
Change of ownership	1	1	-	-
Merger	n	1	1	n
Takeover	n	1	-	n-1
Break-up	1	n	N	1
Split-off	1	n	n-1	-
Creation of a joint venture	n	n+1	1	-
Cessation of a joint venture	n	n-1	-	1
Restructuring within an enterprise	1	1	-	-
Restructuring within an enterprise group	n	n	0 or more	0 or more
Change of group	1	1	-	-
Complex restructuring	n	n	0 or more	0 or more

Note: n = 2 or more

The decision matrix below is designed to help determine the type of event that has taken place, by drawing together the typology given above and the continuity rules given in Chapter 14.

Note: Ent = enterprise



## **13E — Relation to the BR Regulation**

13.46 The rules given in this chapter relating to the creation and deletion of identity numbers in business registers, particularly how they relate to real world events, are considered an interpretation of the BR Regulation, because they pertain to a characteristic of the Regulation. The same applies to the date of commencement of activities of the enterprise. The use of the typology of demographic events itself goes beyond the scope of the Regulation. The same applies to the recommendations to record time links between enterprises before and after events and to record the cause of register creations and deletions.



**CONTINUITY RULES FOR  
THE ENTERPRISE**

**14**

## CHAPTER 14 — CONTINUITY RULES FOR THE ENTERPRISE

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### 14A — Introduction

14.1 This chapter describes the continuity rules for the enterprise, i.e. the conditions for keeping or changing an enterprise identity number in the business register. For instance, if the controlling legal unit of the enterprise changes, should the identity number of the enterprise also change, i.e. should the record of the enterprise be deleted and another one created in the business register? If so, this would imply that it is interpreted as a death of an enterprise in the real, observable world, followed by the birth of another, on condition no other enterprises are involved. If not, what are the necessary conditions for register deletion and creation?

14.2 The question of continuity also plays a role in situations where more than one enterprise is involved. In the event of a concentration, the distinction between merger and takeover depends on whether the unit after the event is considered the same as one of the enterprises before. Likewise, the distinction between break-up and split-off also depends on the question of continuity. For these cases, the continuity rules must be chosen in such a way that consistency is maintained. For example, in the case of a concentration, the continuity rules must not lead to the conclusion that the enterprise after the event retains the identity of more than one of the enterprises present before the event.

14.3 The question of continuity can be examined in theory and practice. In theory, the continuity rules would be derived from the definition of the enterprise and its statistical uses. In practice, the continuity rules depend on considerations of cost-efficiency, notably availability of information, costs of additional information collection for the statistical institute and the effects on the response burden. Theoretical considerations are given in section 14B and practical considerations in section 14C. The consistency issue is examined in section 14D. A particular problem of continuity in register practice is how to deal with reactivations of enterprises; this is dealt with in section 14E.

14.4 When reading this chapter, it should be remembered that where the deletion of an enterprise record is mentioned, it is recommended that the business register keeps track of the deletions by marking 'deleted' records as historical. In this way, the business register

greatly enhances its possible uses. The continuity rules have great impact especially on the production of business demography statistics, where the survival of enterprises is based on the continuity rules.

## **14B — Continuity in relation to the definition and use of the enterprise**

14.5 The use of the enterprise is relevant to the question of continuity. This can best be explained by an example. If the enterprise were used exclusively for employment statistics, continuity would depend to a large extent on the continuity of employment. If it were used exclusively for financial statistics such as balance sheet items, the continuity of the assets would probably play an important role. In addition, the definition of the enterprise is relevant, not only because the use of the enterprise is related to its definition, but also because it gives an indication of the elements in which continuity can be expressed. Let us start with the definition and then look at the uses.

14.6 The Regulation on statistical units defines the enterprise as follows: "The enterprise is the smallest combination of legal units, that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit".

14.7 This definition is followed by an explanatory note, which explains why the enterprise does not always correspond to a single legal unit but sometimes to more than one.

14.8 As to the uses, in the European Statistical System the enterprise mainly serves statistics that relate to the production of goods and services. In addition, it plays a role in the financial and non-financial accounts of the European System of Accounts (ESA). The definition is, in any case, in line with its main use, in that the core of the definition states that it is an organisational unit producing goods and services.

14.9 Given the definition and uses, it is logical to define continuity of the enterprise in terms of continuity of its production factors. A factor of production is any good or service used to produce an output. In economics, factors of production are normally grouped into the categories of land, labour and capital. Capital includes intermediate inputs. The production factors include management, so that the element of "a certain degree of autonomy in decision-making, especially for the allocation of its current resources" is covered. The definition would also allow for the legal units to be an element to consider, but the legal units are building blocks for the enterprise and belong to the administrative world; they do not, as such, have a bearing on the use of the enterprise. Continuity of the legal units would be an element for the operational definition of continuity rather than the theoretical definition. In view of the fact that the controlling legal unit might be considered an approximation of entrepreneurship, special attention must be paid to this unit.

14.10 The conclusion is that, in principle, an enterprise is considered to be continued if its production factors are continued. It is discontinued if its production factors are discontinued. The production factors must therefore be listed and weighted. The main production factors to look at, in view of their continuity, are employment, machines and equipment, land, buildings, management and intangible assets such as goodwill. It is clear that measuring the continuity of all these factors and weighting them can be quite difficult and costly. This might be feasible for large units, but for the large number of small units there is a clear need for more practical criteria.

## 14C — Continuity in practice

### *Three practical criteria*

14.11 Which operational criteria are easily applicable and could be used as proxies for the production factors mentioned in the previous paragraph? Considering what is available in business registers and can be updated to a large extent by using administrative sources, the following three criteria are very practical:

- **Control** — The controlling legal unit controls the production factors of the enterprise. The continuity of the management of the enterprise may be assumed to be positively correlated with the continuity of the controlling legal unit. The same may be assumed for some intangible assets.
- **Economic activity** — Economic activities are recorded in terms of NACE at the class level. Continuity of the four-digit NACE code of the principal activity may be assumed to be positively correlated with the continuity of several production factors, especially employment, machines and equipment, land and buildings. However, this criterion must be applied with care, especially to large enterprises, because a gradual shift in activities may occur that will, at a certain moment, result in a reclassification of the enterprise. In such cases, there is continuity of production factors and the change of activity must be ignored when considering the question of continuity of the enterprise.
- **Location** — The continuity of the locations where the activities are carried out is of course closely linked to the continuity of the land and buildings used by the enterprise. Since the clientele of an enterprise may very well depend on its locations, a positive correlation with the intangible asset 'goodwill' may be assumed. The criterion is very practical if there is only one location. In the case of a multi-location enterprise, it would be practical to look at the main location, that is, at the location of the local unit with the largest number of persons actually employed. In that case, however, the criterion must be applied with care. If a change of main location is the result of a small increase in size of the second largest location, there is continuity of production factors and the change of main location must be ignored when considering the question of continuity of the enterprise.

### *Application of the criteria*

14.12 Since the three criteria cover the most important production factors, the question of continuity arises only if one or more of these factors change. It is clear that discontinuity may be assumed if all three factors change. The time dimension also needs to be taken into account. When the controlling legal unit changes, the changes to principal activity and main location often occur after some delay. Therefore the changes to one or both of them should be taken into account within one year after the change in the controlling legal unit. In most cases, the ideal (theoretical) criteria for continuation cannot be applied in practice, but one could formulate rules for each of the following six possible situations:

- *Change of controlling legal unit; (no other changes).*

14.13 This administrative change is, for example, very common for one-person enterprises which have a natural person as their legal basis. That person may decide to set up a company, i.e. a new legal person, to accompany the growth of the enterprise and protect their personal assets. After retirement, the enterprise may be sold to another natural or legal person, or be given to the heirs. More generally, a change of controlling legal unit may result from a decision by the legal person(s) operating an enterprise to pass or sell their enterprise to another existing or new legal unit. It depends on the rules of the administrative register concerned whether the legal unit will receive a new administrative identity number.

14.14 The changes described may very well take place without other immediate changes; all the local units where the enterprise has carried out its activities may be passed on and the same activities may be carried out.

14.15 The convention for the case described is that there is deemed to be continuity of the enterprise. Change of controlling legal units is not sufficient reason in itself to delete an existing enterprise record and create a new one in the business register.

14.16 It should be noted that, in the case described, the administrative address of the enterprise may change. This variable is more closely connected with the controlling legal unit than with the enterprise itself. If the location(s) where the persons employed actually work does not change, the change of administrative address does not have any consequence for the continuity of the enterprise.

- *Change of principal activity; (no other changes).*

14.17 Although a change of principal activity is reflected in the business register by the change of the NACE code at a certain date, in reality the change often takes place gradually, as mentioned above. In that case, the production factors of the enterprise do not change abruptly, at least not all of them together, in particular not employment. If they do, this will often be accompanied by changes in the location(s) where the activities are carried out and is frequently initiated by a change of controlling legal unit.

14.18 The convention for the case of an abrupt change of principal activity resulting in a change of the four-digit NACE code is that there is deemed to be continuity of the enterprise if the controlling legal unit and the main location remain the same. Change of principal activity of the enterprise is not sufficient reason in itself to delete an existing enterprise record and create a new one in the business register.

- *Change of main location; (no other changes).*

14.19 In the case of an enterprise ceasing its activities at its main location and resuming its activities at another location within the national territory, the answer to the continuity question is not obvious. If the activities do not move far, the probability that the production factors other than land and buildings are largely continued is high. However, if the move is over a long distance, the enterprise may lose its clientele and have to start again from scratch (loss of goodwill); it would probably also experience a change in employment. It may be noted that although most moves are over short distances, enterprises engaged in certain service activities are becoming less dependent on location as a factor influencing their clientele, particularly in the area of information, communication and technology (ICT) services.

14.20 The convention for the change of main location is that there is deemed to be continuity of the enterprise. Change of main location is not sufficient reason in itself to delete an existing enterprise record and create a new one in the business register.

- *Change of controlling legal unit and principal activity; same main location.*

14.21 If the principal activity (i.e. the NACE code at the four-digit level) changes as well as the controlling legal unit, the activity change may be interpreted as being caused by the new controlling legal unit rather than by a gradual shift in production factors.

14.22 The convention is that the combination of a change of controlling legal unit and a change of the principal activity entails discontinuity of the enterprise. The existing enterprise record will be deleted and a new one created.

- *Change of controlling legal unit and main location; same principal activity.*

14.23 In general, the combined change of the controlling legal unit and the main location of the enterprise can be interpreted as indicating a major discontinuity of the production factors of the enterprise. Therefore, the convention is that, in such cases, there is deemed to be discontinuity,, i.e. the existing enterprise record will be deleted and a new one created.

14.24 There is, however, one important exception. If a non-corporate enterprise expands and moves to new premises, it may very well decide to simultaneously change its legal form to a limited liability company. This change of legal form from non-corporate to corporate is, in many countries, regarded as a change of legal unit, even though the controlling person is the same. In this case, the convention is to consider the enterprise as being continued.

- *Change of principal activity and main location; same controlling legal unit.*

14.25 A change of principal activity and main location rarely takes place without a change of the controlling legal unit. If it does, the convention is to consider the enterprise to be discontinued, i.e. the existing enterprise record will be deleted and a new one created.

## **14D — Avoiding conflicting rules**

14.26 It is conceivable that the continuity rules set out above may lead to contradictions if they are applied in cases of takeover and split-off. These are events involving more than one enterprise where, according to the definition of the event, one enterprise is continued, i.e., one of the identity numbers is continued in the business register. In the case of a takeover, a contradiction emerges if, in both cases, the application of the continuity rules to each of the two enterprises that exist before the takeover results in the conclusion that the identity number must be maintained. How precisely may this happen?

14.27 Suppose one enterprise, E1, takes over another enterprise, E2. In addition, suppose that E1 keeps the same controlling legal unit and continues its principal activity, but moves to another main location, the main location of E2. Then, according to paragraphs 14.19– 14.20, enterprise E1 is deemed to be continued. If E2 already had the same principal activity as E1, its principal activity and location will not change and it is also deemed to be continued. Such a contradiction may also arise if it is E2 that keeps the same controlling legal unit, and the main location of E1 is also the main location after the event.

14.28 The case of a split-off may also cause similar contradictions, for example the case of an enterprise splitting into two enterprises, one of which keeps the controlling legal unit and the other the main location, whereas both have the same principal activity.

14.29 The cause of the contradictions is that the principal activity code remains the same for the enterprises involved in the event. However, the criterion of continuation of the principal activity code was chosen as a proxy for the continuation of (part of) the production factors. In the event of contradiction, the principal activity code is apparently not a good proxy for the production factors, at least for one of the enterprises involved.

14.30 Therefore, in theory, the solution to the contradictions is simple. In the case of a takeover, the enterprise that exists after the event can be considered to be the continuation of the enterprise that existed before the event and production factors of which constitute the larger part of the production factors of the enterprise after the event. In the case of a split-off, the enterprise which exists after the event and which retains the larger part of the production factors of the enterprise which existed before the event can be considered to be its continuation.

14.31 In practice in most situations it is clear what ‘the larger part’ is, but where this is not the case, the enterprise which has the highest continuity of employment will, by convention, be deemed to be continued.

## 14E — Reactivations

14.32 One of the most difficult problems in the maintenance of statistical business registers is that of temporary cessations of enterprises. If a business register receives information on the cessation of an enterprise and then, at some later date, receives information of the resumption of activity, should the enterprise after resumption be considered the continuation of the old enterprise? The problem is all the more awkward in that the information received often does not specify that the cessation is temporary; and on resumption it does not specify that the activities are being resumed rather than started for the first time.

14.33 Three situations need to be distinguished:

- Enterprises carrying out seasonal activities — An enterprise has seasonal activities if it produces for only part of the year, (approximately) in the same period of each year. This is very common, for instance, in tourist areas. In order to avoid paying taxes, social security contributions and the like, the enterprise may declare a cessation of activities and a resumption of activities to the administrative register(s) each year. Such cases may represent an important part of the administrative creations and cessations of a country. For enterprises that carry out seasonal activities, the convention is that such enterprises retain their old identity after resumption of activities. Since possible seasonal activities can be readily identified in terms of NACE classes, business registers must take special care to determine whether administrative creations with these activities correspond to real births or to the resumption of activities.
- Temporary suspension of activity — An entrepreneur may suspend the activity of an enterprise due to sickness, accident, military service, etc. Depending on the tax and social security laws, the entrepreneur may declare a suspension of activities to the administrative register(s) and make a new declaration after resumption. The convention in these cases is that the enterprise is deemed to retain its old identity number after resumption of its activities unless the resumption takes place after 24 months. In that case, the original enterprise is considered to have died and a new one is born.
- Paralysis of production for external reasons — Paralysis of production may occur due to,, for instance, the destruction of a production plant following an accident such as fire. Production ceases and, in most cases, resumes after some time, but the suspension of activities may take a long time. During the period of suspension of activities, the enterprise will retain some of the staff. These cases are rare. The convention in such cases is that the enterprise is deemed to retain its old identity number after resumption of its activities, unless the resumption takes place after 24 months. In that case, the original enterprise is considered to have died and a new one is born.

14.34 If it is known in advance that one of the three situations applies, the enterprise record will, of course, not be deleted. In such cases, a variable could be recorded indicating the nature of the suspension of activities.

14.35 A birth and death only occur where a suspension of activities lasts longer than 24 months. However, due to the difficulty in obtaining accurate information and the fact that it would not be acceptable to wait 24 months to see whether a unit is reactivated, many false births and deaths may be recorded. The ways to correct these errors in business registers and their consequences are examined in Chapter 18 on the handling of errors.

## 14F — Summary

14.36 In principle, the continuity of an enterprise depends on the continuity of its production factors: Employment, machines and equipment, land, buildings, management and intangible

assets. The continuity of these factors can be measured and weighted to decide upon the continuity of the enterprise.

14.37 In practice, if complete information on the continuity of the production factors does not exist or is not available at reasonable cost, an enterprise may be deemed not to be continued if two or all of the following three factors change: The controlling legal unit, the principal activity carried out in terms of NACE, four-digit level, and the main location of the enterprise. There is one special exception to this rule. If a non-corporate enterprise expands, moving to new premises and changing its legal form, the enterprise is considered to retain its identity. If the continuity rules result in an inconsistency, continuation of employment determines which enterprise retains its identity.

14.38 An enterprise is deemed to be continued with its old identity number if it carries out seasonal activities or resumes its activities within 24 months after temporary suspension of activities due to paralysis of production for external reasons, sickness, accident, military service of the entrepreneur, etc.

## **14G — Relation to the BR Regulation**

14.39 This chapter concerns the interpretation of a characteristic (the identity number of the enterprise) which must be recorded according to the BR Regulation. Therefore this chapter is considered an interpretation of that Regulation.



**DEMOGRAPHIC CHANGES  
CONCERNING THE LOCAL UNIT**

**15**

## CHAPTER 15 — DEMOGRAPHIC CHANGES CONCERNING THE LOCAL UNIT

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### 15A — Introduction

15.1 This chapter describes the demographic events involving local units and the updates in business registers they entail. Where appropriate, changes to characteristics are also taken into account. The demographic events described are those that are considered relevant to users of data based on statistical business registers. This data includes most economic statistics and particularly business demography statistics.

15.2 Regarding the relationship with other statistical units, changes in the links between local units and enterprises are also covered in this chapter. The relationship between the demographic events at the level of the local unit and those at the enterprise level is also examined.

15.3 As was the case for enterprises, business registers represent the existence of a local unit by the attachment of a unique identity number to a record for the local unit. The creation and deletion of records are logically linked to the creation and deletion of identity numbers and are meant to correspond to changes in the existence of local units. Similarly, if there is no discontinuation of the local unit, its identity number should not change. The specific continuity rules which describe the conditions under which identity numbers may be created or deleted are given in Chapter 16. This is done for reasons of transparency, i.e. the rules will be better understood after the explanation of their purpose and application in the present chapter.

15.4 This chapter is structured as follows. The possible demographic events in which the local unit is involved are described in section 15B. Section 15C relates these events to the typology of enterprise events given in Chapter 13. Section 15D translates the events involving local units into register updates, under the assumption that the continuity rules are available.

### 15B — Possible demographic events concerning the local unit

#### Considerations

15.5 In the general typology of demographic events, the relevant classes were defined in terms of changes of specific statistical units. This chapter will concentrate on the effects of the events listed in the general typology on the local unit.

15.6 The main distinction in the general typology of demographic events presented in Chapter 12 was between changes in existence and changes in the distribution of (combinations of) production factors. Clearly, changes in existence can be applied directly at the level of the local unit, but changes in distribution are another matter.

15.7 In theory, concentration can occur to adjacent local units if they belong to different enterprises which merge (or if one enterprise takes over the other). In principle, de-concentration can happen to a local unit if the enterprise to which it belongs experiences a de-concentration. But these cases are rare, and there may not be enough demand to justify the distinction of the corresponding categories of local unit events. If these rare cases are not distinguished, cases of concentration and de-concentration of adjacent local units are treated by counting a local unit death if the number of local units decreases and counting a local unit birth if the number of local units increases. The statistical effect of this may be considered acceptable.

### **Demographic events**

15.8 The considerations mentioned above lead to the following very short list of demographic events involving the local unit.

#### *Existential changes:*

- Birth
- Death

15.9 The birth of a local unit is the emergence of a local unit which did not exist before, and the death is its disappearance. Since the local unit is a part of an enterprise, situated in a geographically identified place and the enterprise is a combination of production factors, the birth of a local unit amounts to the creation of a (partial) combination of production factors at a geographically identified place. A death is their dissolution.

15.10 As is the case with the birth and death of enterprises, a problem associated with the birth and death of local units is the date of occurrence of these events. At what moment is a local unit considered to be born? In principle, this question can be answered by referring to the definition of the local unit. The birth takes place at the (first) moment the conditions of the definition are met, i.e. the moment there are production factors belonging to an enterprise in a geographically identified place. Section 15D gives a more practical answer to the question of the date of occurrence of birth and death.

#### *Local unit transfer*

15.11 Every local unit is linked to one and only one enterprise. Therefore, if a link ceases to exist and the local unit is continued, i.e. does not lose its identity, a new link with another enterprise will come into being. Similarly, if a link from an existing local unit to an enterprise comes into being, the link it had with the enterprise of which it was part ceases to exist. Clearly changes of links amount to transfers of local units between enterprises.

### **Extensions**

15.12 Several extensions of the typology of demographic events are possible. First of all, it is possible to distinguish categories of concentration (merger, takeover) and de-concentration (break-up, split-off) and restructuring. If we want to be consistent with the enterprise terminology, these events should not be administered as births and deaths. As for enterprises, new local units can be divided into (real) births and other creations and local unit cessations into (real) deaths and other cessations.

15.13 Furthermore, the demographic events of the general typology of Chapter 12 may alter characteristics of local units, which retain their identity. In this respect, size class and principal economic activity are particularly important. Of course, changes in these characteristics may also occur without any demographic event taking place. If the short list of demographic events at the level of the local unit were to be extended with categories of non-demographic events, the identification of such changes to characteristics would be very relevant. It would also be relevant to add changes in ancillary status of the local unit.

15.14 For the categories of change of size class and change of principal economic activity, there is demand, not least from statisticians for reasons of survey management. Apart from their link to changes in market orientation of the local unit, changes of ancillary status are important because they imply changes in the links between data related to the enterprise and those related to the local unit.

15.15 One other change of characteristic may seem natural to add, namely change of region. However, since a change of region implies discontinuity of the local unit (see Chapter 16), this category of event can be dropped.

## **15C — Local unit events in relation to enterprise events**

15.16 Analysing the links between the demographic events identified at the level of the local unit and those of the typology at the enterprise level can be done from either side. The following paragraphs discuss what local unit events may occur if the enterprise does not experience any event and what local unit events may occur if it does. The other side is then examined, i.e. the implications for the enterprise level of what happens at the local unit level. Changes to characteristics and other possible extensions of the typology of demographic events will not be taken into account in the following analysis.

### **From the enterprise level to the local unit level**

#### *No event at the enterprise level*

15.17 If no event happens at the enterprise level, it is possible that the number of local units of the enterprise increases by the birth of a local unit. If the enterprise consists of more than one local unit, one of the local units may die. If the enterprise has only one local unit, it is possible that the local unit dies, followed by the birth of another local unit, whereas the enterprise remains the same. (This follows from the continuity rules for the enterprise and the local unit; their relationship is examined in Chapter 16, section 16D.) A transfer of a local unit from one enterprise to another may also occur, provided that this local unit is relatively unimportant to both enterprises concerned, so that their identity is not affected.

#### *Birth of an enterprise*

15.18 If the new enterprise has only one local unit, which is usually the case, the birth of the enterprise entails the birth of a local unit; it is not possible that the local unit of the enterprise is transferred from another enterprise (see section 16D). If the new enterprise has more than one local unit, the situation may be more complex. Then, apart from the birth of one or more local units, local unit transfers are possible in principle.

#### *Death of an enterprise*

15.19 If the enterprise has only one local unit, the death of the enterprise entails the death of the local unit (again, see section 16D). If it has more than one local unit, additional local unit transfers are possible in principle.

### *Merger*

15.20 After the merger, none of the local units existing before the merger are linked to the same enterprise as before, since the merging enterprises lose their identity. In a typical case of merger, all local units are transferred to the emerging enterprise. However, a merger may be accompanied by some changes in the production capacity, so it does happen occasionally that one or more local units die or some are born in the event.

### *Takeover*

15.21 Typically, the local units belonging to the enterprise which is taken over are transferred to the other enterprise. However, if the takeover is accompanied by some changes in production capacity, additional births and deaths of local units are possible in principle.

### *Break-up*

15.22 After a break-up, none of the local units still in existence are linked to the same enterprise as before, since the original enterprise loses its identity. In a typical case of break-up, all local units are transferred to the emerging enterprises. But again, if changes to the overall production capacity are implemented, local units may also be born or die.

### *Split-off*

15.23 Typically, some of the local units which belonged to the enterprise that was split are transferred to the emerging enterprises. Again, if changes to the overall production capacity are implemented, local units may also be born or die.

### Creation of a joint venture

15.24 If the joint venture embodies new production capacity, it will be accompanied by the birth of one or more local units. If it comprises production capacity of (one of) the original enterprises, the local unit(s) of the joint venture may be transferred from them.

### *Restructuring*

15.25 In the heterogeneous case of restructuring, all local unit events are possible. Some event must take place at the local unit level, since at the enterprise level there is at least one change involving the identity of an enterprise.

### **From the local unit level to the enterprise level**

15.26 What is the connection between demographic events at the enterprise and the local unit level, as seen from the local unit's point of view? The following possibilities exist:

- No event occurring to the local unit — At the enterprise level no event occurs.
- Birth of a local unit — This event may occur without any change at the enterprise level or in conjunction with any other enterprise event except enterprise death. If the enterprise of the new local unit consists of this local unit only, the enterprise itself has in general been born as well (see also section 16D).
- Death of a local unit — This event may occur without any change at the enterprise level or in conjunction with any other enterprise event except enterprise birth. If the local unit equals an enterprise, the enterprise in general also dies. If that is not the case, another local unit must be born (real birth) at the same moment (see also section 16D).
- Local unit transfer — This event may occur without any change at the enterprise level or in conjunction with any other enterprise event.

## **Conclusion**

15.27 In short, the connection between enterprise events and local unit events is far from straightforward. All local unit events are possible even without any enterprise event. The most specific observation is that some enterprise events (birth, concentration without change in overall production capacity) imply at least the birth or transfer of local units, and some (death, de-concentration without change in overall production capacity) imply at least the death or transfer of local units. If the enterprise comprises only one local unit, matters are somewhat simpler.

15.28 An extension of the typology of local unit events by adding the variations possible at the enterprise level could be considered. Similarly, an extension of the typology of enterprise events by adding the variations possible at the local unit level is conceivable. For example, the category of local unit birth could be extended by dividing it into the subcategories 'birth without enterprise change', 'birth caused by enterprise birth', etc. However, this is not proposed here.

15.29 If the typologies of enterprise events and local unit events are both applied and a business register is capable of reconstructing those events, then it is also possible to provide the link between them.

## **15D — Register updates reflecting local unit demographic events**

### **Translation of demographic events into register updates**

15.30 In the following, the demographic events that can occur to local units in the real, observable world are translated into updates in the statistical business register.

#### *Birth and death of local units*

15.31 The representation of local unit births and deaths in statistical business registers is straightforward, i.e. by creating a new record for the local unit and deleting an existing one respectively. Problems may arise, however, with regard to the determination of the date of birth, or the 'date of commencement of activities' of the local unit (characteristic 2.4 in the BR Regulation). If the new local unit equals a new enterprise, the solution for the enterprise is adopted; i.e. the date of birth of the local unit is the date of birth of the enterprise. If not, in view of the fact that by definition every local unit has one or more persons employed (even if only part-time), the convention of this Manual is to take the first date on which persons are employed on the site.

#### *Local unit transfer*

15.32 The transfer of a local unit is registered by the deletion of the link between the local unit and the enterprise to which it belonged before the event, and the creation of a link between the local unit and the enterprise to which it belongs after the event.

### **Reconstruction of demographic events from business register information**

15.33 Compared to the enterprise, it is relatively easy to reconstruct events at local unit level from information on register creations and deletions and links with enterprises. It is, however, necessary to keep historical information, including historical links between local units and enterprises, if the register is required to provide information on all past events.

15.34 Unfortunately, as was the case for the registration of enterprise events, a statistical business register may need to correct past errors. This leads (when, for technical reasons, it may be impossible to distinguish between changes and corrections) to 'false' creations and deletions, and substantially complicates the consistent use of business registers for statistical purposes.

## **15E — Summary**

15.35 Three demographic events at the level of the local unit are distinguished: Birth, death and local unit transfer. Extensions of this typology, for instance with categories of concentration and de-concentration, are possible. The link between enterprise events and local unit events is complex, although it is more transparent when an enterprise consists of only one local unit.

## **15F — Relation to the BR Regulation**

15.39 The rules given in this chapter regarding the creation and deletion of local unit identity numbers in business registers, particularly how they relate to real world events, are considered an interpretation of the BR Regulation, because they pertain to a characteristic of the Regulation. The same applies to the date of commencement of activities of the local unit. The use of the local unit events that are distinguished goes beyond the scope of the BR Regulation.

**CONTINUITY RULES FOR  
THE LOCAL UNIT**

**16**



## CHAPTER 16 — CONTINUITY RULES FOR THE LOCAL UNIT

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### 16A — Introduction

16.1 This chapter describes the continuity rules for the local unit, i.e. the conditions for retaining or changing the identity number of a local unit. For instance, if the enterprise to which a local unit belongs loses its identity, should the identity number of the local unit also change or, in other words, should the record of the local unit be deleted and another one created in the business register? If so, what are the necessary conditions for register deletion and creation?

16.2 The question of continuity can be examined both in principle and in practice. In principle, the continuity rules would be derived from the definition of the local unit and its statistical uses. In practice, the continuity rules depend on considerations of cost-efficiency, notably availability of information, costs of additional information collection for the statistical institute and response burden effects. Contrary to the rules of enterprise continuity, there is no problem of internal consistency of the continuity rules for the local unit, because events of concentration and de-concentration are not distinguished at the level of the local unit. However, the continuity rules for the local unit must be in line with the continuity rules for the enterprise.

16.3 The structure of this chapter is as follows. Theoretical considerations are given in section 16B, in particular regarding the importance of continuity of the location of the local unit (the term 'location' is used here in the sense of 'geographically identified place' as mentioned in the definition of the local unit in the Statistical Units (SU) Regulation). Practical considerations are examined in section 16C, which also briefly discusses the problem of how to deal with reactivations of local units. Section 16D describes how enterprise continuity is linked to local unit continuity.

16.4 When reading this chapter, it should be remembered that where the deletion of a local unit record is mentioned it is recommended that the business register keeps track of the deletions. By marking 'deleted' records as historical, the business register greatly enhances its possible uses.

### 16B — Continuity in relation to the definition and use of the local unit

16.5 The definition and use of a statistical unit are relevant to the question of continuity. The SU Regulation defines the local unit as follows: *"The local unit is an enterprise or part thereof*

*(e.g. a workshop, factory, warehouse, office, mine or depot) situated in a geographically identified place. At or from this place economic activity is carried out for which — save for certain exceptions — one or more persons work (even if only part-time) for one and the same enterprise”.*

16.6 This definition is followed by explanatory notes, which include explanations of how to deal with persons working at more than one place and how the unit is delineated. For example, if a public highway runs through a site, the site is considered one local unit, and a single local unit may be spread over several adjacent administrative areas. As was explained in Chapter 8, which describes operational rules for the local unit, under certain conditions, the activities of a local unit are not strictly limited to those carried out at the location of the local unit.

16.7 The local unit is not a simple relationship between the entities ‘enterprise’ and ‘geographical place’ or ‘location’; it corresponds to a tangible part of the enterprise. The local unit consists of production factors combined to produce goods or services, as is the case for the enterprise, but it is not necessarily an organisational unit and its clientele may be another part of the same enterprise. The production factors include employment, with a minimum of one person part-time. The local unit need not benefit “from a certain degree of autonomy”, as the enterprise does. As a consequence, the data which can be collected for the local unit may be more limited.

16.8 In the European Statistical System, the local unit mainly serves regional statistics relating to the production of goods and services or employment. The unit is primarily used in respect of variables that can be linked with geographically identified places. The main variables relate to employment and activity.

16.9 Given the definition and uses, it is logical to define continuity of the local unit in terms of continuity of location and production factors, with emphasis on production factors that can be readily identified at the level of the local unit, i.e., land, buildings and, in particular, employment. The continuity of the enterprise is also relevant to the continuity of the local unit since the local unit is dependent on the enterprise. This dependence is important because the local unit itself is not, like the enterprise, an organisational unit with a certain degree of autonomy. A further requirement is that, in cases where the local unit is equivalent to the enterprise, their continuity rules should lead to compatible results.

16.10 As was the case for the enterprise, the importance of the different continuity criteria must be determined. It makes sense to place more weight on the criterion of continuity of location, but this cannot be an absolute condition because a move over a short distance of a local unit should be possible without loss of identity. If the same activity is continued with the same employment at a short distance from the old location, the move generally does not interrupt the local or regional function of the local unit.

16.11 On the other hand, a move over a long distance would entail identity loss. When considering the criterion of continuity of location, it should always be remembered that the location is not an administrative address, but the actual site of the factory, warehouse, office, depot, etc. If the premises remain the same, the location is considered to remain the same, even if the administrative address changes.

## **16C — Continuity in practice**

16.12 In view of the weighting on the criterion of continuity of location and the relevance of the distinction between short and long-distance moves, the following paragraphs are structured accordingly. First, local unit continuity is discussed if the location does not change and then if the location changes over a short distance (if the location changes over a long distance, continuity will be lost). This is followed by a short discussion of the special case of reactivations.

## The location does not change

16.13 If the location remains the same, operational rules are required for the continuity of production factors. Operational rules for the continuity of the enterprise on which the local unit depends are given in Chapter 14. As was the case for the enterprise, the criterion of the economic activities carried out could very well be applied. It may be assumed to correlate positively with the continuity of the production factors. In practice, the criterion of continuity of economic activities carried out can be applied by considering the principal activity in terms of NACE at the four-digit level.

16.14 Although economic activity reflects all production factors including employment to a certain extent, the criterion of continuity of employment can be applied in addition, to give it a higher weight. A practical convention would be to deem employment as continued if 50 percent or more of the persons employed by the local unit continue to work at or from the same location and discontinued if the figure is less than 50 percent. In applying this convention, care should be taken in cases where the number of persons employed at the site is very low (particularly where it is only one) or where working proprietors are included in the site employment and there is a change in ownership.

16.15 If all three relevant factors (i.e., enterprise continuity, principal economic activity, and employment) change, then the local unit is considered to lose its identity. If none of these change, the local unit is deemed to be continued (provided the location is the same). If one or two factors change, the factors would have to be weighted, but in practice one can formulate rules for each of the following six possible situations.

- Change of enterprise (no other changes) — The convention for this case is that there is deemed to be continuity of the local unit. As a consequence, the local unit is considered to be transferred from one enterprise to another. The situations in which this can occur are described in Chapter 15.
- Change of principal activity (no other changes) — In this case, if employment remains mainly (at least 50 percent) the same, it is improbable that the change of principal activity takes place abruptly, although the principal activity code changes at a particular moment. The convention for this case is that there is deemed to be continuity of the local unit.
- Change of employment (no other changes) — Since the location is the same along with the principal economic activity, employment is presumably the only production factor to change. Considering the fact that the enterprise is continued, it is reasonable to adopt the convention that, in this case, the local unit is deemed to be continued.
- Change of enterprise and principal activity, same employment — If both the enterprise and the principal activity change, the local unit would not merely be transferred to another enterprise, but also would, at least, be reorganised. Even though the greater part of employment is still the same, the local unit is deemed to lose its identity.
- Change of enterprise and employment, same principal activity — If both the enterprise and employment change, the local unit is, again, not just transferred, but also, at least, reorganised. In this case, the local unit is deemed to lose its identity.
- Change of principal activity and employment, same enterprise — The fact that the enterprise is the same is not enough to consider the local unit the same if the main production factors, notably employment, have changed. The local unit is deemed to lose its identity in this case.

16.16 The conclusion is that at least two of the three factors must change for the local unit to lose its identity. If only one factor changes, it retains its identity, provided the location remains the same. However, a time dimension also needs to be taken into account. When the enterprise changes, the changes to principal activity and employment often occur at some delay.

Therefore if one or both of them change within one year after the change of the enterprise, the local unit may be considered as discontinued.

### **Move over a short distance**

16.17 If a local unit moves over a short distance, some important production factors (land, buildings) have changed. If one or more of the three factors mentioned above (enterprise, principal economic activity, and employment) also change, the local unit is deemed to lose its identity. If none of the three factors change, it is deemed to retain its identity.

This is clear enough, but what is a short distance? Rather than defining a distance, it would be very practical to apply a regional classification: A move outside the region of the local unit would imply loss of identity, a move inside not. That is, if the new location is within the same region as the old one, the local unit retains its identity if the enterprise, the principal economic activity and employment remain the same, otherwise identity is lost. In that case, the regions should be defined as the smallest administrative areas as mentioned in the Annex, section II B 2 of the SU Regulation. These are equivalent to Local Administrative Unit level 2 (LAU2; former NUTS5) areas. Another option is to apply travel-to-work areas where these are in use in a particular country.

### **Reactivations**

16.18 As was the case with the enterprise, a practical problem may exist in respect of reactivations. If a local unit ceases and resumes its activities, the business register must decide whether the old identity number is reused. As is the case with the enterprise, the convention of this Manual is that the local unit is deemed to be continued (i.e., it retains its old identity number) in cases where it carries out seasonal activities or resumes its activities within 24 months after temporary suspension of activities due to paralysis of production for external reasons or sickness, accident, military service of the entrepreneur, etc.

## **16D — The links between enterprise and local unit continuity**

16.19 The enterprise and the local unit have their own continuity rules. As a consequence, it is conceivable that an enterprise can be continued while one or more of its local units are discontinued or that it is discontinued while one or more of its local units are continued. In principle, this does not result in any inconsistency, provided the differences between the concepts used are clear. It is, however, useful to examine the case where an enterprise equals a local unit before or after the event and to determine what situations to expect if the continuity rules as proposed are applied. After all, this is the most common case.

16.20 Let us assume that an enterprise is born and comprises one local unit. Is it possible that the local unit existed already and retains its identity, so that it experiences a transfer to the new enterprise? No other enterprises are involved; otherwise the event would not be the birth of an enterprise but rather a split-off, restructuring, etc. So the local unit which possibly existed at the location of the new enterprise must have belonged to an enterprise which died at the event. Since the continuity rules of the enterprise require that at least two of the three criteria (controlling legal unit, principal economic activity and location) change, and the old and the new enterprise have the location in common, they must differ in controlling legal unit as well as in principal economic activity.

16.21 Now consider the local unit. It belongs to different enterprises before and after the event and, as shown above, its principal economic activity before and after the event is different. Therefore it cannot be the same local unit. The conclusion is that the birth of an enterprise comprising only one local unit implies the birth of that local unit.

16.22 Similar reasoning applies if an enterprise comprising only one local unit dies. It follows that, at its location, the principal economic activity is not continued (otherwise continuation of the location and principal activity would have resulted in enterprise continuation). For the local unit, this implies that at least two of the three criteria for continuity, namely enterprise continuity and continuity of principal activity, are not met, so it loses its identity. The conclusion is that the death of an enterprise comprising only one local unit implies the death of that local unit.

16.23 The opposite also generally holds, though not exclusively. It is possible that a local unit may lose its identity without the enterprise losing its identity, even if the latter consists of only one local unit. The principal economic activity and the employment of the local unit may have changed, but these conditions are not sufficient for the enterprise to lose its identity. If the enterprise keeps the same controlling legal unit, it remains the same as long as the location remains the same. The conclusion is that a local unit can discontinue, followed by the creation of a local unit at the same location, whereas the enterprise remains the same.

## **16E — Summary**

16.24 If the location is the same, the continuity of production factors, in particular of employment, and the continuity of the enterprise to which the local unit belongs are, in principle, the criteria for continuity. In practice, a local unit which does not change location is deemed to lose identity only if two or all of the following three factors change: The enterprise identity, the principal activity in terms of NACE at four-digit level, and at least 50 percent of the local unit employment.

16.25 If a local unit moves within a region defined at the local level or within a travel-to-work area, it retains its identity if none of the three factors mentioned above change. Otherwise, it loses its identity. If a local unit moves outside the region or travel-to-work area, respectively, it is deemed not to be continued.

16.26 Furthermore, a local unit is considered to be continued if it resumes its seasonal activities or resumes its activities within 24 months after temporary suspension due to paralysis of production for external reasons or sickness, accident, military service of the entrepreneur, etc.

16.27 An analysis of the continuity rules results in the following conclusions. The birth of an enterprise, which comprises only one local unit, implies the birth of a local unit, and the death of such an enterprise implies the death of a local unit. However, a local unit equalling an enterprise can discontinue, followed by the creation of another local unit at the same location, whereas the enterprise may remain the same.

## **16F — Relation to the BR Regulation**

16.28 This chapter concerns the interpretation of a characteristic (the identity number of the local unit), which must be recorded according to the BR Regulation. Therefore, this chapter is considered as an interpretation of that Regulation.

**THE HANDLING OF CHANGES TO  
CHARACTERISTICS**

**17**

## CHAPTER 17 — THE HANDLING OF CHANGES TO CHARACTERISTICS

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### 17A — Introduction

17.1 This chapter complements the previous six chapters, which concentrate on the handling of changes that have a direct impact on economic demography. This chapter focuses on the handling of non-demographic events and hence covers changes to characteristics rather than to units. In the context of this chapter, the term ‘characteristic’ is restricted to refer to a non-demographic variable.

17.2 This chapter considers the uses of statistical business registers and their requirements regarding the updating of characteristics. It also interprets the rules regarding the minimal periodicity for the updating of characteristics given in the Regulation on statistical business registers. Recommendations are formulated under the assumption that the register is mainly used for statistical purposes.

17.3 Changes to characteristics can either be a reflection of real world events, in which case they are regarded as updates, or they can amend information that was previously wrong, in which case they are regarded as corrections. In this context, the term ‘wrong’ refers to data that is not in accordance with the view of reality agreed with users as the standard for the register. The first type of change is considered in this chapter, whereas the second is covered in Chapter 18.

### 17B — Requirements regarding changes to characteristics

17.4 Chapter 10 defines the quality of statistical business registers in terms of user needs. This approach should also be followed when determining the nature, frequency and periodicity

of changes to characteristics, as there is little point in using effort and resources to update characteristics that are of no interest to users.

17.5 In Chapter 3, five distinct uses of statistical business registers were defined:

- A tool for the detection and construction of statistical units;
- A tool for the preparation and coordination of surveys, and for grossing-up survey results;
- A source of information for statistical analysis of the business population and its demography;
- A tool for the mobilisation of administrative data;
- A dissemination tool.

17.6 The handling of changes to characteristics impacts to some extent on all of these uses, though mainly on the second and third items in this list. These are the main uses considered in this chapter and their associated user needs help to define the recommendations in the following paragraphs.

17.7 In addition to the needs of users, there are four further factors that influence the policy on changes to characteristics in statistical business registers:

- Type of characteristic — There are three distinct types of non-demographic characteristics, firstly those relating to identification variables and secondly those relating to economic/stratification variables. Within both of these types, user requirements are likely to vary depending on the individual characteristic. A third type, linking characteristics, should also be considered. These cover links with other registers, link with enterprise group and control and ownership of units in the typology of register characteristics presented in the BR Regulation.
- Timing of the change — Users may not necessarily want all changes to be reflected in the register as soon as they are notified. This reflects a tension between the accuracy and consistency elements of quality.
- Source of information — Characteristics may be updated from administrative sources, statistical sources (e.g. surveys) or a combination of the two. The availability of data of suitable quality largely determines updating policies.
- Size of the observation unit — Large units are generally more likely than smaller units to be included in survey samples, and are likely to have more of an impact on survey results and statistics based in the register. Different policies may therefore be needed for different size units.

17.8 The impact of each of these four factors on the policy regarding changes to characteristics in statistical business registers is considered in detail in the remainder of this chapter, along with recommendations on the frequency of updates.

## **17C — Types of characteristics**

17.9 The characteristics required to be recorded in statistical business registers, and the units to which they relate, are stated in the Annex to the BR Regulation, where they are also grouped by type. They are defined and examined in detail in Chapter 5. The categories are not mutually exclusive, e.g. legal form can be used as an identification, stratification or demographic variable depending on the data requirement.



17.10 Identification characteristics, economic/stratification characteristics and link characteristics are considered to be characteristics for the purposes of this chapter. Demographic characteristics are covered in Chapters 12–16 and 22; relationship characteristics are further considered in various chapters including 19 and 21.

### **Identification characteristics**

17.11 Rules regarding changes to identity numbers for enterprises, local units and enterprise groups are set out in Chapters 14, 16 and 22 respectively. Identity numbers for legal units and 'external identity numbers' are generally outside the control of those responsible for statistical business registers, therefore the aim can be to record changes as soon as possible after they happen or regularly several times per year. Previous identity numbers should be recorded whenever possible, as this allows data to be linked through time. Such changes are normally associated with administrative creations and deletions, which, by definition, result in new administrative units rather than changes to existing ones.

17.12 Changes to names and addresses should normally be reflected in statistical business registers as soon as they are notified. This is because these details are used for mailing survey forms and for geographical analyses of register data. Up-to-date information is vital for both of these purposes in order to meet user needs.

17.13 It should, however, be remembered that changes to one unit do not necessarily imply changes to other linked units. For example, a change in the address of a legal unit may be for purely administrative purposes and may not mean that the enterprise has changed location. Similarly, for an enterprise with more than one legal unit, a change in the name of one of those legal units will not necessarily mean that the enterprise name should change.

17.14 For operational purposes, where an enterprise has just one legal unit and one local unit, all of these may or may not have the same name and address. Before assuming that a change to the details of one of these units should be applied to all three, it must be checked if e.g. the legal unit address is used for administrative purposes and the local unit address for statistical purposes. For more complex structures, more checks are needed.

17.15 Where other contact details, such as telephone or fax number, e-mail address etc. are stored, these should generally be updated as soon as a change is notified. There is again, however, the need for care when dealing with large or more complex enterprises. There may be a need to record details of several different contacts for different purposes, e.g. the person supplying employment returns may be different to the one providing financial details. In this case, there is a need to store multiple sets of contact details. This can cause problems for register maintenance, so one simple solution is to allow users the option to record details of their specific contacts within the business register, but ask that, in return, any users taking advantage of this facility should maintain any specific contact details themselves.

17.16 Whilst changes to other identification characteristics should generally be recorded in the register as soon as they are notified, changes to legal form may cause more problems. This is because legal form can also be used as a stratification characteristic; therefore, any changes may affect the consistency of survey samples and populations. This is particularly true where large units change their legal form. An example of this is where a particular activity previously carried out in the public sector (e.g. in areas such as health or education) is transferred to the private sector. This may have a major impact on statistics on the market economy and such a change may need to be handled and/or timed in a way that minimises the disruption to statistical series.

17.17 Some changes to legal form may be accompanied by name changes; for example, if a previously unincorporated enterprise becomes a limited liability corporation, it would normally be

expected to add certain initials to its name to indicate this (e.g. 'GmbH' in Germany, 'SA' in France or 'Ltd' in the United Kingdom). This allows the possibility of a crosscheck between name and legal form, which can help to detect quality problems.

### **Economic/stratification characteristics**

17.18 Economic/stratification characteristics fall into three distinct groups: Activity classification, size and location. These may, by definition, affect the probability of a unit being included in a particular survey. It is therefore important to consider whether to update these characteristics as soon as new information is received and risk increased volatility in survey samples and populations or to hold them until a certain point in the annual cycle of surveys where the impact of changes on the consistency of results would be reduced.

17.19 Information received on changes in the various activities of a particular unit may prompt a change to the principal or secondary activity code, or ancillary activity marker for that unit. These changes may be sudden, e.g. due to a change in management policy for the business concerned, or gradual, where the balance of activities has shifted over time. In such cases, the introductory guidelines to NACE Rev. 2 recommend a stability rule whereby the change in the principal activity should be made when the current one had been accounting for less than 50 % of the value added for at least two years. This rule helps to reduce movements in business demography, which are no more than temporary phenomena or statistical artefacts. This principle should be applied in statistical business registers, where it is also useful to include the last known activity as a supplementary variable in order to manage this stability rule.

17.20 Changes to size characteristics (persons employed, employees, employees in full-time equivalent and turnover) can have a considerable effect on the consistency of survey samples and populations, so it is likely that the timing of updates should be discussed with register users. Major changes are often an indication that some sort of restructuring is taking place within the business and could be a trigger for further investigation, possibly in the form of profiling.

17.21 For businesses engaged in certain activities, e.g. tourism, there is likely to be a seasonal pattern to the number of persons employed (and possibly also to short-term turnover data). This means that data from a particular point in time could give a misleading view of the size of a business. It is therefore recommended that averages for the operational period should be held for these variables. Some users may argue, however, that this policy restricts the use of the register for detecting short-term trends, and particularly the early detection of turning points. If this is an issue, the simplest solution is to store both current values and averages.

17.22 The stratification characteristic 'geographical location code' is only compulsory for local units, but many countries have found it useful to also record the location of legal units and enterprises. Changes to location may, in some cases, result in the deletion of one unit and the creation of another. The rules regarding continuity of units when location changes are set out in Chapter 14 (for enterprises), and Chapter 16 (for local units). Legal unit continuity rules are generally country-specific and outside the control of the national statistical institute.

17.23 It is important to be aware that a change in the location of a legal unit does not necessarily imply a change in the location of the enterprise. For example, the official address of a business may change from that of one accountant to that of another, but the site(s) where activity is carried out will probably remain the same.

17.24 When economic/stratification characteristics are updated, it is useful to record the date of the change, the source of the new information and the previous value. These are very valuable pieces of information to help assess the quality of variables and to audit the change process. Recording both the source and date of a change can be a way of determining the

circumstances under which it can be overwritten by future changes from other sources. This is explored further in paragraphs 17.30 - 17.34.

### **Link characteristics**

17.25 These characteristics include links with other registers, link with enterprise group, and control and ownership of units. They can also be considered in their own right in certain sampling schemes and they are used by statistical compilers in many statistics. The timetable and needs from these statistics should be taken into account for the changes. This generally means having different versions, an updated version based on the newest information and one or several frozen versions (one for the time of sampling and another at the time of coordinating the results) giving the situation at the point in time needed for the statistics.

## **17D — Timing of changes**

17.26 The traditional view of the quality of statistical business registers focused on the need to reflect the real world as accurately as possible. This implies that changes should be implemented in the register as soon as they are known. In line with the ISO definition, quality of registers is now defined in terms of their ability to meet user needs (see Chapter 10). Accuracy may be important to some register users, but consistency can be equally important to others, particularly those producing and using short-term statistics and those wanting coherent short-term and structural data.

17.27 Thus two groups of users can have conflicting demands regarding the timing of changes, some wanting immediate updates, and others wanting updates held, to be scheduled for particular times when their effects on the coherence of data will be minimised. As stated in Chapter 10, the obvious solution is to hold two versions of key variables, one that is updated whenever new information is received, i.e. the 'current' version, and one that remains constant for an agreed period, i.e. the 'frozen' version.

17.28 If this approach is followed, the frozen version should be updated from the current version at times, or in specific circumstances, agreed with users. This update will generally tie in with the statistical survey cycle, so it could be annual, generally between the end of one survey year and the start of the next. This solution has two main advantages for survey managers:

- The survey samples and populations remain relatively stable over the survey year, with the only significant changes being due to births and deaths of units (and possibly corrections of errors). This allows short-term surveys to measure changes in economic variables more efficiently.
- The likely impact of the annual updates can be modelled beforehand by comparing the current and frozen data. Obviously, the closer this is done to the time of the update, the more accurate the impact assessment is likely to be.

An alternative approach is to have frozen monthly or quarterly sampling frames, from which all surveys relating to that period are drawn. This increases coherence between surveys, but raises problems concerning the treatment of births and deaths.

17.29 Storing two versions of a variable allows analyses of register data to be targeted more closely at user needs, though care must be taken to avoid confusing users with different data sets for what appears to them to be the same point in time. Key register users, particularly those with direct access to the register, must be trained so that they are aware why the two versions exist and why they may differ for certain units at certain times.

## **17E — Sources of information**

17.30 Statistical business registers can be updated from a wide range of different sources. The average number of sources used in European Union Member States is slowly increasing. Several sources may provide values for register characteristics and where this happens there will always be a degree of conflict between the sources. This raises the question of which source to use.

17.31 The best way to answer this question is to start gaining a thorough understanding of each source, covering issues such as the methods of data collection and validation, the time of collection and the relative importance assigned to that variable by the source. This understanding then allows the sources to be prioritised, either for all units or for different categories of units depending on one or more other criteria. The data from different sources can also cover different periods, e.g. calendar year or accounting period, which further complicates the issue.

17.32 Key variables for particular sources are likely to be of higher quality than secondary variables, thus turnover from a value added tax source and employment from a wage or income tax source should, in theory, be of good quality. In practice, however, there may be an incentive for businesses to make false declarations, e.g. to give falsely low income, turnover, asset or profit figures in order to reduce tax liability.

17.33 Once priorities have been determined for a certain characteristic, the next step is to devise a way to apply them to register updating procedures. This can be done in several ways. Perhaps the most reliable method is to store a source code and date with the characteristic and to implement algorithms to determine which combinations of source code and date can overwrite another. The date is important here, because it may be decided that data from a lower priority source should overwrite that from what would normally be seen as a better source if it is significantly more recent.

17.34 Other possibilities are to use quality flags determined by date and source or to update the register with data from all sources in reverse priority order, so that the highest priority data is added last, thus overwriting that from lower priority sources. This last method is not very successful, however, if the register is updated from different sources at different points in time.

## **17F — Size of the observation unit**

17.35 The size of the observation unit may have an impact on the policy regarding changes to characteristics. Automatic updating rules are generally easier to apply to smaller, less complex units. Similarly, changes to the characteristics of these units are not likely to have a significant impact on register users.

17.36 Large and complex units are, however, likely to be more problematic. Changes to such units have more of an impact on users, so there is more of an incentive to ensure that they are correct. This can be done by comparing data from a range of sources to see if it is consistent, or by contacting the unit concerned to validate the change. Both approaches can be considered to be simple forms of profiling. This is a method of checking both the structure and characteristics of units and is generally only applied to large and complex businesses. Profiling concepts and methods are examined further in Chapter 19.

## **17G — Frequency of updates**

17.37 Article 8 of the BR Regulation states that:

1. *Entries into and removals from the registers shall be updated at least annually.*
2. *The frequency of updating shall depend on the kind of unit, the variable considered, the size of the unit and the source generally used for the update.*

Article 8(3) states that the measures relating to the rules for updating shall be adopted in accordance with the comitology with scrutiny procedure. This remains to be agreed in the future.

17.38 The provision in the previous BR Regulation was that, as a general rule, information obtained from administrative files or annual surveys should be updated annually, and all characteristics for all units must be updated at least once every four years. Key characteristics, such as economic/stratification variables, should be updated annually: This should cover all statistically significant businesses. This approach is retained as a recommendation until alternative rules have been developed and agreed.

17.39 The provisions of Article 8 should be viewed as a minimum requirement. Units that are considered to be volatile or are regarded as key units by users should have their characteristics updated more frequently. Examples of such units include those that are large and complex and those classified to particular economic activities where units are known to evolve rapidly or change frequently.

## **17H — Summary**

17.40 In this chapter we have examined the differences between changes to characteristics and the correction of errors. The needs of users are the key to defining the policy regarding the recording of changes, particularly concerning the timing of changes. Finally, different factors affecting the handling of changes have been explored with reference to the specific provisions on this subject in the BR Regulation.

## **17I — Relation to the BR Regulation**

17.41 This chapter concerns the updating of a range of compulsory, conditional and optional characteristics specified in the BR Regulation. Therefore, insofar as it recommends policies for updating these characteristics, this chapter should be considered an interpretation of that Regulation.

THE HANDLING OF ERRORS

18

## CHAPTER 18 — THE HANDLING OF ERRORS

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### 18A — Introduction

18.1 Statistical business registers are large databases holding records of units and their characteristics, relationships and history. In theory, they could provide a perfect image of the outside world. They would contain no errors, as these would be corrected the moment they occur. In reality, however, it is impossible to avoid errors and incorrect information in a business register and it may not even be desirable, for reasons of consistency (explored further in Chapter 10), for the register to be perfectly accurate at a particular point in time.

18.2 As discussed in Chapter 17, changes to information in business registers can either be a reflection of real world events, in which case they are regarded as updates, or they may amend information that was previously wrong, in which case they are regarded as corrections. The first case is dealt with in Chapter 17, whereas the second case is the subject of the present chapter, and is referred to as the handling of errors. The following paragraphs define what is meant by the terms ‘wrong’ and ‘errors’ and formulate recommendations on how errors should be identified and handled.

### 18B — Definition of errors

18.3 As stated above, statistical business registers reflect an imperfect image of reality. There are various reasons for the differences between this image and the real world. The sources of information used to maintain and update the register will generally contain irregularities of some sort. The register may be subject to certain lags in the recording of real world events or it may have gaps due to the lack of adequate sources for certain types of information.

18.4 If these distortions of the real world are considered to be acceptable by users of the register, they should not be considered to be errors. If they are not acceptable, procedures or sources need to be changed or improved. This leads to the following definition of errors:

An error in a statistical business register is a difference in the information presented in the register and the information as it should be, according to a chosen image of the real world produced and maintained by an accepted instrument and documented procedures.

18.5 To translate this rather theoretical definition into more operational terms, it is necessary to have a precise description of the chosen image (i.e. what the register should depict) and a complete and transparent set of procedures to produce and maintain this image. It is clear that the definition of errors will vary according to the types of users, the sources and the operational procedures of different registers.

## **18C — Types of errors**

18.6 A statistical business register is meant to be an image of the real world, but this world is a very complex one. There are, therefore, many ways in which errors may occur. It is possible to define different types of errors.

### *Errors in existence*

18.7 This type of error is due to false information regarding the demographic characteristics (date of creation and date of cessation) for a particular unit. There are two categories of existence errors:

- Units are recorded as economically active, but are not yet, or no longer, active in the real world. This results in over-coverage and can lead to response problems for statistical surveys based on the register.
- Units are economically active but are not present in the register. This type of error results in under-coverage and can also adversely affect the quality of register output.

### *Errors in identification characteristics*

18.8 Errors in unit identification numbers should not generally be possible, though duplication and incorrect links are, of course, possible. These are dealt with in paragraphs 18.10 - 18.12 below. Errors in names, addresses, telephone numbers, etc. may hamper data collection due to problems locating and contacting the units. Errors in names and addresses also impede the use of statistical business registers as tools to link and coordinate data from different sources.

### *Errors in economic/stratification characteristics*

18.9 This type of error includes errors in characteristics such as the economic activity code, size (number of employees or persons employed, or turnover), institutional sector or the geographic area in which the unit is situated. These errors result in inefficient sampling and strata allocation for surveys based on the register, and will be, to some extent, detrimental to population estimates derived from the register.

### *Errors in units*

18.10 This type of error concerns the delineation of statistical units (particularly the enterprise). It may result in duplication or other errors in data concerning the number and size of units. It may also affect the measurement and allocation of variables.



### *Errors in links and relationship characteristics*

18.11 To reduce the response burden associated with statistical surveys, increasing use is made of data available from administrative sources. This data can be used to update statistical business registers or to supplement or even replace statistical data collection. Statistical business registers play a vital role in accessing and using data from administrative sources, mainly by holding information on links between administrative and statistical units.

18.12 In countries where there are no unique identifiers, errors will occur in identifying and linking units. These errors generally arise because, due to the volume of data, the linking is done in an automated way. Provisions should be made to reduce the risk of wrongly linking important units to an absolute minimum. Indicators on the quality of linking can help identify potential problems, e.g. they can identify where businesses that are small according to the statistical business register are linked to ones that are large according to the administrative source, or vice-versa. Such size mismatches are generally good indicators of linkage problems.

## **18D — The micro and macro approaches**

18.13 In the handling of errors, a distinction can be made between what we will call the micro approach and the macro approach. The micro approach focuses on errors at the level of the individual business. The errors are detected at this level and correction takes place according to fixed procedures. The detection of errors can be based on feedback from register users, or a specific survey of certain types of businesses in the register. The micro approach is often expensive, especially when applied to the full scope of the register, but the improvement in the total quality of the register is substantial.

18.14 The macro approach entails the detection and handling of errors at the aggregate level. For example, estimates of the total number of non-active businesses may be derived from samples. The macro approach is cheaper to implement than the micro approach, but the improvement in quality for individual units is much lower. Only the units included in the sample are checked.

18.15 The choice between the micro and macro approaches depends on:

- User needs relating to specific data items or units in the register
- The main uses of the register — purely statistical or administrative and statistical
- The available resources (finance and staff)

18.16 Often a combination of the micro and macro approaches will be the most appropriate solution.

## **18E — The handling of errors for different users**

18.17 The handling of errors should take into consideration the different types of surveys based on the register. The solutions acceptable for structural surveys may be different to those appropriate for short-term surveys. Where different surveys demand different solutions for the handling of errors, it may be useful to record details of errors including dates of detection, occurrence and correction, sources and types. This enables register users to access both corrected and uncorrected data according to their needs.

18.18 One approach is to set up a specific database to record these details. The structure and functionality of such a database should depend on the procedures agreed for handling errors.

This database should be closely linked to the business register or even an integral part of that register. The following variables should be recorded:

- The original value (the wrong one)
- The new value (the correct one)
- The date of detection
- The date of occurrence
- The date of correction
- The source of the corrected value
- The mode of correction (interactive or batch; in the case of interactive correction, it may be wise to record the corrector as well).

It may also be useful to record a date of confirmation for variables that may be mistaken for errors because they look unusual or out of date, but have been investigated and confirmed as correct.

18.19 If possible, the type of error should also be recorded for further analysis. The inclusion of all this information in the database makes it possible to recreate the situation in the register at any given moment, allowing users to ignore corrections if necessary. The inclusion of additional variables in the business register also has clear disadvantages, more variables make register maintenance more complex and mean more opportunities to make errors, but the advantages of at least partly implementing this solution should more than outweigh the disadvantages.

18.20 This approach is consistent with the proposal in Chapter 17, paragraphs 17.26–17.29, concerning the storage of ‘current’ and ‘frozen’ versions of key register variables. A common approach could be adopted to cover both the handling of changes and the handling of errors. Under this approach, the current version of a variable should be corrected as soon as an error is detected, whereas the frozen version should only be corrected at certain points in time or in specific circumstances agreed in advance with users.

18.21 Special provisions for the handling of errors in large and important units may need to be negotiated with users. Errors in important units may have a considerable impact on certain types of statistics. If a special procedure is implemented for these units, it should be fully documented in terms of the units to which it applies. Special provisions can be applied through a dedicated profiling team or by appointing an authority (e.g. the head of the business register), who has the final say in these corrections.

## **18F — The time dimension**

18.22 If errors are detected, it is important to know the exact moment at which the error occurred. If this date and the date of correction are recorded, it is possible to construct populations of units for certain points in time that may be more accurate than the situation in the register at that point in time. The date of correction, if a correction is carried out, is likely to differ from the moment of occurrence. In practice, the date of occurrence is often not known.

18.23 A very important question is “How far back in time should corrections be applied?”. The answer depends on the correction strategy not only of the register but also of the statistics based on the register. If, for example, there is a procedure of revision in which all statistics are revised after a period of five years, then correction should be carried out to the moment of the previous revision. If there is only a revision procedure for national accounts and not the

individual statistics on which they are based, the period for which corrections should be carried out may depend on the frequency of the statistics based on the register.

18.24 Another important consideration is the moment at which corrections should be made. Corrections should be applied according to a fixed and documented procedure wherever possible. Corrections of errors in identification characteristics, such as names, addresses, telephone numbers, etc., should normally be carried out immediately. If not, they may hinder data collection and possibly also frustrate respondents.

18.25 The correction of errors in economic/stratification characteristics, such as economic activity and size, is a different matter. If these corrections are made the moment the errors are detected, they will affect consistency between statistics with different periodicities. To avoid this, the corrections should be stored until an agreed moment of correction, for example the first week of January of each year. However, if the register records information which allows survey statisticians to ignore corrections where necessary, there is no need to delay the application of corrections (see paragraphs 18.17–18.21 above).

## **18G — Sources for the correction of errors**

18.26 The source from which a correction originates is an important factor in deciding whether or how to correct the error. Care must be taken to ensure that the register remains a known reflection of reality and that corrections do not lead to unknown distortions of that image. If the source is a statistical survey based on the register, corrections may lead to bias depending on the particular sampling scheme used. This is because the corrections would only apply to a part of the register, whereas for other parts, where units were not included in the sample, the quality would remain as before, resulting in different quality levels in different parts of the register.

18.27 A practical example of this is where a survey only targets specific economic activities (e.g. the Prodcom survey, which only covers production units). Such a survey will help to identify units that wrongly fall within the scope of the survey, thus allowing these errors to be corrected, but it will not identify units wrongly out of scope. Applying corrections on this basis will mean that the quality of in-scope units will generally be higher than that of out of scope units. There would also be a distortion in the distribution of units in the register. The population of in-scope units will be lower than it should be, whereas that of out of scope units would be correspondingly higher.

18.28 Corrections from sources that are comprehensive in nature can be processed without problems, as it may be assumed that they are randomly distributed over the units in the register. Corrections from all other sources will introduce a certain level of bias, and it is therefore necessary to determine whether this is acceptable and preferable to users.

## **18H — Summary and recommendations**

18.29 In summary, there are three steps to the handling of errors:

- Decide whether errors have occurred
- Decide whether they should be corrected
- Decide how and when to correct them

18.30 Errors will occur in all statistical business registers. To reach a level of quality acceptable to users, it is necessary to develop a systematic policy for the handling of errors. The following recommendations aim to help the formulation of such a policy:

- The theoretical definition of errors presented in paragraph 18.4 should be translated into practical provisions adapted to the specific circumstances facing each business register.
- It is helpful to make an inventory of register uses and the consequences of different types of errors for different users.
- The business register should be structured and maintained in such a way that the correction of errors has a minimal impact on statistical surveys.
- Register inputs, processes and outputs should be systematically monitored to detect potential errors.
- Register processes should be fully documented so that the correct handling of all variables is clear to all concerned. This is necessary to detect errors and avoid discussions on the quality of individual records.
- The policies regarding the handling of errors in the register should also be fully documented, and audited periodically to make sure they are still appropriate.
- Responsibilities regarding the handling of errors should be clear and documented. It is advisable to appoint an authority (e.g. the head of the business register) who has the final say in difficult cases.
- The handling of corrected register values in statistics based on the register should be fully coordinated and documented.
- The different types of errors detected should be analysed periodically to monitor changes in the pattern of errors over time and thus to inform on the development of policies for handling errors.
- Recording the history of errors will facilitate the handling of errors in complex situations.
- If statistical business registers are used for administrative or commercial purposes, it is advisable to take legal precautions against damage claims in the event of errors.

## **18I — Relation to the BR Regulation**

18.31 The recommendations given in this chapter regarding the handling of errors in statistical business registers go beyond the scope and provisions of the Regulation, particularly where they relate to the management of those registers.

**THE HANDLING OF LARGE  
AND COMPLEX BUSINESSES**

**19**

## CHAPTER 19 — THE HANDLING OF LARGE AND COMPLEX BUSINESSES

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### 19A — Introduction

19.1 The nature of the legal unit, relationships between legal units, and the relationship between the enterprise and the legal unit, were examined in Chapter 7. One of the conclusions was that, in some cases, an enterprise consists of more than one legal unit, but that it may also be smaller than the group of legal units that are related by control, that is, the all-resident or truncated enterprise group.

19.2 This chapter builds on Chapter 7 by developing operational rules for combining legal units into enterprises within an enterprise group at national level. It introduces the concept of profiling, considers the issues of thresholds and different methods of profiling, and then considers some operational rules for the profiling of enterprises and kind-of-activity units (KAUs). These two units are considered here, as they are the main statistical units for which data is required under current European legislation on business statistics.

19.3 The term ‘factors of production’ is used in various parts of this chapter. For the purposes of this text, this term should be interpreted in the classic economic sense, i.e. the factors of production are land, labour and capital. Intermediate inputs such as raw materials or semi-processed goods can be considered to be a form of capital and therefore also a factor of production.

19.4 It is assumed that the starting point for profiling is the enterprise group as defined in the Statistical Units Regulation, and examined further in Chapter 21. In this chapter, the term ‘enterprise group’ corresponds to the truncated or all-resident group in the BR Regulation, as the aim is to determine statistical units operating within the national economy. The introduction and development of profiling clearly requires access to information on enterprise group links and this information is stored in the statistical business register in compliance with the BR Regulation. Profiling logically focuses on large groups, as these have a significant impact on business statistics and tend to have the most complex legal structures.

19.5 The rules presented in this chapter take into account the need for the profiling process to be cost-effective, both for the groups concerned and national statistical institutes, including the need to keep the response burden at an acceptable level. Whilst there is justification for having rather elaborate rules for large groups, it is generally felt that the application of such rules to smaller groups may not be cost-effective. A graduated approach is therefore proposed for the application of profiling rules.

19.6 Two limitations apply to the profiling guidelines set out in this chapter. The first is that these guidelines have been modelled largely on market producers belonging to the same institutional sector. The guidelines presented for market producers can, to a large extent, also be used for units in the general government sector (see Chapter 24) and for private non-profit institutions, but in some cases specific adaptations may be necessary. The second is that it is assumed that business registers are limited to the national economic territory of countries. It may be necessary to adapt the guidelines where groups cross national boundaries, particularly if data is not available at a national level. Multinational groups are examined in greater detail in Chapter 21 and are outside the scope of this chapter, in which only the truncated or all-resident enterprise group is taken into account.

19.7 The guidelines set out in the following paragraphs are not meant to be the final solution to the issue of statistical unit delineation. One reason for this is that because economic reality and the way it is reflected in administrative registers changes continually, the guidelines will need to be updated periodically. Another is that practical guidelines need empirical justification, that is, they need to be quantified and validated in terms of their effect on costs, response burden and quality. As little empirical data for national systems is available, such guidelines are necessarily based on a qualitative judgement rather than a quantitative one.

19.8 Perhaps the main reason why these guidelines are not considered to be final is, however, that the elaboration and testing of rules for delineating the enterprise and the KAU are still the subject of much methodological work. It is anticipated that this chapter will continue to develop as the methodology evolves, therefore the reader is advised to contact Eurostat to be sure of the latest position before investing heavily in trying to meet the recommendations contained below.

## **19B — Profiling — Definition and thresholds**

19.9 A number of statistical institutes have experience in what is known as profiling. It is helpful at this point to define exactly what profiling means:

*Profiling is a method of analysing 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 term 'proving' may sometimes be used in the same context as profiling. Register proving means checking the information held on a statistical business register, often by means of a survey or cross-checking with results from various statistics. The following paragraphs try to develop the definition of profiling and explore what it means in operational terms.

19.10 Enterprise groups should be systematically monitored in order to delineate and keep track of the statistical units within them. The process of profiling generally includes the delineation of all main units that are used within the national statistical system. The rules set out in this chapter do not, however, cover all of the units defined in the SU Regulation. They are restricted to the enterprise and the kind-of-activity unit as these are the main units for business statistics at the European level.

19.11 Before discussing operational rules, it is necessary to clarify the situations in which they are meant to be applied. As mentioned in the introduction, the focus is on large enterprises. But

how large? If the threshold is set too low, the benefits of application of the rules do not outweigh the costs, but if it is set too high, there is an increased cost in relation to the quality of the statistics required.

19.12 If the threshold approach is followed, it is necessary to decide on the terms in which the threshold should be expressed. It could be in terms of the number of employees, turnover, or some combination of variables. It is also necessary to determine the unit to which the threshold should apply. The enterprise group is the most appropriate unit for this purpose for the following reasons:

- The threshold cannot be specified in terms of the size of the enterprise, because the enterprise is not known in advance.
- If the threshold is expressed in terms of the size of the legal unit, it is possible that some large enterprises consisting of many small legal units are not profiled. It would also increase country-specificity, since the existence and size of legal units are a function of the national administrative circumstances.
- Taking the enterprise group as the basis for profiling guarantees that all related statistical units are delineated at the same time. This increases consistency and minimises the response burden caused by profiling.

19.13 If a threshold is used, one approach is to define it in terms of the number of employees of the enterprise group. In theory, for the purpose of delineating the units used for describing the production process, it would be preferable to use value added, because this is a better measure of the economic contribution of units. In practice, however, the basis for profiling is business register data, and the BR Regulation requires that data is held on persons employed. Value added is not generally available in a business register, or from administrative sources.

19.14 Other, more sophisticated algorithms including considerations of economic activities and the number of legal units can help to refine the selection of units to be profiled. A different approach is to take a fixed number of the largest enterprise groups to profile, e.g. the top 100 or top 250 groups, again determined either by employment or a more complex algorithm. It may also be useful to consider profiling a sample of smaller groups of a certain frequently occurring type (e.g. those with one legal unit for the principal activity and another e.g. for the property or sales unit or any frequent ancillary activity), particularly if this leads to the development of rules so that the profiling of the remainder can be at least partly automated. This is because, although these groups have less economic impact individually, they may be quite numerous, so may have a considerable impact in total. Ideally, if a threshold is used, it should be at the level where the costs and benefits of profiling are in balance.

19.15 In practice, however, it would be extremely difficult to set a threshold that would be meaningful and practical in all countries. Further experience is needed before the true costs and benefits of profiling can be accurately determined. For these reasons, no definitive threshold is proposed in this chapter. Instead, the recommendations are that:

- Profiling, as described above, should be applied in all Member States.
- Profiling should concentrate on the largest and most complex groups, also taking into account their importance to national and European statistics.
- Profiling should be gradually expanded to cover smaller and less complex groups if the benefits are important enough for statistical outputs and are greater than the costs.
- Information on both the number and proportion of groups profiled should be collected. When data for several years is available, it should be used to study the possibility of applying some sort of common threshold in the future.



- The impact and cost-effectiveness of profiling should be regularly monitored to ensure that the profiling process is delivering the best possible value for money.

## **19C — Profiling — Methods**

19.16 The following paragraphs describe how profiling can be carried out in practice. The first requirement for successful profiling is the availability of sufficient funding and suitable staff. Profiling is a complex task that requires a thorough knowledge of statistical units and national administrative data, therefore experienced staff at a fairly senior level are required.

19.17 Profiling can be carried out in one of three ways:

- **Face to face meetings:** This form of profiling is expensive in terms of staff time and travel costs, but is often essential for larger and more complex groups. This is because it is usually necessary to involve several people representing different functions within the group, such as financial, personnel and operations managers.
- **Other contacts with businesses:** For less complex groups, it may often be possible to determine the correct structure by confirming details over the telephone, by fax, e-mail or post.
- **Using existing information:** It may be possible to profile relatively simple groups on the basis of information already available from administrative sources and statistical surveys or, increasingly, via business websites. This form of profiling is relatively inexpensive in terms of staff costs and involves no additional burden on the group concerned. It may, however, be necessary to make decisions on the basis of incomplete information, so this form of profiling may not be suitable for groups that are seen as vital for statistical outputs. The main advantage of this form of profiling is that standard rules can be applied and, in many cases, the process can be automated, thus reducing costs whilst increasing the number of groups that can be profiled.

19.18 The numbers and types of the groups to be profiled should generally be determined in advance, possibly through the use of a threshold. It is important, however, to leave some flexibility in the profiling plan to deal with unexpected restructuring of key respondents. Triggers for such ad-hoc profiling can include press reports of restructuring or mergers, survey response problems or direct contact from the groups concerned.

19.19 The exercise of profiling a group should be seen in terms of four distinct phases:

- **Preparation:** It is important to gather as much information about the group as possible. This allows the profiler to build up a mental picture of the likely structure of the group and to identify the precise issues that need to be clarified.
- **Profiling:** The correct structure of the group and the future statistical reporting arrangements should be determined.
- **Implementation:** The profiled structure should be implemented on the statistical business register and the surveys based on it.
- **Review:** The structure should be reviewed after a period of time to ensure that it is not causing any survey response or burden problems. This may involve re-contacting the group.

19.20 To facilitate the profiling process, it is useful to develop a profile template including the likely issues to be considered and the types of questions that need to be answered. This can be used to structure interviews or to ensure that all aspects are covered if there is no contact with the group. It also helps to ensure consistency of approach across a team of profilers.

19.21 For the methods of profiling that involve direct contact with the enterprise group, it is often necessary to ensure that the group is aware of the potential benefits of its cooperation. Profiling can often result in a reduced response burden, as it should ensure that statistical surveys are targeted more accurately and only at relevant units. These forms of profiling can also help to create a greater mutual understanding between the statistical institution and key responders and can provide a line of communication to help resolve data issues.

## **19D — Operational rules for the enterprise — Defining the enterprise**

19.22 The definition of the enterprise and its explanatory note as set out in the SU Regulation were examined in Chapter 7 in relation to legal units. It was made clear that if there are separate legal units for factors of production which, in combination, are used for the production of goods and services, these legal units in combination constitute the enterprise. Despite their legal identity, in such cases the legal units would not be considered autonomous in an economic sense. Only the combination of legal units (i.e. the enterprise) would have a sufficient degree of autonomy. One of the considerations on which this conclusion was based was the fact that the definition of the enterprise states that an enterprise is ‘an organisational unit’ (as opposed to an administrative or legal unit) “which produces goods or services and has a certain degree of autonomy in decision-making, especially for the allocation of its current resources.”

19.23 The enterprise definition reflects its main use. In the European Statistical System the enterprise is primarily used for statistics that relate to the production of goods and services. For example, it is the main observation unit for data required under Regulations concerning structural business statistics (SBS) and short-term statistics. Such statistics require that factors of production used in the same process of production be combined into one unit. This allows inputs and outputs of the production process to be related and thus the operating surplus of a unit to be measured.

19.24 The use of the enterprise for statistics relating to the production of goods and services makes it desirable that the enterprise has a property that is not specifically mentioned in the definition and its explanatory note: i.e. that the variables to be measured can actually be observed. Whether the enterprise actually has this property depends on the operational rules used to determine that unit.

19.25 The enterprise is also the institutional unit used for the financial and non-financial corporation sectors of national accounts based on the European System of Accounts (ESA), and is therefore the unit on which both financial and non-financial accounts are based. This use makes it desirable that, in addition to the variables mentioned in the previous paragraphs, financial variables, such as profit and loss, can also be measured. In practice, however, it may be the case that certain financial variables are only available (or meaningful) at the level of the enterprise group, so the availability of financial variables should not be seen as an essential feature when delineating an enterprise. As a general rule, an enterprise should normally be capable of providing the full range of variables required by the SBS Regulation.

19.26 Defining operational rules for the enterprise amounts to indicating whether, and to what extent, legal units have to be combined into enterprises in practice. The starting point should be the existing definition of the enterprise. To comply with this definition, an enterprise needs to have certain features. Most of the units without these features cannot be called enterprises. These features are described in the following paragraphs.

- *An enterprise has accounts at its disposal.*

19.27 Although the definition of the enterprise does not mention this explicitly, an enterprise has accounts at its disposal covering the main aspects of the production process (inputs, outputs and operating surplus). This is a direct consequence of the (relative) autonomy of the

enterprise in decision-making, i.e. the enterprise may be expected to maintain accounts for its own benefit.

19.28 This feature is helpful in the sense that, if accounts are not available, the entity under consideration is unlikely to be an enterprise. However, the opposite is not true; if accounts are available, the entity under consideration is not automatically an enterprise. In large business organisations, some form of accounts may be kept at several levels in the organisation.

19.29 The criterion of availability of accounts must be applied with care. Accounts may be kept for management purposes or simply to meet administrative obligations. Such accounts may not conform to national or international accounting standards and, even if they do, they may be of limited relevance for statistical purposes without further processing. Notably, costs and sales figures may differ substantially from market values, particularly if they relate to intra-group transfers. It is therefore important to consider the type of accounts when applying the criterion of availability of accounts.

19.30 It may be useful to note that there is an important link between availability of accounts and response burden. Respondents prefer to report on the basis of accounts at their disposal. If respondents ask the statistical institute to handle legal units in combination, this is an indication that the separate legal units may not be appropriate as statistical units.

- *The operations of an enterprise are managed in an integrated manner*

19.31 Full autonomy and fully integrated operations are obviously closely linked. Both imply that an enterprise is managed as a distinct entity. An obvious way to find out whether a legal unit is managed independently is to look to the organisational structure of the enterprise group to determine whether the legal unit is a distinct organisational unit with a manager who has autonomy of decision-making in respect of the production of goods and services.

19.32 A more thorough way of determining whether legal units are managed separately or jointly is to look at the management of different elements of the activities involved, e.g.

- Purchases
- Production processes
- Production levels
- Sales/prices/marketing
- Investment

In other words, examples of the type of questions that should be asked are: Are the purchases of legal units combined or coordinated? Are the factors of production of the legal units managed together or separately? Do the legal units present themselves as independent entities on the market or do they have similar trade names, one marketing policy, etc.? Are production levels, prices and capital expenditure decided centrally or independently? It should be noted that long-term strategic decisions concerning some of these elements, particularly investment, may be made at the level of the enterprise group, therefore consideration of these questions does not automatically lead to the correct delineation of the enterprise.

- *Market orientation of an enterprise*

19.33 Apart from certain exceptions (public sector, non-profit institutions, holding companies), market orientation can often be the most useful indicator of autonomy. If a legal unit is not market oriented, it cannot act autonomously, so it does not comply with the enterprise definition. The criterion of market orientation does, however, need to be defined precisely, and in a non-

circular way, i.e. the definition of the market for a particular unit cannot simply include everything outside that unit.

19.34 A legal unit can be considered to be market oriented if its output is sold to entities outside the enterprise group to which it belongs. If the output is sold entirely within the enterprise group, the prices and conditions of the 'sales' may be subject to top-level directions, as may the choice of the customers and suppliers. The autonomy of the legal unit may be restricted more directly if its operations are integrated with those of its client legal units. It should be remembered, however, that even if a legal unit sells its output solely to other legal units within the enterprise group it may still act like a real market unit and the sales may be at market prices and on market terms. Therefore sales outside the group are a useful indicator of market orientation, but cannot be relied on to provide a definitive answer in all cases.

## **19E — Operational rules for the enterprise — Applying the definition**

19.35 Practical situations that need to be looked at are those where more than one legal unit could be considered to constitute "the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources" (quoted from the definition of the enterprise). Cases where the production of goods and services is spread over different legal units, or where the production in different legal units is otherwise connected, are relevant to this discussion.

19.36 A couple of situations featuring possible combinations of legal units in enterprises were mentioned in Chapter 7. These were cases where one or more factors of production have their own legal unit and cases where legal units are engaged in ancillary activities. Other situations listed below are services shared by businesses within an enterprise group, holding companies, vertical and horizontal integration, and franchising.

- *Separate legal units for factors of production*

19.37 A legal unit may own one or more factors of production, e.g. a building or equipment, or it may control labour. The separation of factors of production across different legal units may be due to tax laws, risk management or the need to give sureties to the institution that provides capital to the business. Employment may be controlled via a specific legal unit within a group where this has an impact on the social security contributions or other taxes to be paid, or where it reduces the costs of complying with certain aspects of labour legislation.

19.38 A separate factor of production cannot normally be considered to be an organisational unit producing goods or services even if it is a separate legal unit with identifiable outputs. Such an organisational unit must involve a combination of factors of production. Legal units for individual factors of production in the same enterprise group should therefore be combined with the units they serve to form an enterprise. For cases where several units share labour provided by a separate legal unit, or one legal unit holds the assets of several others, see paragraphs 19.44–19.48 below.

- *Ancillary activities*

19.39 Ancillary activities are defined in the SU Regulation (Annex, section IV, B). These may be provided by separate legal units within an enterprise. In such cases, it is possible that they consist of a single factor of production, or some combination of different factors, but since they serve only units within the enterprise, and are not market oriented, they are not considered autonomous in the sense of the definition of the enterprise. NACE introductory guidelines also state that an activity cannot be ancillary if a significant part of the output is sold on the market. As a consequence, they must be combined with the legal units they serve to form the

enterprise. The activities of one legal unit can only be considered as ancillary to another legal unit if both units are in the same group.

19.40 The following activities can be ancillary as long as they are carried out in a legal unit within the same group as the legal unit they are serving and they serve only that legal unit:

- Accounting, bookkeeping and auditing; tax consultancy — 69.20
- Wholesale trade of own products — part of 46
- Real estate — 68
- Manufacture of tools: Production of small implements for the production process — 25.73 and 28.49
- Freight transport by road; warehousing and storage; support for transportation — 49.41; 52.1 and 52.2
- Office administrative and support — 82.1
- Computer programming, consultancy; data processing, hosting; web portals — 62 and 63.1
- Advertising and market research — 73
- Holding companies — 64.2

Note: This list is not meant to be exhaustive. It is possible that, in certain circumstances, activities not on this list could also be considered to be ancillary, particularly business service activities.

19.41 In addition, the SU Regulation lists the following activities which cannot be considered to be ancillary:

*(a) The production of goods or work carried out which forms part of fixed capital formation — in particular, construction work for own account. This is in line with the method used in NACE, where units carrying out construction work for own account are classified under the building industry if data is available;*

*(b) Production, a significant part of which is sold commercially, even if much is used as consumption in connection with the principal or secondary activities;*

*(c) The production of goods which subsequently become an integral part of the output of the principal or secondary activity — for example, production of boxes, containers, etc. by a department of an enterprise for use in packing its products;*

*(d) The production of energy (integrated power station or integrated coking plant), even where this is consumed in its entirety in the principal or secondary activity of the parent unit;*

*(e) The purchase of goods for resale in an unaltered state;*

*(f) Research and development.*

The Regulation also states that:

*In all of these cases, if separate data is available for these activities, and the collection of data is considered to be cost-effective, they should be regarded as distinct activities and subsequently recognised as KAUs.*

19.42 If an enterprise has a holding legal unit which is not holding assets of any other enterprise, this legal unit is considered to carry out an ancillary activity. It should be combined with the other legal units of the enterprise.

19.43 From an accounting point of view, combining ancillary units with the units they serve does not normally pose any problems. In practice, respondents may prefer to report on the enterprise as a whole, because integrated accounts are produced for management purposes and the reporting burden is lower.

- *Services shared by units within an enterprise group*

19.44 An ancillary activity is, by definition, linked to only one enterprise, although it can serve more than one KAU within the enterprise. A similar phenomenon can exist at the level of the enterprise group, concerning services shared within the group. For example, enterprises may share a computing service for which a separate legal unit exists. Such services may not be market oriented and may not be any more autonomous than an ancillary activity within an enterprise. Costs are normally shared across the enterprises within the group.

19.45 It is not possible to split the legal unit under consideration among the enterprises it serves, since, by definition, enterprises consist of whole legal units. Therefore, although the autonomy of the servicing legal unit may be severely restricted, it should generally be considered an enterprise. In some countries the term 'quasi-enterprise' is used. It may be useful to distinguish these enterprises in some way for certain analytical purposes, but they should still be considered as standard enterprises for the purposes of the compilation and dissemination of business statistics. As such, an enterprise may serve other enterprises with different economic activities and the level of its input may vary considerably over time. The NACE code given to it should represent its own activity, even if this activity is then split analytically amongst other enterprises within the group.

19.46 An exception to this may arise where a legal unit provides labour for several units that would otherwise be considered to be enterprises within a (truncated) enterprise group. In such cases, the following distinction should be made:

- If a legal unit provides staff to two or more other units within the enterprise group on the basis of market contracts and it provides services to units outside the group, the units should be regarded as separate enterprises.
- If the provision of labour is entirely within the group and not on a market contract basis, the staff can be considered as one of the factors of production required for the supply of goods or services to the market. In this case, the legal unit forms an enterprise along with the other legal units in the group where the staff actually work.

Gathering the necessary information to make this distinction will almost certainly require direct contact with the unit.

- *Holding companies within a group*

19.47 A legal unit set up to hold the assets of two or more enterprises within an enterprise group (a 'holding company') resembles to some extent the previous case. It is not market oriented in the sense that it does not sell goods and services to customers outside the group. Pure holding companies only hold the assets of other units and therefore have no turnover or employment, though many holding companies also provide some sort of group service, often of a financial nature. The costs of providing such a service are often recovered through transfers from the enterprises involved.

19.48 In theory, pure holding companies do not fulfil the definition of an enterprise, as they are not a combination of factors of production producing goods and services. Since an enterprise

cannot contain parts of legal units, and as NACE class 64.20, 'activities of holding companies', allows the units concerned to be clearly recognisable and their impact quantifiable, holding companies within groups could be regarded as separate enterprises. This solution does not rule out the possibility of apportioning variables to other enterprises within the group, indeed this may be desirable for certain types of statistics. The possibility of combining all legal units within the truncated group into one enterprise is not considered here as the groups under consideration can be very large. Units that combine holding and other types of activities should be handled as separate enterprises, particularly if this involves the provision of goods and services outside the group.

- *Vertical integration*

19.49 Two legal units are said to be vertically integrated if they are within the same enterprise group and one consumes all of the output of the other. For example, the output of a legal unit engaged in printing could go entirely to a legal unit engaged in bookbinding. In many cases, the activity of one legal unit could be seen as ancillary to the other. There are certain specific circumstances where an activity cannot be regarded as ancillary, which are set out in the SU Regulation. These do not prevent the units being combined into one enterprise, but may strengthen the case for splitting the enterprise into separate KAUs.

19.50 If two or more legal units in the same enterprise group are vertically integrated, they may be considered not to act independently, as the supplying legal unit is not really market oriented. In cases where one unit is completely dependent on another for its sales, it loses autonomy. In practice, it is assumed that the legal units are managed together as one business; therefore, they should be combined to form one enterprise.

19.51 Sometimes a legal unit supplies parts of its output directly to the customers of the legal unit receiving its output, e.g. spare parts or services. In this case, it should be considered whether this is done under market conditions and under the responsibility of the first unit or whether it is carried out under the control of the second unit.

- *Horizontal integration*

19.52 Two legal units are said to be horizontally integrated if they are within the same enterprise group, carry out similar or complementary activities, are managed as one business and present themselves as a single business to the market. This means that their operations are integrated, they share resources, inputs are combined, and the business is marketed as a whole. If two (or more) legal units are horizontally integrated they cannot be considered to act autonomously. Thus, the legal units should be combined to form a single enterprise.

19.53 The concept of 'complementary activities' is used here because the activities of horizontally integrated businesses involve similar inputs and processes. Activities may be complementary without necessarily falling into the same NACE class. An example could be units that buy steel tubes and use similar processes and shared resources to make metal furniture and bicycles respectively.

- *Franchising*

19.54 The operation of a franchise network is a method of doing business that is popular in a number of service activities, especially hotels, restaurants and retail sales. Franchisees are independent legal units that sign a contract with another legal unit, the franchiser, to engage in an activity making use of trademarks, trading styles and marketing support provided by the franchiser, usually in return for a fee or a share of the profits. A franchise contract typically includes a number of restrictive clauses limiting the franchisee's freedom of choice, for instance imposing standards as to the goods and services to be produced, their quality and their price. The franchisee may be compelled to obtain supplies from the franchiser and must pay a contribution towards certain services organised by the franchiser that are common to the entire

network. The franchiser, in turn, offers economies of scale without completely removing the autonomy of the franchisee, for example by taking care of collective marketing. Franchise operators may or may not belong to the same enterprise group.

19.55 Franchisees are deemed to be separate enterprises because they consist of a complete combination of factors of production and they run the full entrepreneurial risk. Moreover, the definition of the enterprise requires autonomy but allows for this autonomy to be somewhat restricted ('a certain degree of autonomy' is required), and full accounts tend to be available only at the level of the separate franchisees. The franchiser is also regarded as a separate enterprise.

### *Conclusions*

19.56 The cases described above cover many of the more difficult situations to be handled by business register staff and provide guidelines that can be applied in other cases. It is recognised that they do not, however, cover all possible cases, so it is recommended that these rules be evaluated after a period of application. This evaluation should include an assessment of whether it is necessary to add further rules covering other cases and circumstances. The rules may also have to be adapted if they are to be applied to the general government sector, non-profit institutions and to situations where national boundaries play a role.

19.57 The operational rules for the enterprise result in units that are appropriate for most purposes. In particular, the criterion of availability of accounts makes it possible to collect the information needed for economic statistics. However, there are two reasons why the units that emerge may not always be the optimal statistical units for all possible uses. Firstly, they are not necessarily homogeneous enough in respect of their economic activity and, secondly, they can only consist of one or more whole legal units. The next section of this chapter examines the KAU. This unit is more homogeneous than the enterprise and may consist of legal units and/or parts of legal units within an enterprise.

19.58 Although the operational rules for determining the enterprise are in line with most of its uses, the suitability of the resulting unit as the basis for the financial accounts defined in the European System of Accounts (ESA95) is less obvious. Whether this unit has full accounts available needs further investigation. The autonomy of the enterprise may, in some cases, be limited to the production of goods and services and the current resources involved. The autonomy to distribute profits and the corresponding accounts may reside at a higher level.

19.59 In summary, the rules for determining the enterprise are as follows:

- If a separate legal unit exists for a single factor of production, this legal unit should be combined with the other legal unit(s) it serves to form an enterprise.
- If a separate legal unit exists for an ancillary activity (including holding company activities) connected to just one enterprise, the legal unit should be combined with that enterprise.
- If a legal unit provides services to several enterprises within an enterprise group, it is considered to be a (quasi) enterprise. If it provides staffing services to several other legal units within an enterprise group, there may be a case for combining all the affected units.
- Holding companies that hold the assets of more than one enterprise are deemed to be (quasi) enterprises.
- Legal units carrying out vertically or horizontally integrated activities should be combined to form a single enterprise.
- Franchisers and franchisees are considered separate enterprises.



- In other cases, the availability of accounts, market orientation and the integration of operations are elements to be considered when delineating the enterprise.
- If a legal unit is kept as a separate enterprise, it may still be useful for certain purposes to analytically split the variables for such a unit over the enterprises it serves.
- The above rules assume the legal units involved are within the same enterprise group. If they are not, they should not be combined

## 19F — Operational rules for the kind-of-activity unit

19.60 The definition of the enterprise mentions that it may have secondary activities, which results in heterogeneity of activities defined in terms of NACE at the class level. The KAU is meant to reduce such heterogeneity, as follows from its definition and explanatory notes in the SU Regulation. These notes also make it clear that the KAU can only fulfil this purpose to the extent that data is available. The KAU should therefore normally correspond to one or more organisational (sub)divisions of the enterprise. The same regulation also defines a perfectly homogeneous unit, the unit of homogeneous production (UHP), which can be used for analytical purposes, but, unlike the KAU, it is not directly observable. Data on the UHP is not required under European legislation on business statistics.

19.61 Operational rules for the KAU must balance the need for homogeneity against data availability, whilst also taking into account the costs of maintaining the KAU, the response burden and the efforts required to maintain consistency with statistics based on the enterprise. It is therefore proposed to be pragmatic in choosing the operational rules and not to split enterprises into KAUs lightly. It is also proposed not to distinguish KAUs from enterprises if there is no statistical need to do so. *Therefore, KAUs should only normally be created in sections of NACE where there is a requirement for data collection at that level.*

19.62 In principle, whether an enterprise should be split into KAUs has nothing to do with the legal structure of the enterprise. However, when listing operational rules, it may be practical to distinguish between cases where:

- The KAU equals one legal unit but the enterprise consists of more than one legal unit.
- The KAU does not equal one legal unit but is composed of one or more legal units and/or parts of legal units.

19.63 The first situation can be handled by considering cases where legal units should be combined to form an enterprise and deciding under what conditions the need for greater homogeneity requires that the enterprise should be re-divided into its legal units to form KAUs. The operational rules below assume KAUs are delineated in a top-down manner. It may also be possible to build the KAU from information on activities carried out at the local unit level. However, since the KAU is, by definition, an enterprise or part thereof, the top-down approach automatically results in consistency between the enterprise level and the KAU level.

### *Splitting enterprises into KAUs corresponding to legal units*

- *Separate legal units for different factors of production*

19.64 The enterprise, which is the combination of the legal units concerned, does not have to be split, because separating single factors of production would not improve homogeneity. The NACE classification is not a list of factors of production, but of combinations of those factors that amount to economic activities. Making KAUs out of separate factors of production may also contradict the definition requirement that the KAU is an organisational part of the enterprise, and would not be desirable from the point of view of availability of accounts and response burden.

- *Ancillary activities*

19.65 Legal units performing ancillary activities should not be KAUs. The first explanatory note of the definition of the KAU in the SU Regulation states explicitly that an ancillary activity cannot constitute a KAU. This would not be desirable, because NACE is intended to reflect economic activities, each of which includes all ancillary activities necessary to perform them. If an ancillary activity within an enterprise serves more than one KAU, it should be apportioned across those KAUs regardless of whether or not it is carried out in a specific legal unit. This is possible because, unlike the enterprise, the KAU can include parts of legal units.

- *Vertical integration*

19.66 It is not obvious what the effect on homogeneity would be if a vertically integrated enterprise were split into KAUs corresponding to the legal units. Vertically integrated activities may be represented by a single NACE code, in which case making the legal units into separate KAUs could very well reduce homogeneity, whereas, if the activities are separately identified at the NACE class level, splitting the enterprise would improve homogeneity.

19.67 A further consideration is the availability of accounts. It is possible that no accounts are available for the separate legal units or at least no accounts where the inputs and outputs are recorded at real market values. It is desirable that this is a requirement for the KAU.

19.68 It is recommended that legal units carrying out vertically integrated activities within an enterprise are not normally split into KAUs. They could only be considered to be KAUs if they fulfil all three of the following conditions:

- The integrated activity does not fall within a single NACE class, and
- The activities of the legal units can be separately identified at this level, and
- Accounts are available with data on inputs and outputs at (at least approximate) market values.

- *Horizontal integration*

19.69 If horizontally integrated legal units within an enterprise carry out the same activity, homogeneity does not increase if the enterprise is split into KAUs. If the activities were different, homogeneity would increase by splitting the enterprise. It is therefore recommended that horizontally integrated legal units are only considered to be KAUs if:

- They carry out different economic activities at the NACE class level, and
- Separate accounts are available.

- *Other cases where the enterprise consists of more than one legal unit*

19.70 In the guidelines given for market enterprises, three strongly linked criteria are used to identify units complying with the definition of the enterprise: Availability of accounts, market orientation and integrated operations. These criteria are also relevant to the KAU, but it is proposed to apply them less strictly to allow for a higher degree of homogeneity.

- Availability of accounts: Full accounts would normally be available at the enterprise (or group) level, though the data availability aspect of the KAU definition implies that limited accounts should also be available at this level.
- Market orientation: The KAU does not have to have actual market clients, as long as it is operated as a market oriented unit. This implies that it records market values or approximations of market values. This criterion is not, however, absolute, as according to

the SU Regulation, research and development and other activities mentioned in paragraph 19.41 may correspond to KAUs if data is available.

- Integrated operations: The definition of the KAU states that the KAU corresponds to one or more operational (sub)divisions of the enterprise, therefore full integration is not necessary at this level.

19.71 Apart from the criteria above, it is also relevant to consider whether splitting an enterprise into KAUs would increase homogeneity in terms of NACE. It is proposed to require that

- The activities of the individual legal units can be identified at the NACE class level, and
- The combined activities of the legal units of the enterprise do not fall within a single NACE class.

#### *Splitting enterprises into KAUs not corresponding to legal units*

19.72 In line with the recommendations above, it is proposed that the splitting of enterprises into KAUs that do not correspond to legal units be restricted to situations where all of the following conditions are satisfied:

- The KAUs are operated as market oriented, operational parts of the enterprise, although they may not have market clients, and
- Accounts are available with data for inputs and outputs at (at least approximate) market values, and
- The activities of the KAUs can be identified at the NACE class level, and
- The activity of the enterprise does not fall within a single NACE class.

#### *Application of a threshold*

19.73 It may be desirable to determine a minimum size and/or a minimum share in the output of the enterprise that must be reached before KAUs can be created. Such a threshold would ideally depend on a cost-benefit analysis, which is likely to vary from country to country. It is not therefore recommended to apply a strict threshold at the European level.

#### *Conclusions*

19.74 In summary, the recommendations for delimiting KAUs are as follows:

- Under certain conditions regarding activities carried out and the availability of accounts, vertically integrated legal units may be separate KAUs.
- The same is true for horizontally integrated legal units.
- In other cases, splitting the enterprise into KAUs is possible in principle, even if the KAUs would not equal legal units. In these cases, certain conditions apply regarding operational existence, market orientation, availability of accounts and activities carried out.
- The operational rules for the KAU should be evaluated after a period of application.

## **19G — Quality measures**

19.75 In the context of quality, it is clearly desirable to determine the degree to which the above recommendations are implemented in practice. It is therefore proposed that a measure of

the quality of the implementation of the operational definitions of the enterprise and kind-of-activity unit be developed. This should be done in such a way that:

- The measure is relevant to the quality of business statistics based on the enterprise.
- Reference is made to measurable variables only.
- No reference is made to country-specific situations.
- Measurement can take place for those operational rules on which agreement already exists.

19.76 The development of such quality measures is currently outside the scope of this chapter, as more experience is needed in the implementation of these rules before such measures can be finalised. It is recommended that possible measures should be developed and tested in practice before they are incorporated in future versions of this Manual.

## **19H — Relation to the BR Regulation**

19.77 The operational rules for the enterprise given in this chapter are considered an interpretation of the BR Regulation, whereas those concerning the KAU cannot be considered to have the same status because the Regulation does not require this unit to be included in statistical business registers.

**THE USE OF  
ADMINISTRATIVE SOURCES**

**20**

## CHAPTER 20 — THE USE OF ADMINISTRATIVE SOURCES

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### 20A — Introduction

20.1 This chapter describes the relationship between administrative data sources and statistical business registers, focusing on how those sources can be used to maintain and enhance the register. The definition of administrative sources is considered, along with the expected benefits and problems relating to their use. The specific case of registers that can be linked to a statistical business register (known as ‘associated’ or ‘satellite’ registers) is also considered, focusing on the example of Intrastat data.

### 20B — Definitions of administrative sources

20.2 A traditional definition of administrative sources is that they are files of data collected by government bodies for the purposes of administering taxes and benefits or monitoring populations. This narrow definition is gradually becoming less relevant as functions previously carried out by the government sector are, in many countries, being outsourced, either wholly or in part, to the private sector and the availability of good quality private sector data sources is increasing. It is therefore necessary to consider a wider definition of administrative sources.

20.3 For the purposes of this Manual, administrative sources are therefore defined in the widest possible sense:

Administrative sources are sources containing information that is not primarily collected for statistical purposes

This wide definition was proposed by the Eurostat Task Force on Administrative Sources in 1997. It allows virtually the whole range of non-survey input to business registers to be considered, regardless of origin.

20.4 Eurostat collects information on the administrative and other data sources used for statistical business registers in the annual business registers questionnaire. This questionnaire is also used by the UN/ECE so covers a wide range of countries including the OECD countries. The most commonly used sources relate to taxation systems such as value added tax (VAT) and personal income tax or to compulsory business registration systems, often administered by chambers of commerce. Information is also obtained in some cases from published accounts, private sector business data providers or utility company records. In some cases, different sources are used for specific categories of units defined by criteria such as size, economic activity or legal form. European Union countries use many different administrative sources to maintain their statistical business registers. These sources can sometimes be used to create 'associated registers'. These are examined in more detail in section 20H.

20.5 Some international organisations and individual countries are exploring the possibility of automatically extracting data from the internal financial or management accounting systems of businesses. Under the wider definition set out above, this should also be considered as the use of data from an administrative source.

## **20C — Why use administrative sources?**

20.6 The following paragraphs explore the reasons for using administrative sources, focusing on the advantages of this type of data. The use of administrative sources also raises a number of problems, which are considered, including possible solutions, in section 20D.

20.7 The main advantage administrative sources offer over survey data is usually cost. Surveys are very expensive, particularly if they are conducted as censuses or involve the use of personal interviews. Administrative sources are often 'free', particularly if they originate from the public sector. Even if there is a charge, it is often still cheaper to use administrative data than to collect the same information via a survey. Fewer staff are usually needed to process the data and there is no need for response chasing. The size and scope of statistical business registers makes it very difficult and expensive to satisfactorily populate and maintain them solely by survey data.

20.8 Using data from administrative sources also helps to reduce the response burden on businesses. Whilst businesses usually understand the reasons for supplying data for registration and taxation purposes, even if they do not like doing so, they may see statistical data requests as an extra, less necessary, burden. If they have already provided details to other government departments, they may become annoyed at receiving similar requests from the national statistical institute. An associated advantage is that the use of administrative data may, in some cases, allow statistics to be produced more frequently with no extra cost to businesses.

20.9 Administrative sources often give complete or almost complete coverage of the target population, whereas sample surveys often only directly cover a relatively small proportion. The use of administrative sources therefore eliminates survey errors, removes (or significantly reduces) non-response and provides more accurate and detailed estimates for various sub-populations, e.g. businesses in small geographic areas. Coverage is often of particular interest from the viewpoint of statistical business registers, given that such registers should cover at least all businesses with a labour input of one person half time or more (see Chapter 6).

20.10 The use of administrative sources may increase the quality of business registers by allowing access to more up-to-date information concerning certain variables, e.g.

- The opening and closing of units and the dates of these events;
- The economic activity code (at enterprise group, subgroup, enterprise and/or local unit level);
- Information on unit locations (at local unit level);
- Size data (number of employees or turnover).

20.11 As well as improving the timeliness of variables, the use of data from administrative sources can, in some cases, improve the timeliness of statistics that are derived from business register data either directly or via samples. This is because statistical surveys generally take time to plan, to design and pilot forms, to analyse the population and optimise the sample, etc. This is particularly the case for annual or ad-hoc data collections. Therefore access to a suitable administrative source via the business register can be a more efficient solution. It should be noted, however, that there are also likely to be cases where the use of administrative sources leads to a reduction in timeliness, particularly regarding short-term indicators. See paragraph 20.18 below.

20.12 Public opinion relating to the sharing of data, particularly between different government departments, varies considerably from country to country. Where public opinion generally accepts or is in favour of data sharing, the increased use of existing data sources can help to enhance the prestige of a national statistical institute by making it more efficient and cost-effective.

## **20D — Problems using administrative sources**

20.13 Although there are many good reasons for using administrative sources, there are also a number of common problems associated with their use. The following paragraphs outline some of these problems and propose methods to solve them, or at least to minimise their impact on statistical business registers. One specific problem, that of gaining access to administrative sources in the first place, is handled separately in section 20G below.

20.14 Paragraph 20.12 considered how public opinion might favour the sharing of data in some countries. In other countries, however, there may be public unease at the thought of data being shared throughout the government. It is very difficult to reduce such concerns, but possible approaches could include the publication of clear limits and rules regarding the use of data, ensuring that businesses understand that sensitive data will not be fed back to other parts of government (particularly tax agencies). This is in line with the United Nations 'Fundamental Principles of Official Statistics', where Principle 5 (*"Data for statistical purposes may be drawn from all types of sources, be they statistical surveys or administrative records. Statistical agencies are to choose the source with regard to quality, timeliness, costs and the burden on respondents."*) encourages the use of administrative data and taken in conjunction with Principle 6 (*"Individual data collected by statistical agencies for statistical compilation, whether they refer to natural or legal persons, are to be strictly confidential and used exclusively for statistical purposes."*), establishes the principle of the one-way flow of data. The publication of analyses of the costs and benefits, both to government and to businesses, of the use of different sources may also be beneficial.

20.15 One major problem often encountered when using administrative sources is that the units used in those sources do not correspond directly to the definition of the required statistical units. The process of converting from administrative units (which may often be equivalent to legal units) to statistical units (i.e. enterprises and local units or enterprise



groups) is known as profiling and is examined in Chapter 19, along with rules for combining legal units into enterprises.

20.16 As well as differences in the definitions of units, there are also likely to be differences in the definitions of variables between administrative and statistical systems. The data in administrative sources has generally been collected for a specific administrative purpose and the needs and priorities relating to that purpose are likely to be different to those of the statistical system. For example, turnover for value added tax (VAT) purposes may not include turnover related to the sales of VAT exempt goods and services, whereas the statistical system is likely to require total turnover.

20.17 Similarly, the classification systems used within administrative sources may be different to those used in the statistical world. Even if they are the same, they may be applied differently depending on the primary purpose of the administrative source. Where classification systems are different, it is usually necessary to construct conversion matrices to map the codes in the administrative classification onto those required for statistical business registers. Such mappings may be one-to-one, one-to-many, or many-to-many. In the latter cases, some sort of probabilistic allocation is often required. This should result in accurate coding at the aggregate level, but not necessarily at the level of individual units.

20.18 Another common problem encountered when using data from administrative sources relates to timeliness. Data may either not be available in time to meet statistical needs, or it may relate to a period which does not coincide with that required for statistical purposes, e.g. a tax year may not coincide with the calendar year required for structural business statistics. There will generally be some sort of lag between an event happening in the real world and it being recorded by an administrative source. This is then followed by a further lag before the data is made available to the statistical business register. Lags relating to births and deaths of enterprises are a major source of register coverage errors. If these lags can be measured, allowance can be made for them in any statistics based on register data.

20.19 Public sector administrative sources are generally set up for the purposes of collecting taxes or monitoring government policies. This means that they are susceptible to political changes. If a policy changes, administrative sources may be affected in terms of coverage, definitions, thresholds, etc. or possibly even abolished completely. Such changes may happen suddenly, with little warning, particularly following a change of government. Reliance on a particular source always carries a certain degree of risk. These risks can be managed to some extent by legal or contractual provisions, regular contact with those responsible for the administrative source to try to obtain early warning of possible changes and by drawing up contingency plans.

20.20 If data from several administrative sources is used, it is likely that the manager of the statistical business register will be faced with problems matching the data. Matching is relatively easy if there is some form of common identification number, but, if not, it usually has to be based on variables such as name, address and NACE code. In such cases, it is likely that there will be a certain proportion of false matches and false non-matches, giving rise to a need for the clerical investigation of possible matches.

20.21 Another problem where multiple sources are used concerns consistency between the sources. Data from one source may appear to contradict that from another source. This may be due to different definitions, classifications or differences in timing or simply to an error in one source. To resolve such conflicts it is necessary to establish priority rules, by deciding which source is most reliable for a particular variable. Once a priority order of sources has been determined for a variable it should then be possible to ensure that data from a high priority source is not overwritten from a lower priority source. This process is made much easier if source codes and dates are stored alongside the main register variables.

## **20E — Quality and administrative sources**

20.22 The issue of quality in relation to statistical business registers is examined in Chapter 10, but it is worth commenting on the assessment of the quality of various actual and potential administrative sources used to maintain statistical business registers. If the manager of such a register is fortunate enough to be faced with a choice of two or more administrative sources, how can he or she determine which source has the higher quality?

20.23 There is no simple answer to this question, but there are several possible approaches which may be used in combination. It can be useful to compare sources in terms of coverage and accuracy of the variables. This can be aided by some sort of quality survey to determine the correct values of certain variables. The closeness of administrative units and variables to the units and variables required for statistical business registers can be an important factor in determining the quality of an administrative source. The fewer transformations required, the lower the risk of error or bias.

20.24 Perhaps the best way to assess the quality of an administrative source is, however, to build up a thorough knowledge of that source, including the primary purpose of the source and the way the data is collected and processed. Thorough understanding of a source will allow a more accurate assessment of strengths and weaknesses. To help develop and document this knowledge, particularly for the benefit of future register staff, it is useful to develop some form of template to record information on contacts, units, variables, quality and formats. The information in the templates should be agreed with those responsible for the administrative source and should be reviewed regularly.

## **20F — Using administrative sources in practice**

20.25 The following paragraphs consider the processes that are often necessary to transform data from administrative sources into the characteristics required for statistical business registers. The main processes are listed and explained in brief, although they will need to be adapted to fit the specific requirements of each country and source. A principle adopted by several national statistical institutes is that the statistical business register should serve as the gateway for administrative microdata. This means that all administrative data at the level of individual businesses or sites should be fed through the business register. This enables the units and variables in the administrative data source to be matched to those in statistical surveys based on the register.

### **First steps and the transition from administrative to statistical data**

20.26 The first steps generally concern processing the administrative data to check its quality and coverage. Preliminary analyses may be useful, or even necessary, to check several points including that:

- The file is the expected size, i.e. it contains the expected number of records and variables.
- The main variables are in valid formats e.g. dates are within a permissible range, text fields contain only text characters, numeric fields contain only numbers, etc.
- The coverage of the main variables, e.g. that identity numbers, addresses, economic activity codes etc. are present for all units.
- The variables are plausible, e.g. numeric variables are within an acceptable range and any codes used are valid.

20.27 If the preliminary analyses show that the source is of sufficient quality and may help to increase the quality of the business register, a second group of procedures is required to translate the data to meet the requirements of the statistical business register. These procedures refer to the pre-treatment of the administrative data, including the application of statistical definitions of units and variables.

20.28 An administrative source is unlikely to use the same definition of units required by a statistical business register, especially in the case of complex businesses. The translation of the administrative data into statistical data may therefore involve steps such as the creation of algorithms or look-up tables to convert variables and classifications, e.g. tables that convert economic activity codes to NACE codes and location details into geographic location codes.

### **Linking and matching**

20.29 The next step is to identify the link between units in the administrative source and the corresponding units in the statistical business register. This is relatively easy if there is a common reference number for businesses, as long as there are no errors in this number in either the administrative source or the register.

20.30 If there is no common identification code, a probabilistic approach to record linking can be adopted by identifying correspondences or similarities in the name and address or other characteristics (e.g. legal form, economic activity code etc.). This process is generally referred to as matching and is intended to be examined in more detail in a later chapter. However, this approach makes it possible to link units in error (sometimes known as false matches).

20.31 Quality checks of the results of the matching should be carried out. These can take the form of checks of auxiliary variables, e.g. economic activity codes, size or legal form. If these variables are consistent, it is more likely that the match is correct. If not, further clerical checks may be needed, particularly where larger units are concerned.

20.32 It is also useful to periodically check the non-matched units and attempt to establish further links or to determine why they do not match. If the non-matched units are genuine, they may be due to timing or scope differences between the administrative source and the statistical business register.

### **Quality improvements and addition of specific stratification variables**

20.33 Administrative sources can provide a useful check for existing register variables, e.g. name, address, contact details, size and classification variables. Where the administrative source and the statistical business register do not agree, it should be possible to investigate the reasons, and thus gain a greater understanding of register quality. Surveys may be used to investigate such discrepancies, either specifically for this purpose or as part of some other data collection exercise.

20.34 Administrative sources often hold variables not normally found in statistical business registers. These may be of use for stratification purposes for certain types of surveys. Such sources may be used to develop 'associated registers', which are examined further in section 20H.

## **20G — Access to administrative sources**

20.35 The principle of access to administrative sources is stated in Article 4 of the BR Regulation (see paragraph 20.54) but also more generally in Council Regulation (EC) No 322/97, dated 17 February 1997, on Community Statistics, Article 16 ("*...the national authorities and the Community authority shall have access to administrative data*").

*sources...*). Issues relating to gaining access to administrative sources are dealt with thoroughly in the Eurostat publication ‘Use of Administrative Sources for Business Statistics Purposes — Handbook of Good Practices’, so they are only summarised and related specifically to statistical business registers in this chapter.

20.36 There are two aspects to gaining access to administrative sources; the first concerns the legal framework, whereas the second covers the practical issues surrounding the transfer of data. The legal framework will vary from country to country, but the preferred approach is to have an automatic right of access to administrative data enshrined in a general statistical act. The practical issues concerning access to administrative sources also vary from country to country, but here it is more appropriate to consider good practices and how they can be spread.

20.37 The annual business register inquiry conducted by Eurostat has shown that the main administrative sources used for statistical business registers are tax records (e.g. those relating to VAT or employee income tax) or details of compulsory registration with bodies such as company/trade registers and chambers of commerce. Access to such public sector sources is usually free, but may be difficult to obtain due to policy, legal or resource considerations. Private sector administrative sources are also used, e.g. for information on links and ownership. Access to these sources is usually easier to arrange, but is normally subject to a charge.

20.38 It is recommended that some sort of formal agreement is obtained with administrative data suppliers, such as a legally binding contract with private sector suppliers, or a ‘service level agreement’ or ‘memorandum of understanding’ within the public sector. These agreements should describe the rights and responsibilities of both parties, data confidentiality constraints, quality standards, frequency and format of data transfer and procedures to follow in case of disputes.

20.39 In addition to formal arrangements, it is also strongly recommended to build a good working relationship with administrative data suppliers. This can be achieved through regular contact, preferably at least partly face-to-face. It is usually worth devoting some time to visiting suppliers to gain a greater knowledge of their work, systems and constraints. This leads to a better appreciation of quality issues and can help to build goodwill and mutual understanding, which in turn helps to identify and resolve problems as they arise and before they escalate.

## **20H — Associated registers**

20.40 One way of using administrative data in practice is to organise this data into specific registers linked to the statistical business register. If these registers meet certain criteria, they can be referred to as ‘associated’ or ‘satellite’ registers. Satellite registers are therefore defined as registers that are available to the national statistical system (in the national statistical institute or elsewhere), contain information about businesses and fulfil the following conditions:

- They are not an integral part of the statistical business register as referred to in the BR Regulation, but are capable of being linked to it.
- They are more limited in scope than the statistical business register, e.g. in terms of NACE, but within that scope they may have more extensive coverage of units and/or variables.
- They contain one or more variables that are not found in the statistical business register. Such variables are generally capable of being used for stratification purposes.

20.41 Thus associated registers can be constructed using information from administrative sources, statistical surveys or a combination of both. In some cases, they may add, combine or otherwise transform variables, though in others they may be more or less identical to a particular source. To ensure that associated registers are sufficiently coherent with statistical business registers, it may be useful to consider additional criteria, e.g. common unit identifiers, common definitions and classifications. The greater the coherence, the more useful an associated register is likely to be.

20.42 The scope of associated registers can be determined by:

- Economic activity — they may contain businesses with similar activities, e.g. retail trade, accommodation, road haulage etc.
- Size — They may contain units with a certain number of employees or turnover over a certain level, e.g. they may contain the subset of ‘large enterprises’.
- Characteristics — They may contain units with a common characteristic, e.g. those that engage in foreign trade (units in the register of intra-Community operators).

20.43 Variables specific to a particular sector of economic activity may be made available by using associated registers, e.g. the variable ‘sales space’ for businesses in the retail trade; or the variables ‘category/number of stars’ or ‘number of beds’ for hotels (detailed discussion papers on associated registers for distributive trade and tourism are available from Eurostat). Associated registers can add value to statistical business registers by adding a wider range of variables both for stratification and analysis purposes.

20.44 One factor that greatly facilitates the use of associated registers concerns the rights and mechanics of access to administrative sources for statistical purposes. Many potential associated registers are likely to exist, but they are of no real use if the legal and technical means to link them to the statistical business register are not in place.

20.45 The use of associated registers can increase sampling efficiency (i.e. a reduction in the number of units sampled, whilst still retaining the same level of accuracy of survey results) in two ways:

- The statistical business register includes links to additional stratification variables via associated registers.
- The statistical business register benefits from the improved quality of variables due to the ability to cross-check this register with external sources.

20.46 The use of associated registers can reduce the response burden on businesses either through increased sampling efficiency or by removing the need to conduct a survey altogether. They may also include additional units not present in the statistical business register, thus extending the coverage of the population of interest.

## **20I — The example of Intrastat registers**

20.47 The following paragraphs consider the potential links between statistical business registers and registers of intra-Community operators (Intrastat registers) and the possible benefits deriving from these links. An Intrastat register can be considered as a form of associated register. This example is of particular interest because the BR Regulation includes a requirement for a specific variable to be held at legal unit level: “*Reference to the register of intra-Community operators set up in accordance with Regulation (EC) No 638/2004, and Reference to customs files or to the register of extra-Community operators*” (characteristic 1.7a).

20.48 Council Regulation No 638/2004 defines the rules for the compilation of statistics relating to the trading of goods between Member States. According to this Regulation, Member States should have a register of intra-community operators at their disposal.

20.49 Article 5 of Commission Regulation No 1982/2004, which implements and amends Council Regulation No 638/2004, defines a list of minimum data fields to be recorded in the Intrastat register:

- Full name of the natural or legal person
- Full address including postcode
- VAT registration number
- The taxable amount of intra-Community acquisitions and deliveries of goods
- The tax period

20.50 The links between the statistical business register and the Intrastat register can be analysed according to the following elements:

- Sources of information — Fiscal registers are the main source of information of the Intrastat register, and are usually an important source for statistical business registers.
- Reference units — The BR Regulation identifies four reference units for statistical business registers: The legal unit, the enterprise group, the enterprise, and the local unit. The Intrastat Regulation does not define any unit of reference, but as fiscal registers are the main source of information for Intrastat registers, it can be assumed that the unit of reference is generally the legal unit, i.e. every legal unit responsible for the control of the operator having intra-Community import/export movements.
- Variables — Commission Regulation No 1982/2004 specifies the variables to be included in the Intrastat register. Among these, the name and address of the person or firm correspond to characteristics 1.2a and 1.2b of the legal unit in the statistical business register. Another possible common variable is the VAT registration number, which appears as variable 1.3 in the statistical business register.

20.51 Given these similarities, there should be a strong link between the Intrastat register and the statistical business register. Conceptually, the Intrastat register represents a logical subset of the business register corresponding to the legal units with intra-Community exchanges. The subset should be identified via characteristic 1.7a of the legal unit in the statistical business register, which should be present by definition in the Intrastat register. It is possible to establish the link by using an identity number, e.g. the VAT registration number (1.3) or by matching based on name and address.

20.52 It should be noted that there may be some units in the Intrastat register which are not included in the statistical business register, e.g. natural persons, which may not have been regarded as economic factors or units that have fallen below thresholds concerning employment and turnover. Whether such units should be included in the business register or not must be decided on the basis of the maintenance of the consistency of the business register but may require certain factors to be checked, e.g. if the unit is part of an enterprise group, it clearly needs to be included.

20.53 Both the Intrastat register and the statistical business register can benefit from the link between them. Specifically, the statistical business register has access to a reliable tool for checking the quality of its own data regarding a limited (in number), but important subset of enterprises. The link between the Intrastat register and the statistical business register may also help to identify inconsistencies, e.g. if the product code of the exchanged goods

declared by intra-Community operators is available, this can be compared with the activity code of the statistical business register.

## **20J — Relation to the BR Regulation**

20.54 Article 4 of the BR Regulation states that "National authorities shall be authorised, within their sphere of competence, to collect for statistical purposes information covered by this Regulation contained in administrative and legal files". The use of administrative sources, as described in this chapter is therefore considered to be an interpretation of the Regulation. The methodological recommendations concerning the transfer of data from administrative sources, and the creation of associated registers, go beyond the Regulation.

20.55 Legal unit characteristic 1.7a, "Reference to the register of intra-Community operators set up in accordance with Regulation (EC) No 638/2004, and Reference to customs files or to the register of extra-Community operators" is compulsory in the BR Regulation. Therefore a link between the business register and Intrastat register is required. The text above concerning this link can be considered as a guideline to aid the implementation of the Regulation rather than as a strict interpretation of the Regulation.

**ENTERPRISE GROUPS**

**21**



## CHAPTER 21 — ENTERPRISE GROUPS

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### 21A — Introduction

21.1 Enterprise groups are one of the most important means of external growth for businesses. They allow a combination of the advantages of a flexible structure, constituted by a set of juridical autonomous units, with those deriving from the possibility of centralising some particular functions within the group to benefit from economies of scale and scope. The activities of enterprise groups expand worldwide, since location of the units is a strategic consideration to gain comparative advantages over competitors.

21.2 The main reasons why enterprises form a group are:

- (a) To cover a wider market;
- (b) To increase productivity through more efficient business management.

Generally, the main economic advantages that an enterprise group intends to achieve are:

#### *Integration economies*

Integration economies mean the internalisation of external transactions, e.g. the integration of the production of pre-products to control the price or to avoid cost variations connected to market prices. This can lead to reduced costs from a wider range of activities, which, though different, are complementary as far as the technology is concerned. Integration economies lead to the formation of vertical groups, where an enterprise takes control over another enterprise either producing raw materials or semi-manufactured products (backward integration) or distributing and selling its final products (forward integration).

### *Scope economies*

These are cost savings coming from a range of activities, which are completely different. This particular advantage is based on the existence of common resources which can be allocated flexibly and on the greater spreading of risks. The groups formed for this reason are called conglomerate groups and are set up to diversify activities across several sectors.

21.3 This chapter concentrates on the statistical concept of the enterprise group on both a multinational (multinational enterprise groups, MNEs) and national (all-resident and truncated enterprise groups) level and its operational rules. Enterprise group variables are examined in Chapter 5 and demographic changes and continuity rules in Chapter 22. The data exchange between Eurostat and the Member States will be defined in a separate chapter consistent with this chapter.

### **21B — User needs**

21.4 The reasons for including information on enterprise groups in business registers are in line with the role of the statistical business register as described in Chapter 3. The enterprise group is a statistical unit, defined in Council Regulation No 696/93 on the statistical units for the observation and analysis of the production system in the Community (SU Regulation). The most important use of enterprise groups is to take into account the effects of globalisation on various statistics (as examined below), as a basic tool to ensure and improve the quality of statistics both at national and European level. Other uses such as measuring the concentration of economy and better confidential handling of units are also discussed in brief.

21.5 The increasing diversity of business structures in the economy leads to consideration of the role of the enterprise as part of a larger unit, the enterprise group, where long-term strategies are determined and managed in a centralised way.

The observational unit for the structural business statistics (SBS) regulation is the enterprise, but for some sectors and for specific analyses (financial relationships, market concentration) it would be more relevant to consider the enterprise group as the observational unit. A better targeting of surveys would be more efficient and lead to cost savings and a reduction in the response burden. Even though the discussion of statistics at group level is only at an early stage, it should be emphasised that some economic variables are more relevant at group level than at enterprise level, particularly: operating surplus, research and development, taxes, technological balance of payments and stock exchange capitalisation.

21.6 Also, building up enterprise groups by delineating their respective sets of legal units is a basis to delineate and profile large and complex enterprises within an enterprise group and thus to improve the quality of the business register and the comparability of business statistics among Member States. This issue is examined in Chapter 19 and in a forthcoming new chapter on profiling.

21.7 The demand for information on globalisation results in additional requirements for the business register to record information on enterprise groups. To be a suitable tool for this purpose, the register must contain enterprise group links. The following statistics are currently the most important in this respect:

- Statistics on foreign affiliates (FATS)
- Foreign direct investment (FDI) statistics
- Intra-group trade statistics
- Contributions of multinational groups to international trade

- Balance of payments direct reporting and surveys
- National accounts
- Science, technology and innovation
- Structural business statistics.

### **Foreign affiliates statistics**

21.8 Information on the activities of foreign affiliates (FATS) of MNEs offers key information on the globalisation of businesses, e.g. for the negotiations on the goods and services trade liberalisation process. The collection of data on foreign affiliates (subsidiaries) by economic activity and geographical breakdown according to the country of the ultimate controlling institutional unit (UCI, see characteristic 4.16 in Chapter 5 and recommendations for special cases from 21.59 below) requires harmonised information on MNE structures, global group heads and global decision centres. Knowing whether a legal unit is an independent unit or belongs to a domestically or foreign controlled enterprise group, either as a subsidiary or as an intermediate or global group head will provide the fundamental information to derive the inward and outward FATS populations. Harmonisation of the data on the group structures at European level and use of coherent methodologies between business registers and FATS are a necessity.

Inward FATS are mainly produced by linking data from SBS with the MNE to which the enterprise belongs and the quality is related to the quality of the MNE data in business registers. Outward FATS include few compulsory variables for European controlled MNEs according to the foreign country in which their subsidiaries are located. Pilot studies for additional variables which are not directly available or are more difficult to obtain will be carried out for both inward and outward FATS. The collection of outward FATS data is done by specific surveys, often in combination with FDI surveys (although the survey population is different) or obtained from other surveys.

### **Foreign direct investment statistics**

21.9 Data on foreign direct investment (FDI) includes inward and outward financial transactions/positions between directly and indirectly owned incorporated or unincorporated enterprises. An ownership threshold of 10 percent or more of the voting power is currently used (this threshold is recommended in the BR Regulation for the ownership characteristics). The extent of the direct investment relationship is determined according to the framework of direct investment. Under this framework, a direct investment relationship exists between the investor and all of its subsidiaries and associates (directly or indirectly owned). Stocks and flows are allocated to the direct (first shot) owner country, although additional statistics are planned using the ultimate investor and ultimate investee. The FDI geographical allocation is thus not to the ultimate controlling unit country (as in FATS), but is spread according to the first shot ownership links and percentages. The situation when MNEs decide about the distribution of their resources across the countries, and direct investments are steered by a group head located in a different country from the subsidiary that carries out the direct investment in a third country, has an effect on the FDI statistics.

FDI statistics provide information which is needed for the framework of the trade and free market policy and they also give certain information on international outsourcing (offshoring). Statistical surveys are generally used to compile the data and the samples are drawn either from business registers or from separate FDI registers, which in most cases are held in national central banks (NCB). The existence of two registers leads to duplication and causes additional costs. A link between central bank registers and statistical business registers, including data exchange on the MNEs between these registers, helps to improve the quality and reduce costs, since the amount of information to be investigated decreases. The availability of enterprise group links in the statistical business register is the necessary precondition.

## **Intra-group trade statistics**

21.10 Intra-group trade takes place between enterprises of the same group and statistics can be produced in international trade statistics and in FATS statistics. In intra-group trade statistics, the focus is on the volume of trade and transfer prices between the members of an enterprise group at world level. For this purpose, it is not enough to identify the MNEs located in the compiling country; information must also be made available on the trading partners. The information on intra-group trade is transaction-based and it is not available from current data sources. This leaves surveys as the main method for data collection. There is limited experience on intra-group data collection, but the general conclusion is that the more the sampling scheme can be improved and the survey frame limited with the help of register information, the easier it will also be for the enterprises.

The aim is thus to help to identify potential intra-group trade and even to measure it at aggregate level when linked to administrative data. In order to limit the target population only to the possible trade flows, the business registers should have information on the complete structure of the MNEs, including the identity numbers of units located in other EU Member States. Linkages between enterprise group data and value added tax information exchange system (VIES) data could then be used to identify and measure intra-group trade.

When measuring intra-group trade for extra-EU trade, there is also a need to identify the enterprises located outside the EU. It is therefore very important that the complete MNE, its constituent units and their identification are defined in business registers.

## **Contributions of enterprise groups to international trade**

21.11 When the information on whether an enterprise is a member of an enterprise group, domestically or foreign controlled, or of an all-resident group, is recorded in business registers, it is possible to produce new important statistics on the characteristics of traders by linking the trade data to business registers and reconciling trade flows according to the enterprise (including independent enterprises) and enterprise group characteristics.

## **Balance of payments direct reporting and surveys**

21.12 Business registers can be used as survey frames for balance of payments (BoP) surveys in much a similar way as that described above for FDI surveys. The data collection for BoP has moved considerably from transaction-based data collection to direct surveys. There are also other important uses of business registers, for instance in the handling of special-purpose entities. These are units that are foreign controlled and own subsidiaries abroad — they don't usually produce or trade goods or services and they employ no or very few staff. Their handling in BoP (and national accounts) is a problem and it helps considerably when these could be separated into business registers in the control chain by their NACE class and other features such as lack of employment.

## **National accounts**

21.13 Business registers have been used for national accounts (NA) purposes to a varying extent depending on country. With the inclusion of the institutional sector in the BR Regulation, the BR-NA coordination will reach a much higher level and the usability of business registers for national accounts purposes, for instance to distinguish special purpose entities and other foreign controlled units, will greatly improve. The use of business registers as a pivot in linking various associated registers can be very important for improving the coherence of EU national accounts.

## **Science, technology and innovation**

21.14 The use of enterprise groups in this area is just emerging. The surveys on research and development units can be improved from the knowledge that they are part of a multinational group and from knowing the group heads who decide on the development, and the specialised units where the research and development is carried out. The same is true for research and development variables in inward and outward FATS.

## **Structural business statistics**

21.15 Structural business statistics are used to calculate the productivity of different sectors in different countries. Multinational groups can influence the distribution of profits among countries, directing them to a country where there are fewer taxes. This may lead to transfer pricing that does not reflect the real values of the products. Traditional productivity calculations and characteristics such as turnover no longer reflect economic reality. Multinational group data can help to determine the reasons for the irregular results, but further discussion is required on how to handle the problematic results.

## **SME statistics**

21.16 Enterprise groups can be used to calculate statistical indicators for measuring the real size of enterprises. This is a relevant issue, especially concerning the European definition of small and medium-sized enterprises (SMEs) as given in Commission Recommendation 2003/361/EC. SMEs are defined by their size, by employment (below 250 persons employed full-time), turnover or balance sheet total. However, there is an additional restriction that they must be independent and not part of an enterprise group. If this is ignored in SME statistics, the statistics using only the employment criterion will give a wrong picture about the SMEs. The independence criterion should start to be applied not only by taking into account the truncated group, but the global group.

## **Other statistics**

21.17 Enterprise groups provide supplementary information for statistical indicators on business demography to drive economic policies aimed at sustaining new entrepreneurship. There are also many areas where enterprise group information is likely to be very important in the future, for instance labour market statistics.

## **Risk of disclosure of confidential data**

21.18 To regard confidentiality in an international context and especially to protect data on SMEs, a full picture of enterprise groups is indispensable. A country may publish data on three enterprises and consider it as non-confidential. However, in a market with three suppliers, two of the enterprises could be linked to a foreign enterprise group and the NSI does not know that and will publish the data. This makes it easy for the enterprise group behind these enterprises to obtain information about its competitor. From this, it follows that if the structures of the groups are not known precisely, this could harm the enterprises and decrease their willingness to participate in statistical data collection.

## **Other uses**

21.19 Information on enterprise groups can serve other institutional users, e.g. anti-trust authorities that, according to dissemination policies applied in each Member State, may use this to calculate statistical indicators for market concentration and to define regulation policies for the development and implementation of effective competition, both at national level and within the European Union.

## 21C — The statistical concept of the enterprise group

### The enterprise group as a group of enterprises

21.20 Council Regulation (EEC) No 696/93 on Statistical Units defines the Enterprise Group as "an association of enterprises bound together by legal and/or financial links. A group of enterprises can have more than one decision-making centre, especially for policy on production, sales and profits. It may centralise certain aspects of financial management and taxation. It constitutes an economic entity which is empowered to make choices, particularly concerning the unit it comprises".

21.21 Whereas the enterprise is an actor in the economy at the level of the production process, with relative autonomy with respect to the allocation and use of its current resources, the enterprise group is an actor at a more strategic level taking strategic decisions on behalf of its constituent enterprises (e.g. on product policies, on major expansions, etc.).

21.22 Since the enterprise group as a whole is subject to demographic events, the statistical unit 'enterprise group' in the register must be maintained according to special continuity rules given in Chapter 22 for the global, truncated and all-resident groups.

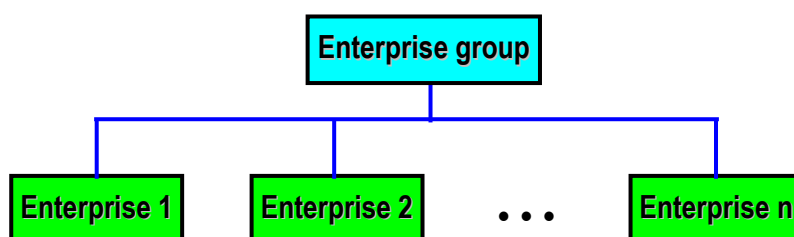
21.23 The characteristics of enterprise groups represent properties of the group at global or national (truncated or all-resident) level. It is recommended to determine whether they refer to consolidated properties or non-consolidated properties.

### 'Economic view' of the enterprise group

21.24 The SU Regulation states that an enterprise group is an 'association' of enterprises. Since, in contrast to legal units, the enterprise is a statistical construct exclusively designed for economic analysis, hierarchical relations between enterprises are not defined.

21.25 The 'association of enterprises' as stated in the SU Regulation therefore must be a two-level hierarchy with the enterprise group on top and its constituent enterprises all on the second level (all constituent enterprises of an enterprise group having the same rank without a structure). The following diagram illustrates this.

Figure 1: Enterprise group consisting of a cluster of enterprises:

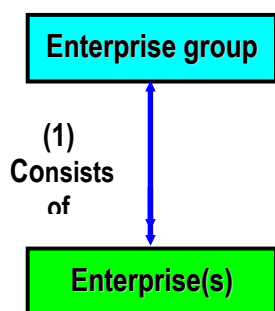


21.26 Both the enterprise group and its association with its constituent enterprises (the 'economic view' of the enterprise group) must be recorded in the business register. This means that

- The object enterprise group
- The characteristics of enterprise group
- The relationship of enterprise group with its constituent enterprises

must be included in the register.

Figure 2: Two-level hierarchy of enterprise group and its constituent enterprises:



#### 21.27 Relationship (1): 'Consists'

**→: Enterprise group consists of enterprise(s)**

Each enterprise group is always associated with one or more enterprises.

**←: Enterprise belongs to enterprise group**

Each enterprise may belong to exactly one enterprise group.

Enterprise groups must always consist of at least one enterprise. The phrase 'may belong to' reflects the fact that not every enterprise is part of an enterprise group. This applies particularly to 'simple' enterprises, where the (sole) constituent legal unit has no links of control to any other legal unit.

21.28 The relationship is a one-to-many relationship. Changes in this relationship should be recorded to reflect changes in the composition of an enterprise group in terms of its constituent enterprises over time. This gives rise to recommend the inclusion of demographic characteristics of the relationship:

- (a) Start of association of a specific enterprise with a specific enterprise group
- (b) End of association of a specific enterprise with a specific enterprise group.

#### **Legal view**

21.29 Two clarifications are necessary in order to make the definition of the SU Regulation operational:

- The enterprise groups are identified through the links of control between their legal units (parent and its subsidiaries)<sup>1</sup>.
- The concept of control is the basic concept to be used for the delineation of an enterprise group.

21.30 These clarifications are contained in the SU Regulation itself, in Annex III C, explanatory notes 4, where the group head is defined as "a parent legal unit which is not controlled either directly or indirectly by any other legal unit".

21.31 For the definition of control in the BR Regulation, the definition given in point 2.26 of Annex A of Council Regulation (EC) No 2223/96 (the European System of Accounts ESA 1995) shall be used:

<sup>1</sup> The Annex of the Regulation on Statistical Units, Section II (Part A point 3) states that "a legal unit includes: a) Legal persons whose existence is recognised by law independently of the individuals or institutions which owns them or are members of them; b) natural persons who are engaged in an economic activity in their own right."

“Control over a corporation is defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary. “

A single institutional unit (another corporation, a household or a government unit) secures control over a corporation by owning more than half the voting shares or otherwise controlling more than half the shareholders' voting power. In addition, government secures control over a corporation as a result of a special legislation decree or regulation which empowers the government to determine corporate policy or to appoint the directors.

In order to control more than half the shareholders' voting power, an institutional unit need not own any of the voting shares itself. A corporation C could be a subsidiary of another corporation B in which a third corporation A owns a majority of the voting shares.

Corporation C is said to be a subsidiary of corporation B when either corporation B controls more than half of the shareholders' voting power in corporation C or corporation B is a shareholder in C with the right to appoint or remove a majority of the directors of C.

21.32 The definition states that control may be exercised in different ways. The acquisition of an absolute majority (50 % +1) of shareholdings with voting rights is the main instrument used to take control over a legal unit and in the absence of other information it is generally used as a proxy to control. On the other hand, the absolute majority of ownership of the capital share ownership is not always necessary or a sufficient condition to have control.

21.33 It may not be a necessary condition because there may be situations in which a large relative shareholding with voting rights but without absolute majority is enough to take control. This can be due to:

- (a) Legislation, contracts or agreements affecting control;
- (b) Absenteeism in meetings on the part of other shareholders. This is more a *de facto* situation and difficult to prove in practice.

21.34 It may not be a sufficient condition because the ability to effectively exercise control depends on the ability to actively participate in the decision-making process. This may be limited by:

- (a) Shareholdings with limited voting rights;
- (b) Statutory provisions that limit the transferability of shares;
- (c) Temporary suspension of voting rights.

21.35 Effective minority control means having effective control of a unit without holding the majority of voting stock. It does not include indirect control via a majority-controlled subsidiary. The most common case is a minority but large shareholder and a very large number of dispersed small shareholders, none of whom hold a significant share of the capital. The minority shareholder can thus exercise effective control insofar as no majority of shareholders is really able to oppose it. However, it is possible that the small shareholders could join forces in order to have more influence over strategic decisions. Effective minority control is, in general, difficult to prove in practice and a shareholding between 10 and 50 percent is generally regarded as *influence*, not control.

21.36 Situations vary considerably from country to country and depend on the legal framework concerning corporate governance, i.e. the legislation that regulates the allocation of property rights and control of enterprises in the economy. In particular, the principles vary sometimes notably between civil law systems and common law ones.

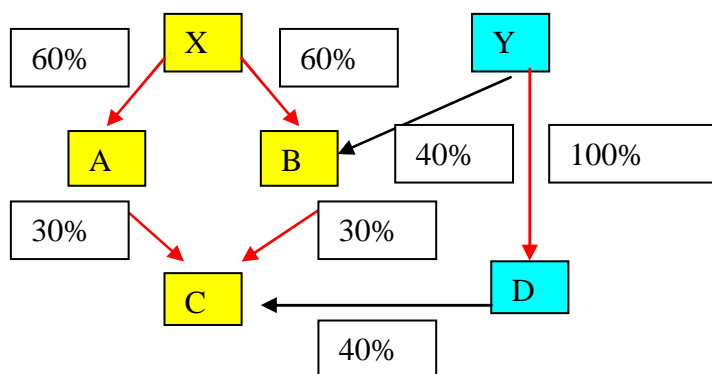


21.37 Control can be a *de facto* situation without legal basis or other proof and in such a case it is not to be stored in the business register. Strategies of outsourcing, aimed at reducing production costs and increasing productivity, such as exclusive sales or supply contracts, may generate dependency of one legal unit on another without any direct participation on the part of the latter in the capital share of the former. A legal unit can thus be 'captured' by another unit without being owned by it. The link may be a commercial contract, which ensures the 'de facto controlling' legal unit the exclusive rights to the work of the 'subordinate' unit. In the case of natural persons, such subordinate units have often been referred to as false self-employed in business demography. At least in theory such a subordinate can cease this control by closing down their legal unit. This is not possible for a subsidiary that is owned by the parent.

21.38 According to the SU Regulation (Annex III C, Explanatory notes 4), "The subsidiary enterprises of a subsidiary enterprise are considered to be subsidiaries of the parent enterprise. (...)". This means that a parent unit may have indirect control over a legal unit (sub-subsidiary) through one or many other subsidiaries. Indirect control does not require the parent unit to own a majority of an integrated shareholding in the capital share of the sub-subsidiaries. The difference between control and ownership is shown in Figure 3.

21.39 The example in figure 3 shows that X has indirect control over unit C, even though it owns indirectly  $(60\% * 30\%) + (60\% * 30\%) = 36\%$  of its capital share, X controls C through its two subsidiaries A and B by combining their voting rights in the meeting of C  $(30\% + 30\%) = 60\%$ . On the other hand, Y owns  $(40\% * 30\%) + (100\% * 40\%) = 52\%$  of C, but has no power to control it, since the voting rights that it has in its meeting of C amount only to 40% of its capital share. In other words, the voting rights resulting from paths X-A-C and X-B-C have to be cumulated to determine actual control (sometimes this is called 'cumulative control').

Figure 3: How control can differ from ownership



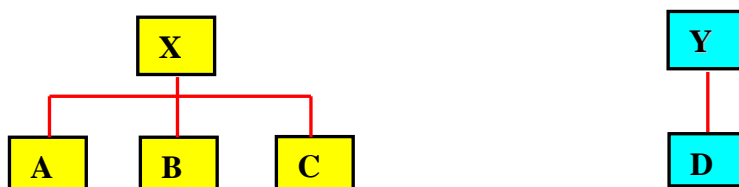
21.40 Control is a (direct or indirect) relationship between legal units such that either one legal unit is controlled by exactly one other legal unit or it is not controlled by any other legal unit. The ownership of a unit or a group of units is related to the holding of its assets, and determines the distribution of financial flows and income. If a unit or group of units is owned by shareholders, its ownership is vested in the shareholders collectively and can be seen as diffused among the legal units that own its shares in proportion to their shareholdings and independently of voting rights.

21.41 In fact, deriving control links from the ownership structure between legal units defines an operational hierarchical structure of the enterprise group with one legal unit at the top (the global group head) which is not controlled by any other legal unit and which controls all other

legal units in the hierarchy. Therefore it is necessary to also record minority intermediate shareholdings into the business register, in case there is indirect control where the links can only be derived from the complete ownership structure.

21.42 The control hierarchies in Figure 4 are derived from the example in Figure 3 and should be recorded in the business register.

Figure 4: How to record control links from ownership structures



21.43 The group head can be either resident in the country that compiles the business register, if the group is domestically controlled, or abroad. Unless otherwise noted, ‘group head’ refers to the ultimate or global group head, not to a national (or European) group head, which has a foreign parent.

21.44 If the group head is a resident legal unit, it must be recorded in the national business register as a single legal unit, which may possibly form an enterprise in combination with other legal units, according to the principles stated in Chapter 7.

21.45 The statistical concept of the enterprise group is different from the accounting concept, as can be derived from the Seventh Council Directive (see the Annex). In fact, as it is stated in explanatory note 3 of section III C of the Annex to the SU Regulation “*this definition (of accounting groups ...) is not suitable for statistical analysis because they do not constitute mutually exclusive, additive groups of enterprises. A statistical unit known as ‘enterprise group’ based on the ‘accounting group’ concept must be defined by applying the following amendments:*”

consider accounting group at the highest consolidation level (group head) ;

include in enterprise group units whose accounts are entirely integrated in those of the consolidating company;

add majority-controlled units whose accounts are not included in the overall consolidating by virtue of application of one of the criteria allowed by the Seventh Directive, i.e. difference in the type of activity or small relative size;

discount temporary links of less than a year.”

### **Operational rules for identifying control links**

21.46 Control is a complex concept in economic terms. Statistical operational rules need to rely on observable criteria: Proof of control. Therefore it is sufficient that at least one of the following applies, in order to identify a link of direct or indirect control between two legal units:

- 1) A legal unit directly owns more than 50 % of the voting rights of another legal unit (direct control);
- 2) A legal unit indirectly owns more than 50 % of the voting rights of another legal unit, through subsidiaries (indirect control);
- 3) Existence of special legislation decree or regulation, which empowers the government to determine corporate policy or to appoint the directors of the legal unit;

- 4) A legal unit fully consolidates the accounts of another legal unit, according to the criteria of the Seventh Directive, and no other legal unit consolidates the same legal unit (control by virtue of full consolidation);
- 5) Administrative sources, collecting declarations in application of specific laws for market regulation, provide the information that a legal unit controls one or a set of legal units, even though it owns less or 50 % of its voting rights (effective minority control) and no other legal unit owns more.

**Note** — It may be possible that two rules, e.g. both cases 1 and 4, could apply simultaneously. As one unit cannot be controlled by two different units, the *de facto* controlling unit should then be chosen. Case 4 can in general be considered as weaker than 1, because there can be consolidation situations with less than 50% ownership and situations with over 50% ownership without consolidation.

### **Types of enterprise groups**

21.47 The BR Regulation states in Article 2(d) that

“Multinational enterprise group shall mean an enterprise group which has at least two enterprises or legal units located in different countries.”

The reason why both enterprises and legal units are mentioned is that branches which do not constitute separate legal units and are dependent on foreign enterprises are deemed to be (quasi-)enterprises for business register purposes.

21.48 The BR Regulation states in Article 2(e) that

“A truncated enterprise group shall mean the enterprises and the legal units of a multinational enterprise group, which are resident in the same country. It may comprise only one unit, if the other units are non-resident. An enterprise may be the truncated group or part thereof.”

A truncated group may consist of several units and subgroups, which can appear seemingly unlinked if the parent that links them is non-resident, but which actually belong to the same MNE (if information on this is missing, they may be regarded as separate truncated groups).

21.49 An all-resident enterprise group is an enterprise group composed only of enterprises that are all resident in the same country. An alternative formulation could be to use instead of ‘enterprises’ ‘legal units without foreign branches’. Sometimes ‘domestic group’ is used; it must not be confused with a domestically controlled multinational group. Another term used is ‘national group’; this should however cover both truncated groups and all-resident groups.

21.50 A domestically controlled enterprise group is a multinational group where the global decision-centre (characteristic 4.16 in the BR Regulation) is in the country compiling the business register.

21.51 A foreign controlled enterprise group is a multinational group where the global decision-centre is outside the country compiling the business register. The handling of these groups is currently under consideration. For more details see paragraph 21.66.

21.52 The type of control is different for private groups and public groups as from their juridical nature they are dependent on private law or public law.

The private group is an association of enterprises the group head of which is a person in private law.

The public group is an association of enterprises the group head of which is a person in public law.

According to Directive 80/723/CEE about the transparency of financial relationships between Member States and public enterprises, public powers may exercise a dominant influence on the behaviour of public enterprises, not only when they are owners or have a majority shareholding, but also for the control they are able to exercise over their management or supervision bodies, on the basis of statutory provisions or shareholding division.

Article 2 states that State and other territorial bodies are considered as public owners. A public enterprise is every enterprise on which public owners may exercise, directly or indirectly, a dominant influence for reasons of property, financial participation or its regulations.

Dominant influence is presumed when public owners, directly or indirectly, control enterprises by

- a) Having subscribed the majority of capital of the enterprise, or
- b) Having the majority of votes assigned to the shareholdings that enterprise has issued, or
- c) Having the ability to designate more than half of the members of administration, direction or supervision bodies of the enterprise.

21.53 According to the structure of control in economic literature, pyramidal groups are distinguished from the public companies as two alternative forms of allocation of property rights and control over enterprises.

The pyramidal group is built through the acquisition of cross or in-cascade shareholdings of one legal unit on another. Such a structure allows the ultimate unit to control the whole group of enterprises with a minimum amount of capital invested. Typically, pyramidal groups are topped by natural persons or families. This type of group guarantees the stability of control since it reduces vulnerability to hostile takeovers. In general, pyramidal enterprise groups are typical of economies with a high concentration of property rights on enterprises and a less developed financial market.

The public company is an enterprise group where property is diffused among a wide body of shareholders. The public company is characterised by a separation between ownership and control. Shareholders renounce their control rights and maintain only their patrimonial rights (dividends and capital gain). They are the owners of a company but their rights are limited since the public company is under the control of managers chosen by a command group which is usually formed by a shareholder or a trust of shareholders with a relatively small majority. Other people may acquire control by purchasing the scattered shareholdings on the market when the market quotation falls. In public companies, the stability of control is lower, but the market for corporate control is greater. This is seen, from a certain part of the economic literature, as a signal of a higher degree of democracy in corporate governance and as a powerful instrument for evaluating the efficiency of the management.

## **21D — Operational rules for the implementation of the enterprise groups into national business registers**

### **Eligibility criteria for legal units to be part of an enterprise group**

21.54 This paragraph describes the criteria that must be followed in determining which legal unit may be part of an enterprise group in the national business register and in which position in the hierarchical structure of the enterprise group it is placed.

#### 21.55 Residency criterion

Although the multinational enterprise group is to be considered a coordination unit at the international level, the recording of non-resident legal units, other than group heads or first

foreign parents or subsidiaries, in the national business register is currently limited in most Member States. This is generally due to the lack of information on such legal units in the administrative sources used to update and maintain the business register. Often these sources do not provide an identifier for the non-resident units and this makes it difficult to identify them from one year to another when maintaining the business register. In the future, all Member States should be able to record basic information including the resident identity numbers on non-resident legal units (foreign subsidiaries) that are part of domestically controlled multinational groups from the EuroGroups register.

#### 21.56 Natural persons

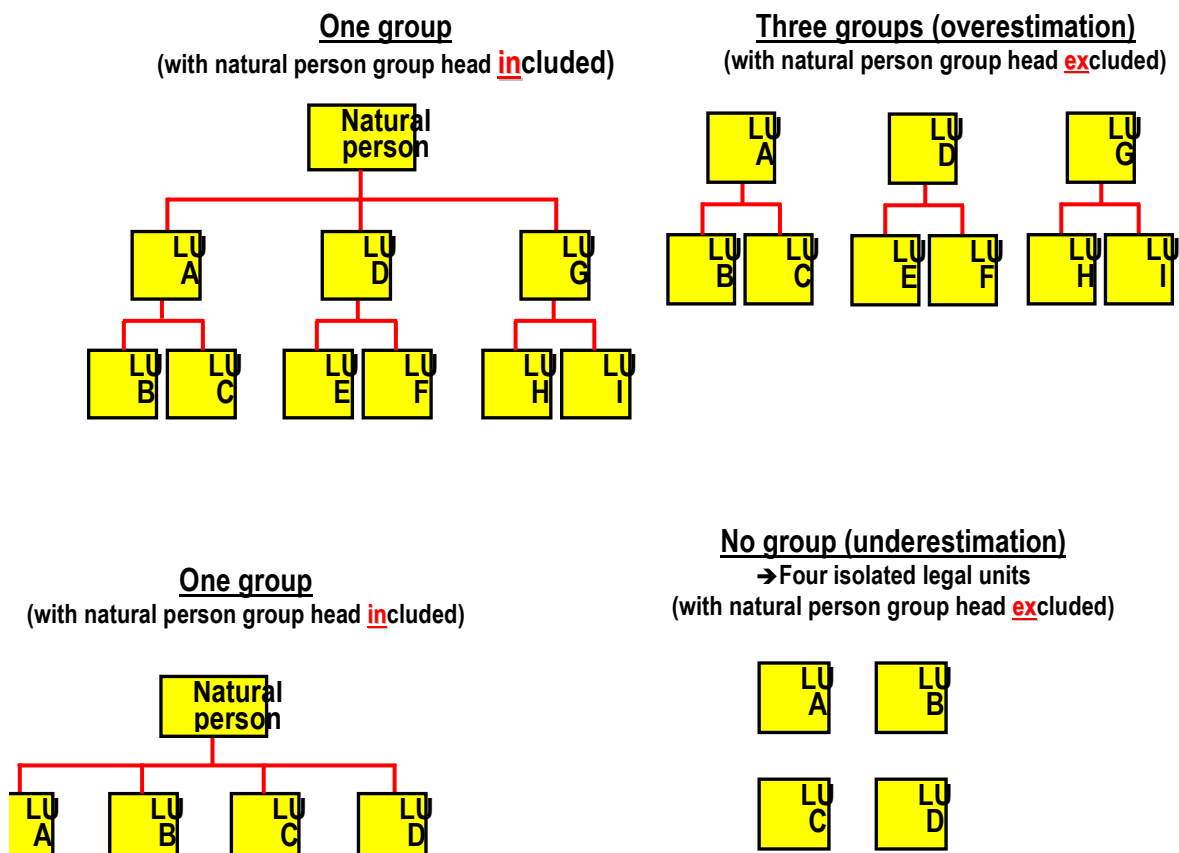
The concept of control implies that natural persons cannot be part of a chain of control unless they are at the top of the structure. Nevertheless, unlimited partnerships can form part of an enterprise group if the partners are formed or owned by other legal units. This can be obvious by some form of wording in the name of a company. However, it is not obligatory in all countries to have a means of identifying such cases.

The SU Regulation (Section II of the Annex — Part A, point 3) regards as group heads only legal units, so natural persons can be group heads only if they "... are engaged in an economic activity in their own right". What this means in practice depends on national legislation, for instance that the natural persons are explicitly or implicitly registered as a legal unit or not. The BR Regulation applies to units which exercise economic activity and according to Article 3(5) "...direct and indirect holdings of active legal units shall be regarded as economic activities for the purposes of business registers". In principle, the BR Regulation therefore also covers natural persons as group heads, although the coverage is conditional in characteristic 4.3.

Excluding natural persons who are not considered as legal units from the possibility of being a group head may have far-reaching consequences. As legal units are defined in national legislation, it is possible that in some countries natural persons controlling an enterprise group are, in most cases, also legal units, while in some other countries they are not. Thus excluding natural persons from being group heads can seriously reduce international comparability of enterprise groups.

Another consequence of excluding natural persons is the introduction of a bias in the number of enterprise groups in a country. The number of enterprise groups may either be overestimated or underestimated. It will be overestimated if the natural person in fact controls more than one group head. It can be underestimated if the natural person controls more than one legal unit. This consequence will affect comparisons among MS statistics on enterprise groups. The effect of excluding natural persons as group head on the number of enterprise groups in one country is illustrated by the following examples:

Figure 5:



If the group head is a natural person, the fact that several units are under unique control should be stored, where possible, at least for the largest enterprise groups. Storing the data of the controlling person is also useful, especially if there are non-resident units. The users often need the ultimate controlling unit without the constraint of being a legal unit. Both Foreign Direct Investment and Foreign Affiliates Statistics could need and use the ultimate controlling institutional unit, whether an enterprise or a household/natural person. Thus the recording of natural persons is conditional in the BR Regulation (characteristic 4.3), i.e. it should be recorded if it is available in the administrative sources.

Therefore the feasibility of including natural persons should be seen from a practical viewpoint, i.e. how important their shareholding is and if information is available on them. As the importance of the inclusion/exclusion of natural persons as group head varies by country, studies on their effect at national level are recommended. In the longer term, a solution which could fulfil the user needs (if possible), minimise the bias and guarantee an acceptable degree of comparability, should be agreed.

#### 21.57 Other special cases of group heads

There are a number of other special cases of group heads in addition to natural persons. The group head may, for instance, be a non-profit body, trust, the State, provincial or local government. In general, they are regarded as legal units and can thus be handled according to the normal rules as controlling units, although their involvement in the practical management and decision-making of the enterprise group may vary a great deal. It is also noticeable that the State may control many enterprise groups via one or several ministries and these should not be combined when they operate in different economic activities.

One special case is also a joint venture. It is possible that, in case of 50-50 % share ownership, one of the units actually controls the joint venture. If this is known it should be recorded as a control case. In the private sources, such information is not available. For other joint venture cases (e.g. 1/3-1/3-1/3 share ownership), the existence of a controlling unit is rare. When no controlling unit for the joint venture can be proved simple rules should be applied to define the controlling partner (for the recommendations see 21.69).

A dual-listed company (DLC) differs from a joint venture because the two parties involved share everything. It is a corporate structure which involves two publicly traded companies with different sets of shareholders sharing ownership of one set of operational businesses. Unlike mergers and takeovers, both companies continue to exist and have separate bodies of shareholders but agree to share the ownership of the operational businesses in a fixed proportion through a complex set of contracts. Usually there is a single board of directors and integrated management structure. A DLC should therefore be regarded as an enterprise group.

In almost all cases, the two companies are publicly traded in different countries, often one in the EU and the other outside of it. The problem therefore occurs: To which country should the DLC be allocated? In some sources, both countries are given (e.g. Forbes Global 2000 list). Other sources allocate to the country of its registered office, the company address notified to the official company registry, which is normally the place where a company's books are kept (e.g. the EU Industrial R&D Investment Scoreboard allocates to one country). According to the Eurostat definition, an enterprise group should be allocated to only one country, therefore this method is adopted. The DLC should be allocated to that country where the controlling unit is located.

#### 21.58 Single legal units

From the viewpoint of the national business register, a truncated enterprise group may coincide with a single legal unit if, and only if, the unit is resident in the country that compiles the business register, but belongs (either as group head or as subsidiary) to an MNE, where all other legal units are non-resident. This is included in the definition of a truncated enterprise group (see 21.48 above).

If the legal unit is the only unit in the national territory, there may be no indication in the national administrative sources that this unit is part of a group, the unit could be counted as an independent unit and records of its parent and/or subsidiaries could be missing.

According to the BR Regulation, both control links, upward (to parent) and downward (to subsidiaries), are required when they exist.

#### **Recommendations for treatment of special cases of the global decision centre / UCI**

21.59 The foreign affiliate statistics use the resident country of the ultimate controlling institutional unit (UCI, see FATS Regulation 716/2007), which is equivalent to the term country of global decision centre of the BR Regulation 177/2008.

21.60 The goal of the definition of the global decision centre / UCI is to produce meaningful statistics. FATS statistics should describe the foreign influence by the unit where the economic decisions are made and not only by the legal structure of the multinational enterprise groups. The foreign affiliates should be linked to that country where the ultimate decisions on production are made.

21.61 The global decision centre is the unit where the strategic decisions of an enterprise group are taken. In most of the cases the global decision centre equals to the global group head; strategic decisions referring to the group are taken by the group head. In these cases the country of global decision centre is the country where the global group head is located.

21.62 By the definition of the global decision centre special cases can be identified. Similarity in these special cases is that the global group head is not able to act as a decision centre for the whole group. Units without substantial physical presence, significant economic activities, employment are not able to be engaged in decisions. In these cases the global decision centre / UCI will not be equal to the global group head, a different unit of the enterprise group should be appointed at the next level downwards in the enterprise group tree structure where the global decisions of the enterprise group are taken.

21.63 The EuroGroups register provides standardised information on the global decision centre / UCI of MNEs covered by EGR. The EGR could be used as common base for the definition of country of global decision centre / UCI.

21.64 Four types of special cases are defined, where the definition of the global decision centre / UCI requires special treatment:

- 1) Natural persons and families
- 2) Units in tax havens, in offshore financial centres, SPEs, non profit institutions
- 3) Dual listed companies
- 4) Joint ventures

21.65 The starting point for the special cases is always the top of the control chain. The processes start with the examination of the unit on the top of the tree structure. If a unit on the top of the chain is an example for the above mentioned special cases and it is not the global decision centre / UCI of the group, the next controlling unit(s) downwards in the chain should be examined and if reasonable appointed to global decision centre / UCI.

21.66 Recommendation for natural persons and families

The present practice of the Member States differs for this special case. Some countries do not consider natural persons as global decision centre / UCI because statistical reporting of natural persons is not allowed by national law. Others attribute natural persons as global decision centre / UCI; these natural persons are obliged to report on their controlled foreign affiliates.

The FATS legislation allows for natural persons to be UCIs. In order to be consistent with the relevant legislation natural persons and families should be considered as UCIs. If the natural person is not the decision centre of the enterprise group the general rule could be ignored and the unit which is the real decision centre of the group could be defined as UCI.

Every case should be analysed separately, the decision should be taken at the common platform of the EuroGroups register. The involved countries should agree with the country of global decision centre / UCI.

Natural persons as global decision centre / UCI are not allowed to be surveyed in every Member State. That is why in certain cases a separate reporting unit has to be appointed which is allowed and able to supply data on the enterprise group. If the global decision centre / UCI and the reporting unit are located in the same country the reporting unit should be defined by the data compiler (National Statistical Institute or National Central Bank). If they are located in a different countries the reporting unit should be agreed with the natural person and with the data compiling institutes (NSI or NCB). The EuroGroups register records the reporting units of the multinational enterprise groups.

21.67 Recommendation for units in tax havens, in offshore financial centres, SPEs, non profit institutions



Units without substantial physical presence, without significant economic activities are not able to be engaged in decisions; to control the subsidiaries. In these cases the global decision centre / UCI should be the unit at the next level in the enterprise group tree structure, which is the real strategic decision centre of the group. This recommendation should be applied for all kind of "empty shell" units located in tax havens and in offshore financial centres, for special purpose entities and for non profit units (e.g. trusts, foundations "Stiftungen", "Anstalten") which are on the top of an enterprise group structure.

Example: A multinational enterprise group has a Dutch company as global group head. The company does not have any employees or physical presence; it is only an empty shell for taxation purposes. The next controlling unit in the chain is in the Czech Republic. The decision process is modelled below.

- Is the unit on the top of the control chain?  
Yes, the Dutch unit is on the top of the chain.
- Does it have a real physical presence?  
No physical presence, no employment.
- The next controlling unit on of the chain should be examined, this is a Czech company. Does it have a real physical presence?  
Yes.
- Is the unit the decision centre of the enterprise group?  
Yes.
- The global decision centre / UCI is the Czech company.

#### 21.68 Recommendation for dual listed companies

When a dual listed company presents itself as a single entity we should identify a single global decision centre / UCI. For definition of the global decision centre / UCI the factor to be taken into account is the location of the unit, where the strategic decisions for both legally separated parts of the enterprise groups are made.

Example: The legal structure of a multinational enterprise group shows that the group has two legally separate subgroups, one with group head in the Netherlands, one with group head in Belgium. The decision process is modelled below.

- Does the legal incorporation show two separate groups?  
Yes, the company is a dual listed company.
- Does the company present itself as a single entity?  
Yes, the customers and the market know this group as one brand, one company; the group presents itself as one MNE.
- Is it able to define the decision centre?  
Yes, the group head in the Netherlands is controlling the strategic decisions of the subgroup controlled by the group head in Belgium.
- The decision centre is located in the Netherlands; this is the global decision centre / UCI.

## 21.69 Recommendation for joint ventures

By their nature in case of joint ventures usually no dominant partner is able to be identified. When a dominant partner of the controlling units of a joint venture exists, the dominant partner should be considered as global decision centre / UCI.

For cases, where no dominant partner is able to be identified simple rules should be applied to define the global decision centre / UCI of the joint venture.

In case of no dominant partner between one foreign and one resident controlling unit, the resident partner will have the preference; this unit should be appointed to global decision centre / UCI.

If a joint venture is controlled only by foreign partners and one of them is from the EU or EFTA countries, the European controlling unit should have the preference.

In case of only non-European controlling units the decision on global decision centre / UCI should be taken at national level by the compiling statistical authority, in case of only European foreign controlling units the decision on global decision centre / UCI should be taken at European level. For this type of decisions the common platform should be the EuroGroups register.

Example 1: One enterprise in the Czech Republic is a 50 - 50 % joint venture of a French and of a Japanese enterprise group. It is not able to identify a dominant partner in the joint venture. The decision process is modelled as follows.

- Is it able to define a dominant partner in the joint venture?  
No dominant partner.
- Is one of the partners a resident unit?  
No, both are foreign.
- Is one of the partners EU unit, the other not?  
Yes, this defines that the country of global decision centre / UCI is France.

Example 2: One enterprise located in one Member State is a 50 - 50 % joint venture of a Panama and a British Virgin Islands unit. No further information is available. The decision process is modelled below.

- Is it able to define a dominant partner in the joint venture?  
No, it is not able.
- Is one of the partners a resident unit?  
No, both are foreign.
- Is one of the partners EU unit, the other not?  
No, both are non-EU units.
- Are both of the partners EU units?  
No, both are non-EU units.
- The decision should be taken at national level.

Joint ventures can have different legal structures, e.g. 3 times 33 % or 4 times 25 % control relations. As a general rule in case of no dominant partner primarily it should be checked whether the majority of the controlling units are foreign or resident. This will decide whether the unit is domestically controlled or foreign controlled. If it is foreign controlled the decision on EU / non-EU control should be taken then the decision on the controlling county.

## **Relationship between legal units, enterprises and enterprise groups**

21.70 In this section, the logical and hierarchical relationships between legal units, enterprises and enterprise groups are clarified. This is necessary because both, enterprises and enterprise groups, consist of legal units. Nevertheless *"the enterprise is the smallest combination of legal units (...) for the allocation of common resources"*, while the enterprise group is a more complex organisational unit based on *"legal and/or financial links (...) for policy on production, sales and services. It may centralise certain aspects of financial management and taxation"*.

21.71 Although the SU Regulation defines an enterprise group as an "association of enterprises", hierarchical relations between the enterprises within an enterprise group cannot be defined in the same way as for legal units. In fact, the enterprise is a statistical construct exclusively designed for economic analysis (see Chapter 19).

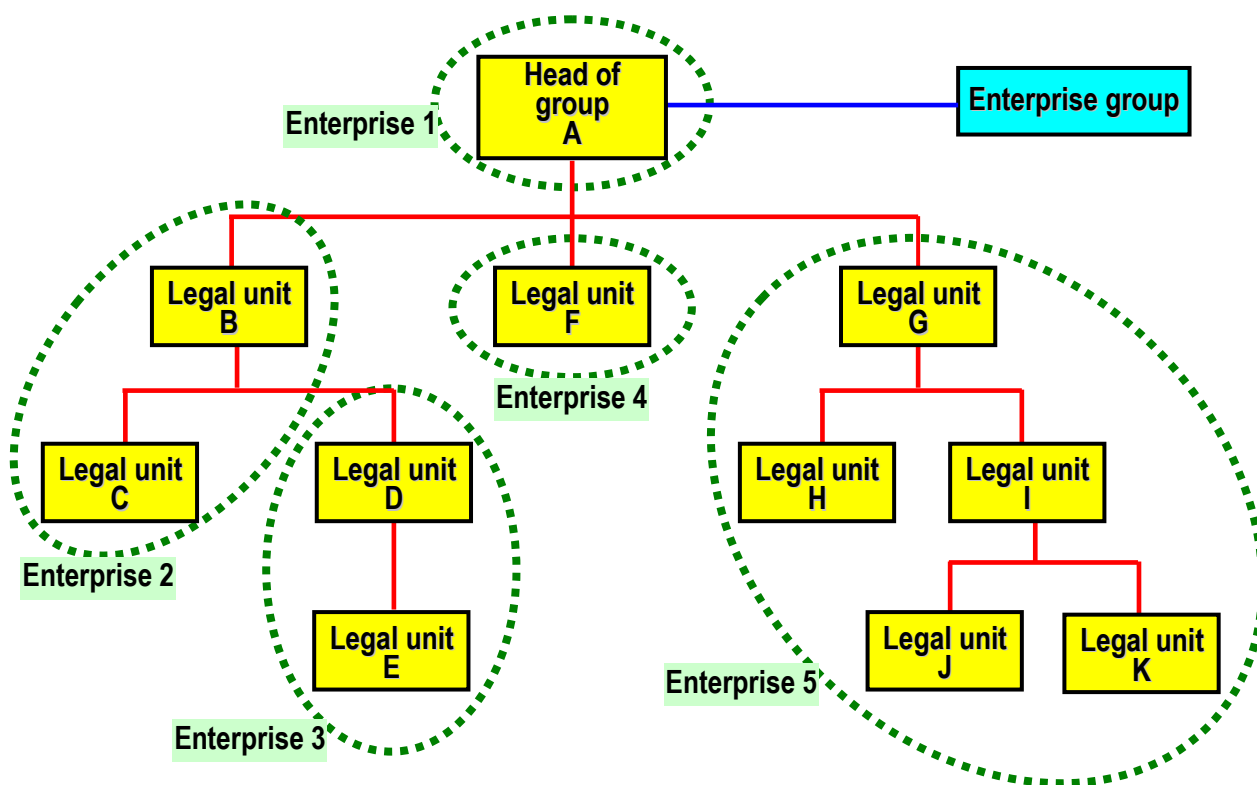
21.72 Therefore, as has already been stated earlier in this chapter, the enterprise group is built upon links between a parent and its subsidiary legal units.

21.73 Once the enterprise group is reconstructed from the legal units, the enterprises must be delineated within the set of legal units that are the basis of the enterprise group: The enterprise consists either of a single legal unit ('simple enterprise') or of a combination of two or more legal units ('complex enterprise'). It follows that an enterprise group must consist only of complete enterprises, not parts of them.

21.74 An enterprise group can coincide with one single enterprise if, and only if, it is an enterprise (see Chapter 7) that consists of more than one legal unit (with the exception of a truncated group consisting of one legal unit). An enterprise group that consists of only one enterprise could be called a quasi-group.

21.75 Both views of the enterprise group, as composed of legal units and of enterprises, must be documented in the register. The following schematic example illustrates this. However, it is not necessary that enterprises comprise single connected tree structures of legal units.

Figure 6: Legal units as a common basis of the enterprise group and its constituent enterprises



21.76 The ‘association of enterprises’ mentioned in the SU Regulation therefore must be interpreted as a two-level hierarchy, having the enterprise group on top and all its constituent enterprises on the second level (all constituent enterprises having the same rank; this was illustrated in Figure 1).

21.77 When there are several control links crossing national borders leading to seemingly more than one truncated group within the same global group there are two possibilities available for the handling of truncated groups and their heads. The different groups of legal units thus formed within the national territory could be combined into one truncated group or the groups could each be defined as a separate truncated group. For the moment, both options are under consideration with the aim of reaching an agreement on one common treatment applicable for all countries as well as for the EuroGroups register.

## 21E — Sources at national level

21.78 The difficulties encountered in the integration of information on enterprise groups into the national business registers are both methodological and practical. On the methodological side, there is the issue of harmonising the concepts and definitions among Member States and also among different institutions within Member States. On the practical side, there is the difficulty of reaching the necessary cooperation among national independent institutions managing such data, as well as that of finding sources of an acceptable quality.

21.79 The provision for the measurement of trade flows and investment among parent units and subsidiaries across countries would be satisfied if trans-border control links between units

in different national registers could be established. For intra-group trade surveys the first foreign controlling and controlled units and the ultimate foreign control are not sufficient, the whole structure of the group needs to be known.

21.80 Some basic requirements need to be fulfilled in the short term. As a first priority, the legal units and enterprises belonging to the group must be known, as well as the group head. Secondly, the whole group structure including direct and indirect links of control (but not necessarily all shareholdings) is required. As this involves a great deal of work, only the largest groups can be manually checked and profiled. Automatic algorithms are recommended for smaller groups. It is recommended that these algorithms reflect the logic and principles deduced from concepts, definitions and operational rules contained in this Manual.

21.81 The sources for collecting, updating and checking data on enterprise groups may be quite different in nature:

(1) Administrative sources (as examined in Chapter 20);

Public sources;

Private sources;

(2) Statistical surveys.

### **Administrative public sources**

21.82 The use of administrative sources has grown in number and scale over the last decade because it allows substantial reductions in costs and statistical burden on respondents.

In particular, the specific advantages obtained by using these sources are:

- Good coverage of the population of interest, often due to legal obligations;
- A quick means of identifying new businesses;
- Relative stability in the time series, which is suitable for making cross-sectional and longitudinal analyses.

Weaknesses of such sources include:

- Possible delay in the updating of information;
- Specification of the attributes belonging to the characteristics may be inaccurate;
- The fact that they are managed by different institutions (problems in data exchange);
- They contain information on the creation and existence of legal units which are not primarily collected for statistical purposes, and therefore concepts and definitions may differ between different sources and from the statistical ones.

21.83 Administrative public sources mostly used by MS include:

- Declarations and returns for value added tax (VAT). They cover legal and natural persons obliged to pay VAT. It is necessary to consider that businesses below a certain threshold and/or operating in certain economic activities are considered exempt in some VAT systems. VAT registers may contain information about groups of legal units where only one unit forwards VAT from the turnover of the whole group. The purpose of such constructions is to avoid taxing and reimbursing internal turnover and they are common for enterprise groups or subgroups in some countries;
- Personal income tax data and business taxation data, generally collected by the tax system;

- Compulsory business registration systems administered by chambers of commerce or trade/company registers. They are often the main sources for information on legal units and sometimes on local units. Coverage may be limited to particular legal forms and industries. Trade registers contain information about the ownership, management and board and may therefore allow statements about control;
- Published balance sheets, consolidated accounts and annual reports. They contain important information on the structure of direct and indirect ownership; information from this source needs to be handled in accordance with the recommendations stated in this Manual, i.e. reconstructing the statistical enterprise group from the accounting group;
- Registers held by national central banks, generally concerning only financial and banking groups;
- Registers kept by investment promotion agencies;
- Registers held by public regulators of public utilities and financial services.

### **Administrative private sources**

21.84 These sources allow Member States that have never collected information on enterprise groups the chance to catch up quickly at a reasonable cost, but it is strongly advised to check the quality of the sources used in terms of concepts and definitions adopted and the coverage. These sources can be used to check data on enterprise groups or to cover some specific variables.

Among the *administrative private sources* to be considered are:

- Private databases (international and national);
- The press;
- Credit-rating agencies;
- Information published in reports;
- Business information published on the Internet;
- Contacts with enterprises.

### **Statistical surveys**

21.85 These play a leading role in business statistics systems.

Statistical surveys used in Member States that may contain information on enterprise groups include:

- Annual inquiries asking holding companies about the financial structure of the group they control;
- Annual sample surveys on structural business statistics;
- Annual surveys on large and complex enterprises;
- Periodic surveys aimed at checking the quality of the business register;
- Economic census.

21.86 Countries currently collecting and updating data on enterprise groups generally use more than one source to benefit from statistical merging of different information. These three

types of sources should be used to identify the set of variables necessary for the registration and handling of enterprise groups in business registers.

## **21F — Confidentiality**

21.87 Enterprise groups are the largest units stored in the business registers and their number by activity classification may be small. Confidentiality is thus a general problem for producing statistics on enterprises and groups (see paragraph 21.18). However, the largest groups are usually publicly traded on the stock exchange and must publish annual reports. Other groups (depending on national legislation) may also have to publish annual reports, due to their size for instance. Certain data on the largest groups is generally available and also published on the Internet. The confidentiality regions of publicly available information, which can also be bought from commercial providers and the data which is collected by the national statistical institutes are thus completely different.

### **Confidentiality in general statistical legislation**

21.88 According to Regulation (EC) No 223/2009, Article 2 (1) e) 'statistical confidentiality', meaning the protection of confidential data related to single statistical units which are obtained directly for statistical purposes or indirectly from administrative or other sources and implying the prohibition of use for non-statistical purposes of the data obtained and of their unlawful disclosure.

21.89 Considering Regulation (EC) No 223/2009, Article 3, it is possible to define the following terms for handling confidentiality in enterprise groups:

#### *(a) Confidential data*

1. Data obtained exclusively for the production of European statistics shall be used by the NSIs and other national authorities and by the Commission (Eurostat) must be considered confidential when they allow statistical units to be identified, either directly or indirectly, thereby disclosing individual information.

To determine whether a statistical unit is identifiable, account shall be taken of all relevant means that might reasonably be used by a third party to identify the statistical unit;

2. By derogation from paragraph 1, data obtained from sources lawfully available to the public and which remain available to the public according to national legislation shall not be considered confidential for the purpose of dissemination of statistics obtained from those data.

#### *(b) Use for statistical purposes*

Data used exclusively for statistical purposes means the exclusive use for the development and production of statistical results and analyses.

#### *(c) Direct identification*

The possibility of deducing the identity of a statistical unit from its name or address or from a publicly accessible identification number.

#### *(d) Indirect identification*

The possibility of deducing the identity of a statistical unit from information by any other means than by way of direct identification.

21.90 Regulation (EC) No 223/2009, Article 21 provides an institutional distinction for the optional transmission of confidential data between ESS authorities (1) and ESS/ESCB members (2).

“1. Transmission of confidential data from an ESS authority, as referred to in Article 4, that collected the data to another ESS authority may take place provided that this transmission is necessary for the efficient development, production and dissemination of European statistics or for increasing the quality of European statistics.

2. Transmission of confidential data between an ESS authority that collected the data and an ESCB member may take place provided that this transmission is necessary for the efficient development, production and dissemination of European statistics or for increasing the quality of European statistics, within the respective spheres of competence of the ESS and the ESCB, and that this necessity has been justified.”

21.91 The different policies concerning confidentiality in national statistical institutes (NSIs) of Member States include the following:

- 1) All individual data is confidential;
- 2) Some data may be transmitted to government users or for public use, as specified in national legislation;
- 3) Some disclosure is allowed after explicit approval by the respondent or some disclosure is allowed if there is no explicit disapproval by the respondent;
- 4) Aggregate information can generally be made available to all users, provided it does not violate indirect identification.

### **Confidentiality according to the BR Regulation**

#### *Exchange of confidential data between Member States*

21.92 According to Article 10, this exchange is optional and subject to national legislation:

“The exchange of confidential data may take place, exclusively for statistical purposes, between the appropriate national authorities of different Member States, in accordance with national legislation, where the exchange is to ensure the quality of the multinational enterprise group information in the European Union. National central banks may be party to the exchange in accordance with national legislation.”

There are many reasons for confidentiality constraints against the exchange of information between the different NSIs and national central banks (NCBs):

- National statistical law and laws concerning privacy;
- Statistical practices;
- The functions performed by the NSI and the NCB (differences by country);
- The political climate.

Exchange of information between the NSIs and the NCBs is often restricted and may be even forbidden in national legislation.

#### *Exchange of confidential data between Eurostat and Member States*

21.93 This exchange is mandatory according to Article 11:

“1. National authorities shall transmit data on multinational enterprise groups and their constituent units, as defined in the Annex, to the Commission (Eurostat), to provide information, exclusively for statistical purposes, on multinational groups in the European Union.



2. In order to ensure a consistent record of data, exclusively for statistical purposes, the Commission (Eurostat) shall transmit to the appropriate national authorities of each Member State data on a multinational enterprise group, including its constituent units, when at least one legal unit of the group is located within the territory of that Member State.

3. In order to ensure that the data transmitted under this Article is used exclusively for statistical purposes, the format, security and confidentiality measures, as well as the procedures for the transmission of data on individual units to the Commission (Eurostat) and on multinational enterprise groups to the appropriate national authorities shall be adopted in accordance with the regulatory procedure referred to in Article 16 (2).”

The appropriate national authorities for business registers are the NSIs. The Article gives the legal allowance for the exchange of all individual data of MNEs and their constituent units covered by the Regulation.

21.94 The details of the data exchange, as stated above, are defined in implementing Commission Regulation (EC) No 192/2009 on the exchange of confidential data between Eurostat and NSIs prescribing the format, procedure, security measures, and confidentiality measures for the transmission of data on individual units. The basic frame of the exchange of confidential data is defined in the following way.

*(a) Confidentiality measures*

“1. Data transmitted to the Commission (Eurostat) by the appropriate national authorities, or received by the Commission (Eurostat) from other sources, shall be stored in a Community register of multinational enterprise groups and their constituent units (hereinafter referred to as EuroGroups register).

2. When transmitting data to the Commission (Eurostat) in accordance with Article 11(1) of Regulation (EC) No 177/2008, the appropriate national authorities shall flag data which are confidential in accordance with national legislation.

3. In order to ensure a consistent record of data, the Commission (Eurostat) shall, exclusively for statistical purposes, transmit to the appropriate national authorities of Member States other than the reporting country, the characteristics specified in Part B of the Annex, including confidentiality flags, concerning multinational enterprise groups and their constituent units, when at least one unit of the group is located in the territory of that Member State.”

*(b) Procedure for transmission*

“1. The data and metadata transmitted pursuant to this Regulation shall be exchanged in electronic form between the appropriate national authorities and the Commission (Eurostat). The transmission format shall conform to appropriate exchange standards specified by the Commission (Eurostat). Data shall be transmitted by electronic means and uploaded at the Commission (Eurostat) through its single entry point for data.

2. Member States shall implement the exchange standards and guidelines supplied by the Commission (Eurostat) according to the requirements of this Regulation.”

Further technical specifications for the exchange between Eurostat and NSIs will be implemented in this Manual stepwise.

*Exchange of confidential data between Eurostat and central banks*

21.95 This exchange is optional according to Article 12 and requires explicit authorisation by the NSI:

*“1. For the purposes of this Regulation, the exchange of confidential data may take place, exclusively for statistical purposes, between the Commission (Eurostat) and national central banks, and between the Commission (Eurostat) and the European Central Bank, where the exchange is to ensure the quality of multinational enterprise group information in the European Union, and where the exchange is explicitly authorised by the appropriate national authority.*

*2. In order to ensure that the data transmitted under this Article is used exclusively for statistical purposes, the format, security and confidentiality measures, as well as the procedure for the transmission of data on the multinational enterprise groups to the national central banks and the European Central Bank shall be adopted in accordance with the regulatory procedure referred to in Article 16 (2).”*

21.96 NCBs and the ECB need similar exchange of confidential data on multinational enterprise groups as implemented for NSIs in Commission Regulation (EC) No 192/2009. For such a data access, a Commission Regulation implementing Article 12 of the BR Regulation (EC) No 177/2008 is necessary (adoption is planned for 2010) and in addition, an explicit authorisation issued by the appropriate national authority (i.e. the NSIs) is necessary which empowers Eurostat to transmit confidential data further to the NCBs and to the ECB.

21.97 The authorisation should allow that data on a multinational enterprise group, including its constituent units can be transmitted to a NCB when at least one unit of the group is located in the territory of that Member State. This rule should apply independently whether the data were classified as confidential from the Member State who provided the data. However, it has to be assured that those data are used purely for statistical purposes.

21.98 Regulation (EC) No 223/2009 on European Statistics (Article 21 paragraph 2 and 4) and the BR Regulation (EC) No 177/2008 (Article 12) enable for the transmission of confidential EGR data to the NCBs and the ECB. For such transmissions national rules on statistical confidentiality are overruled by Community provisions. The new legal framework on European Statistics changed the confidentiality rules and NCBs and the ECB are now explicitly mentioned as recipient of confidential data. Consequently there are no legal obstacles to issue the 'authorisation'. It is recommended that Member States issue the authorisation in order to enable central banks to receive confidential data on multinational enterprises by 2011 onwards.

#### *Exchange of confidential data between national statistical institutes and national central banks*

21.99 This exchange is regulated in the BR Regulation and in the Balance of Payments Regulation (EC) No 184/2005.

Article 4 of the BR Regulation covers the data which may be obtained from NCBs:

*“While complying with conditions as to quality referred to in Article 6, Member States may collect the information required under this Regulation using any sources they consider relevant. National authorities shall be authorised, within their sphere of competence, to collect, for statistical purposes, information covered by this Regulation contained in administrative and legal files.”*

In the BoP Regulation (EC) No 184/2005, Article 3 states that:

*“Member States shall collect the information required pursuant to this Regulation using all the sources they consider relevant and appropriate. These may include administrative data sources such as business registers.”*

In most Member States, balance of payments, international trade in services and foreign direct investment statistics are compiled in NCBs and the Article allows the use of business registers for the compilation of these statistics.

The Regulations can be interpreted to allow (but not require) the exchange of data between NSIs and NCBs for the statistical purposes defined in the Regulations in such a way that national legislation cannot prevent the necessary data being obtained. This legal basis is similar to the optional basis in Article 12 of the BR Regulation and the alternative that the NCBs would obtain the necessary data directly from the NSIs (and not from Eurostat) seems a simpler solution from a practical viewpoint. The agreement on the data exchange between NSIs and NCBs must be resolved at national level.

#### *Confidentiality and access to identifiable data*

21.100 This is defined in Article 13 of the BR Regulation:

*“1. When the Commission (Eurostat), national authorities, national central banks and the European Central Bank receive confidential data pursuant to Articles 10, 11 and 12, they shall treat that information confidentially in accordance with Regulation (EC) No 322/97.*

*2. For the purposes of this Regulation, and notwithstanding Article 14 of Regulation (EC) No 322/97, any transmission of confidential data between national authorities and the Commission (Eurostat) may take place to the extent that such transmission is necessary for the production of specific Community statistics. Any further transmission must be explicitly authorised by the national authority that collected the data.”*

21.101 The specific rules are given in Regulation No 223/2009, Article 21. . This should help to convince Member States with strict confidentiality regimes to take a more open attitude towards exchange within the European Statistical System.

## **21G — Relation to the BR Regulation**

21.102 The Regulation requires enterprise groups and their mandatory characteristics to be recorded, as well as the control links between legal units and the links from legal units and enterprises to the enterprise group. The exchange of confidential data between Eurostat and Member States is also included in the Regulation. Discussion on these in this chapter is therefore considered an interpretation of the Regulation.

The discussion on other enterprise group methodology is not an interpretation of the Regulation, but is intended to assist with the implementation of the provisions of the Regulation relevant to the enterprise group and its constituent units.

## ANNEX

### European legislation on enterprise groups

This section contains extracts from the key relevant European legal texts relating to enterprise groups, with their interpretation and their uses. The following sources are considered here:

- 1) Council Regulation (EEC) no. 696/93 on statistical units for the observation and analysis of the production system in the Community
- 2) Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC)
- 3) Seventh Council Directive (83/349/EC) of 13 June 1983 based on Article 54 (3) (g) of the Treaty on consolidated accounts
- 4) Council Regulation EC/1606/2002 'Application of International Accounting Standards'.

#### **1) Council Regulation (EEC) No 696/93 on statistical units for the observation and analysis of the production system in the Community.**

Chapter 21 is based on the statistical definition of the enterprise group, as given in the SU Regulation. A considerable part of the chapter discusses how to make the definition operational and the recommendations in this chapter go further than that stipulated in the SU Regulation. This chapter also examines how the statistical concept of an enterprise group can be derived from the accounting group, as defined in the Seventh Council Directive (below).

#### **2) Commission Recommendation (2003/361/EC) concerning the definition of micro, small and medium-sized enterprises**

The Commission Recommendation concerns the definition of micro, small and medium-sized enterprises (SME).

Micro, small and medium-sized enterprises are defined as enterprises which:

- Employ fewer than 250 persons;
- Have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million;
- Conform to the criterion of autonomy (below).

Within the SME category, a small enterprise is defined as an enterprise which:

- Employs fewer than 50 employees;
- Has an annual turnover and/or annual balance-sheet total not exceeding EUR 10 million;
- Conforms to the criterion of autonomy.

Within the SME category, a micro enterprise is defined as an enterprise which:

- Employs fewer than 10 persons;
- Has an annual turnover and/or annual balance-sheet total not exceeding EUR 2 million;
- Conforms to the criterion of autonomy.

An 'autonomous enterprise' is any enterprise which is not classified as a partner enterprise or as a linked enterprise.

A 'partner enterprise' is any enterprise which is not classified as a linked enterprise and which has the following relationship: The enterprise holds, either solely or jointly with one or more linked enterprises, 25 % or more of the capital or voting rights of another enterprise.

Note: There are some specific cases listed when an enterprise may still be ranked as autonomous even if the 25 % threshold is reached.

A 'linked enterprise' is an enterprise which has any of the following relationships with another enterprise:

- (a) An enterprise holds a majority of the shareholders' or members' voting rights in another enterprise;
- (b) An enterprise has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another enterprise;
- (c) An enterprise has the right to exercise a dominant influence over another enterprise pursuant to a contract entered into with that enterprise or to a provision in its Memorandum or Articles of Association;
- (d) An enterprise, which is a shareholder in or member of another enterprise, controls alone, pursuant to an agreement with other shareholders in or members of that enterprise, a majority of shareholders' or members' voting rights in that enterprise.

The definition of linked enterprises is consistent with the definition of control. As examined earlier in 21.16, the SMEs belonging to enterprise groups should be excluded from SME statistics. The same is true for partner SMEs, although it may be difficult to check the exceptions mentioned in the Recommendation in addition to the 25 % ownership criterion.

### **3) Seventh Council Directive 83/349/EEC**

#### *Definition of control according to the Directive*

According to the Seventh Council Directive, the parent is required to draw up consolidated accounts and a consolidated annual report when it:

Article 1(a) has a majority of the shareholders' or members' voting rights in a subsidiary; or

1(b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of a subsidiary and is at the same time a shareholder in or member of that undertaking; or

1(c) has the right to exercise a dominant influence over a subsidiary of which it is a shareholder or member, pursuant to a contract with that undertaking or to a provision in its Memorandum or Articles of Association, where the law permits that; or

1(d) is a shareholder in or member of an undertaking, and

(aa) a majority of the members of the administrative, management or supervisory bodies of that subsidiary have been appointed solely as a result of the exercise of its voting rights; however, (a), (b) and (c) above overrule (aa); or

(bb) controls alone, pursuant to an agreement with other shareholders or members of that subsidiary, a majority of the shareholders' or members' voting rights. The Member States may introduce provisions of such agreements.

2. In addition to the cases mentioned in paragraph 1, the Member States may require that consolidated accounts and a consolidated annual report be drawn up in accordance with their national law if a parent holds a participating interest in a subsidiary as defined in Article 17 of Directive 78/660/EEC, and

2(a) the parent actually exercises dominant influence; or

2(b) the parent and the subsidiary are managed on a unified basis.

Note: As there may be other means that could give the parent dominant influence depending on national law, control perimeters according to the Directive are not wholly comparable across Member States.

#### *Type of undertakings to be consolidated*

For the purposes of the Directive, a parent and all of its subsidiaries shall be consolidated where either the parent or one or more subsidiaries are established as one of the following types of company:

- 1) public companies limited by shares or by guarantee;
- 2) private companies limited by shares or by guarantee.

The consolidated version of the Directive contains a list of undertakings to be consolidated in the EU Member States.

#### *Methodologies to consolidate accounts*

The methodology of consolidation varies according to the type of shareholding.

When there is a situation of exclusive control, it is advised to use the global integration method. This method requires the cancellation of all internal transactions between the consolidating unit and subsidiaries, and between individual subsidiaries, in order to eliminate double counting before proceeding to the summation into a single account.

When there is joint ownership, the accounts should be consolidated according to the proportional integration method. It means that, in the balance of the group, value corresponds to the capital share in the owned unit.

When there is a notable influence, the accounts should be valued according to the equivalency method. This is not a method of consolidation. Simply put, the historical value of the acquisition of the share is replaced by the share of the parent in the owner's equity of the subsidiary.

If an investment was acquired and held exclusively with the intent to dispose of it in the near future, it should be accounted for according to the cost method.

#### **4) International Accounting Standards (IAS)**

The conclusions of the European Council in 2000 entailed accelerated completion of the single market for financial services. A priority objective identified was the creation of common financial reporting standards. The Commission concluded that the International Accounting Standards (IAS) issued by the International Accounting Standards Board would become the EU-wide accounting system demanded by the logic of the single market.

Within this context, several pieces of legislation were adopted in the subsequent years, the most relevant being Council Regulation (1606/2002) 'Application of International Accounting Standards'. The IAS Regulation required publicly traded companies to apply International Accounting Standards to the preparation of their consolidated financial statements by 2005 at

the latest. Member States have the option to permit or require: (1) publicly traded companies to prepare non-consolidated accounts in conformity with IAS and (2) other companies to prepare their consolidated and/or non-consolidated accounts in conformity with IAS.

To increase coherence between the EU accounting rules with IAS principles and the Council accounting directives, a Directive (2003/51/EC) has been adopted which amends Directives 78/660/EEC (Fourth Directive), 83/349/EEC (Seventh Directive), 86/635/EEC (Directive on annual accounts and consolidated accounts of banks and other financial institutions) and 91/674/EEC (Directive on annual accounts and consolidated accounts of insurance undertakings) on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

The definitions relevant for enterprise groups are presented in IAS 27 'Consolidated Financial Statements and Accounting for Investments in Subsidiaries'. Other related parts of IAS are 1 Presentation of Financial Statement, 14 Segment reporting, 22 Business combinations and 24 Related party disclosures.

### **Scope of IAS 27**

1. This Standard should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent.
2. This Standard should also be applied in accounting for investments in subsidiaries in a parent's separate financial statements.
4. Consolidated financial statements are encompassed by the term 'financial statements' included in the preface to International Accounting Standards.
5. This Standard does not deal with:
  - (a) Methods of accounting for business combinations and their effects on consolidation (see IAS 22 Business Combinations);
  - (b) Accounting for investments in associates (see IAS 28, Accounting for Investments in Associates); and
  - (c) Accounting for investments in joint ventures (see IAS 31, Financial Reporting of Interests in Joint Ventures).

### **Definitions**

6. The following terms are used in this Standard with the meanings specified:

Control (for the purpose of this Standard) is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

A parent is an enterprise that has one or more subsidiaries.

A group is a parent and all its subsidiaries.

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

**DEMOGRAPHIC CHANGES AND  
CONTINUITY RULES FOR THE  
ENTERPRISE GROUP**

**22**



## **CHAPTER 22 — DEMOGRAPHIC CHANGES AND CONTINUITY RULES FOR THE ENTERPRISE GROUP**

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### **22A — Introduction**

22.1 This chapter describes the demographic events concerning enterprise groups in the real world, the corresponding updates in business registers and the continuity rules for the enterprise group, i.e., the conditions for retaining or changing the all-resident, truncated and global enterprise group identity numbers in the business registers. Where appropriate, changes to characteristics are taken into account. In this chapter, it is assumed that continuity of multinational groups is coordinated by the procedure in a fully operational EuroGroups register. The demographic events described are those that are considered relevant to users of statistics based on business registers. These statistics comprise economic statistics, notably enterprise group demography.

22.2 The importance of different events in enterprise group demography is very different from their importance in enterprise demography. Births, deaths, survival and employment changes in enterprises are most important in enterprise demography. Births and deaths are far less important for enterprise groups, where the focus is on events reflecting concentration (mergers, takeovers) and restructuring as well as their impact, notably on employment at both national and international level.

22.3 The demographic events and the continuity rules are on the whole, but not always, the same for global groups (the whole multinational group), for all-resident groups and for truncated groups. There are certain differences in the recording of events by type of group and in allocation of identity numbers. The handling of these differences is examined for each event. Coherent handling of the global group continuity and the continuity of its truncated parts in the national territories must be ensured.

22.4 Business registers for statistical purposes represent the existence of an enterprise group by the attachment of a unique identity number to a record for the group (all group types). The creation and deletion of records are logically linked to the creation and deletion of identity numbers and are intended to correspond to changes in the existence of enterprise groups.

Similarly, if the enterprise group is not discontinued, its identity number should not change. The specific continuity rules which describe the conditions under which identity numbers should be created or deleted are given in 22D.

22.5 This chapter is structured as follows. A typology of demographic events is given in the following paragraphs, including explanatory notes and an indication of the relevance of the events. These events are then translated into register updates, under the assumption that continuity rules are available. When reading this chapter, it should be remembered that where reference is made to the deletion of an enterprise group record, it should not mean physical deletion but rather keeping track of the deletions by marking 'deleted' records as historical.

## **22B — Typology of demographic events for the enterprise group**

22.6 In the general typology of demographic events presented in Chapter 12, the relevant classes were defined in terms of changes to production factors in specific statistical units. This chapter discusses the effects of the events listed in the general typology on enterprise groups and the focus is on the basic definitions and events at enterprise group level or involving several enterprise groups. Although this chapter does not discuss all the possible events listed in Chapter 12 that may take place among the different units within an enterprise group, or restructuring between groups, they do merit further consideration, particularly the need to study and discuss the role of enterprise sub-groups.

### **Criteria**

22.7 The criteria for distinguishing demographic events presented in Chapter 12, namely the existence and distribution of (combinations of) production factors, is less straightforward for enterprise groups than for enterprises and local units, but should be applied systematically. This must be done in accordance with user needs. The demand relates to statistics on business demography and other economic statistics that are affected by these events. Users in this context include both users of statistics and statistical staff who need this information.

22.8 At enterprise group level, the categories of the general typology seem to differ in two respects:

- The continuity of the enterprise group — For example, in the event of the death of an enterprise group, it loses its identity, whereas redistribution of production factors does not necessarily involve identity loss.
- The number of enterprise groups involved in an event — The numbers of enterprise groups both before and after the event are relevant. For instance, the birth of an enterprise group and the concentration of two existing enterprise groups differ, among others, in the number of enterprise groups involved.

22.9 Applying these two criteria yields the categories of the general typology at enterprise group level plus some subcategories, as shown below. It also makes it possible to systematically derive and define all possible demographic events at enterprise group level. In particular, they allow the redistribution of production factors to be handled in a more precise and elaborate way.

### **Demographic events**

22.10 Application of the criteria results in the events at the enterprise group level as listed below. The events are followed by explanatory notes and an indication of the related demand for statistical information. The terminology chosen is intended to be in accordance with what is

common among the users of the statistical information. The events listed are mutually exclusive. Since the list is also exhaustive, it is a full typology of events.

Existential changes (events involving only one enterprise group after the event and none before, or only one enterprise group before and none after)

- Birth
- Death

22.11 Births and deaths of enterprise groups are not the same concepts as the creation and deletion of identity numbers, for two reasons. Firstly, births and deaths are events (concerning the real, observable world) and the creation and deletion of identity numbers are register updates. Secondly, births and deaths involve only one enterprise group, whereas other events, such as mergers, involve many enterprise groups and may also result in the creation and deletion of identity numbers. The convention of this manual to restrict births and deaths to involve only one enterprise group is very important, because the use of these terms is often confusing. The convention is chosen because it is in line with the terminology of users, who are interested in questions such as 'What is the effect of enterprise group birth on a certain economic activity?' If the term 'birth' is used in the sense of these types of questions, enterprise groups emerging, for instance, from mergers or split-offs are not to be included, although their impact on the concentration (or de-concentration) is very relevant.

22.12 The (real) birth of an enterprise group is the establishing of control link(s), direct or indirect, between two or more independent legal units, where no control link previously existed, and no other enterprise group is involved. Temporary links of less than one year are not taken into account.

The birth applies only to all-resident and multinational groups (which are generally born as all-resident groups), not to truncated groups, which are created through other events.

22.13 The (real) death of an enterprise group is the cessation of all control links, direct or indirect, between the legal units of which the enterprise group consists. The legal units become independent again or cease to exist. No other enterprise group is involved.

The death applies only to all-resident and multinational groups, not to truncated groups, which cease to exist through other events.

22.14 At what point in time is an enterprise group considered to have been born or died? In principle, the date should be determined by referring to the definitions above: The birth takes place at the moment the control links are established and the death when they are dissolved. However, the exact dates are often unknown and not all countries agree upon their importance. The practical recording of the dates is examined in paragraph 22.25.

Changes within an enterprise group (events that do not involve creation or deletion of a whole enterprise group)

Change of controlling unit (global group head)

Creation/deletion of a truncated group

Restructuring within an enterprise group

22.15 A change of (global) group head involves the controlling legal unit being replaced by another legal unit. Recording of the event should include the date when it takes place. This is very important for the statistics of foreign affiliates compiled according to the country of the ultimate controlling unit. Although the legal unit changes, this event should not in itself affect the

continuity of the enterprise group; therefore there are no creations or deletions of enterprise groups. However, in the sources used, the enterprise group may be defined according to the controlling legal unit and they may issue a new identifier in conjunction with the change of the controlling unit.

22.16 Creations and deletions of truncated groups are important special cases of restructuring within an enterprise group. In general, they do not affect the continuity of the global group, but they change its structure and possibly its characteristics. They may involve one or many enterprises, their creation and/or cessation. There are different cases, for instance when the truncated group consists of only one enterprise within the national territory. An important case is when there are several control links crossing national borders leading to seemingly more than one truncated group within the same global group. There are two possible options for handling truncated groups and their heads. The different groups of legal units thus formed within the national territory can be combined into one truncated group or the groups can each be defined as a separate truncated group. For the moment, both options are being considered with the aim of reaching agreement on one common treatment applicable to all countries as well as for the EuroGroups register.

Concentration (events involving more than one enterprise group before and one enterprise group after the event)

- Merger
- Takeover

22.17 Like enterprises, enterprise groups may have many types of inter-group relations and integrate their operations partly or totally. Two (or more) enterprise groups may integrate entirely and become one group. In this event, either both groups involved may lose their identity because they are dissolved beyond recognition in the new organisation, or one group may remain largely the same. In the latter instance, the other group is generally much smaller; it simply becomes absorbed by the larger group which remains largely the same. If both groups lose their identity, the event is called a merger; if one of them retains its identity, it is called a takeover.

22.18 In Chapter 13, the term 'concentration' was used to refer to events which reduce the number of enterprises. In this chapter, the use of the term is perhaps closer to its common meaning: It denotes concentration of the economy in broad terms; there will be fewer and larger economic actors, i.e. enterprise groups, dominating the market at either a national or international level. There is a clear demand for information on concentration; the sharing of production and markets by a reduced number of units is a very relevant economic phenomenon. It may sometimes be difficult to distinguish between a merger and a takeover, but the effect may be considerable in the case of large groups, although the occurrence of such concentration is not frequent. If concentration is studied from the point of view of the statistical business register, the distinction between the two events is made due to the rules concerning the continuity of enterprise group identity numbers.

22.19 Although the number of enterprise groups is reduced as a result of concentration, mergers and takeovers do not involve the death of units, as previously explained. Death is a different event. But these events may entail the deletion of records in the business register. Likewise the emergence of a new enterprise group from a merger is not considered a birth. It should also be emphasised that, a takeover may lead to changes in some characteristics of the enterprise group that retains its identity. For instance, it may enter a different size class or have a different principal economic activity.

22.20 Mergers and takeovers, as defined above, apply to all-resident and multinational groups. Similar types of events cannot be found for truncated groups. Let us examine the following scenario: When two seemingly separate truncated groups, which belong to the same multinational group, become merged under the same national group head. This is not a real merger, from a global viewpoint, it is restructuring within the group. It is important to track and record such events, but it can be difficult at national level and should be coordinated by the EuroGroups register procedures.

De-concentration (changes involving one enterprise group before and more than one enterprise group after the event)

- Break-up
- Split-off

22.21 As is the case with enterprises, an enterprise group may disintegrate into two or more groups. These events are the exact opposites of merger and takeover. The counterpart of merger is break-up, where an enterprise group is divided in a way that neither (none) of the groups retains the identity of the original group. The counterpart of takeover is split-off, where the enterprise group(s), which is split off generally becomes much smaller, with the larger group retaining the identity of the original group.

As with mergers and takeovers, break-ups and split-offs apply to all-resident and multinational groups. Similar types of events cannot be found for truncated groups. Break-ups and split-offs should be tracked and recorded in the same way as with mergers and takeovers.

Changes involving more than one enterprise group before and more than one enterprise group after the event:

Restructuring involving more than one enterprise group (complex restructuring)

22.22 An example of complex restructuring is a transfer of an enterprise, parts of enterprises, or a number of enterprises between two or more enterprise groups. The extent of this transfer should be measured, although it does not generally involve the creation or deletion of groups. However, if the continuity of employment within the group is used as a criterion for the continuity of the group, this could in some cases lead to discontinuity even if a change of group head has not been detected. The phenomenon of restructuring between groups has been prominent in the economic and financial press for many years. There is certainly a high demand for such information.

22.23 Restructuring may affect the characteristics of groups that retain their identity; for instance, their principal economic activity and size class may change.

Since the economic interests involved may be considerable, restructuring is relevant both from an information demand point of view and for statistical staff, although its heterogeneous nature and frequent occurrence make it a difficult phenomenon to cover in statistics.

## **22C — Register updates reflecting demographic events**

22.24 The following paragraphs discuss the translation of the typology events into the world of statistical business registers for each event in turn, followed by some remarks on information sources and on the reconstruction of events on the basis of register information. It is assumed that, in principle, all enterprise groups involved in an event are monitored in the business register. Where appropriate, the consequences of dropping this assumption are also examined.

### **Translation of events into register updates**

## Births and deaths

22.25 The representation of enterprise group real births and deaths in business registers is straightforward: It amounts to creating a new identity number for birth and deleting an existing one for death. A more practical problem is determining the date of birth or the 'date of commencement of the all-resident/truncated enterprise group' (characteristic 4.5 of the BR Regulation). In the case of all-resident groups, it refers to the (birth) date when the control link is established between two or more legal units. However, if the smallest all-resident groups are not monitored, it may refer to the (creation) date from when the group is monitored in the business register. The birth of a multinational group could take place in the same way, although it is rare for a group to be born directly as a multinational,— groups are almost always born as all-resident, only later becoming multinational.

For truncated groups, variable 4.5 should refer to the date on which their first unit is established in the national territory. In practice, this often equates to the date of registration of a possible corresponding administrative unit at the administrative source. It is therefore not a birth date but a creation date.

### Changes within an enterprise group

Change of controlling unit (global group head)

Creation/deletion of a truncated group

Restructuring within an enterprise group

22.26 Changes in group head and restructuring within an enterprise group are events that should not have a direct impact on the demographic variables relating to a global or all-resident group. They are, however, important indicators that may trigger further checking and may have considerable impact at national level, even creation or deletion of the truncated group, and be reflected through changes to relationships or characteristics recorded in the register.

22.27 If there are several parts of a multinational group in the national territory, these should be recorded as one truncated group (BR Regulation Article 2(e)). The impact of restructuring on these is obvious. The solution of one truncated group is better from the national business demographic viewpoint, because it avoids creations and deletions of truncated groups when restructuring takes place within the global group. On the other hand, combining several truncated groups into one may make updating the register more complicated at national level and the EuroGroups register should help in following such restructuring.

### Mergers and takeovers

22.28 In the case of a merger, all the identity numbers of the enterprise groups existing prior to the event are deleted and an identity number is created for the emerging enterprise group. In the case of a takeover, the enterprise group that takes over the other group(s) retains its identity number, so no register creation takes place and only the identity numbers of the groups that have been taken over are deleted in the register. The date on which the change is considered to have taken place is the date when both parties have accepted the merger or takeover and it has been approved by the competition authorities (when this is required).

The creation and deletion of identity numbers apply in the same way for all-resident and multinational groups. The truncated groups should follow the events at global group level.

### Break-ups and split-offs

22.29 Since break-ups and split-offs are the counterparts of mergers and takeovers respectively, their registration in business registers is analogous to the registration of mergers

and takeovers. In the event of a break-up, identity numbers are created for all the enterprise groups existing after the event and the identity number of the original group is deleted. In the event of a split-off, a new identity number is only assigned to the split-off enterprise group(s).

The creation and deletion of identity numbers apply in the same way for all-resident and multinational groups. The truncated groups should follow the events at global group level.

Restructuring involving more than one enterprise group

22.30 Complex restructuring may entail any number of register creations and deletions of different statistical units and, in practice, is very difficult to manage. Restructuring of multinational groups should be coordinated by the EuroGroups register and restructuring of all-resident groups at national level.

### **Information sources**

22.31 In practice, most events are detected from administrative or commercial sources (which build on public administrative sources) or from statistical sources. Due to changes in the sources used, depending on the quality, meaning and relevance of the administrative information, action may need to be taken to update the business register. In some cases, additional data will be needed, either collected directly or obtained from other sources. However, in all cases, cost-efficiency must be considered. As a consequence, the policy of register updating may differentiate between small and large enterprise groups. Often small enterprise groups may be updated based on the administrative sources available, if their quality is sufficient, while for large enterprise groups profiling may be necessary.

22.32 Although administrative sources differ widely from country to country, a few observations may be useful, particularly concerning the birth and death of enterprise groups. Creations and cessations in administrative and especially commercial sources do not necessarily result in business register updates as they may not respect continuity rules and the enterprise group may remain the same, while its identifier and name in the source may change. Nevertheless, in most cases, administrative information about new enterprise groups can be a good start for updating the business register in respect of register creations.

### **Reconstruction of demographic events from business register information**

22.33 If one knows how demographic events can be represented by business registers in terms of creations and deletions, the question arises how data on demographic events can be derived from business registers. Let us consider which events can cause a register creation of an enterprise group and which a register deletion.

The cause of a register creation of a new enterprise group can be:

- Birth
- Merger
- Break-up
- Split-off or
- Restructuring

The cause of a register deletion of an enterprise group can be:

- Death
- Merger

- Takeover
- Break-up or
- Restructuring

Therefore, mere registration of creations and deletions would not allow the register to derive data on the different demographic events; more information is needed.

22.34 To reconstruct a demographic event, one needs to know which enterprise groups were involved in the event. For birth and death this is no problem, but for the cases of concentration and de-concentration and for restructuring it is necessary to register a link over time between the enterprise groups involved, i.e. insofar as groups are not continued. For instance, in the case of a merger the original enterprise groups must be linked (e.g. by pointers on the records) to the emerging group and in the case of a takeover the group which is taken over must be linked to the surviving group. If such links are recorded with dates, all events can be reconstructed.

22.35 The above implies that the business register is a historical register, i.e. it keeps track of the deleted enterprise groups. In fact, in a historical register, units are not actually deleted, rather, 'deleted' records are kept and marked as historical. Unfortunately, there are circumstances that complicate matters. One complication is that the business register may have to correct past errors. This leads to 'false' creations and deletions and substantially complicates the consistent use of business registers for statistical purposes.

## **22D — Continuity in relation to the definition and use of the enterprise group**

22.36 The question of continuity can be examined both in theory and in practice. In theory, the continuity rules would be derived from the definition of the enterprise group and its statistical uses. In practice, the continuity rules depend on considerations of cost-efficiency, availability of information, costs of additional information collection and response burden. For multinational groups, continuity should be harmonised at international level. Theoretical considerations are given in this section and practical considerations in the next section.

22.37 The use of the enterprise group is relevant to the question of continuity. The Statistical Units Regulation defines the enterprise group as follows:

An enterprise group is an association of enterprises bound together by legal and/or financial links. A group of enterprises can have more than one decision-making centre, especially for policy on production, sales and profits. It may centralise certain aspects of financial management and taxation. It constitutes an economic entity, which is empowered to make choices, particularly concerning the units which it comprises.

This definition is followed by eight explanatory notes, which explain how enterprise groups can be observed but also their main uses, for financial analyses and studying company strategies.

22.38 Other statistical uses of enterprise groups were examined in more detail in Chapter 21. A general definition of enterprise group continuity based on its definition, uses and central strategic role concerning the units it comprises could be phrased like this:

If the enterprise group has continuity in its decision-making on the overall policy on the production, sales and profits, financial management and taxation, and a centralised strategy concerning the units it comprises, it is considered continuous.



22.39 It may be useful to compare the continuity of enterprises and enterprise groups. The continuity of the enterprise was defined in Chapter 14 in terms of its production factors: The enterprise was considered to be continued if its production factors are continued. The main production factors are generally grouped as land, labour and capital. These include e.g. employment, machines and equipment, buildings, management, intangible assets, etc. In Chapter 14, certain simplified practical rules were developed by using three main criteria: The controlling legal unit, principal activity and main location. The main rule (with some exceptions) was that if two of these criteria changed, the enterprise is deemed to be discontinued and a new enterprise is created in the business register.

22.40 Production factors are important also for enterprise groups, although less than for enterprises and the importance of different factors is different. Because the enterprise group may often use subcontracting for much of its production, the physical production factors play a much smaller role, while the role of strategic planning, research and development and intangibles is very important. This adds to the complexity, as the physical production factors are generally much easier to take into account than intangibles.

## **22E — Continuity in practice**

### **Basic rules**

22.41 The discussion on continuity rules here concern both global groups and all-resident groups, although the rules may need to be applied differently due to availability of information. The continuity of truncated groups in the business register should follow the continuity of the global group to which they belong, in addition to their events discussed above. When information on the continuity of the global group is available, the continuity of the truncated group can be updated accordingly and only other events (creation, deletion, etc.) concerning the truncated groups themselves need to be followed.

22.42 Continuity of multinational groups should be coordinated at international level by the procedure in the EuroGroups register, which allocates an identity number in a unique format for each global group (an NSI can of course also assign an additional national identity number). In the case of discontinuity, this identity number is changed. An indication on the discontinuity should come from the country of the group's decision centre (characteristic 4.16) when this is in Europe (this is the case for the majority of groups operating in Europe) or when there is a European group head. When the decision centre is outside of Europe, the decision must be based on the available information from the country where a European group head is located (when it exists), from the commercial sources and the published information, for instance in the EU Industrial R&D Investment Scoreboard. The identity numbers and their changes are communicated to the national statistical institutes where the enterprise group operates.

22.43 Continuity of all-resident groups can be decided, as stated in paragraph 22.36, according to cost-efficiency on the basis of different methods but according to agreed rules. For large groups, profiling may be used for the decision; for small groups automated procedures based on administrative and register information can be applied.

22.44 Only annual radical changes are taken into account, not long-term development. The changes are found by comparing the situation at certain times of the year to the same time next year. As in the case of large enterprises, sudden radical changes in large groups are rare. One such event could be a possible change of group head. On the other hand, smaller changes within the group, or restructuring between groups, are very frequent, also sub-annually, when they may not necessarily be taken into account in the annual monitoring of the group.

22.45 A key issue is to take into account how the group itself sees its continuity. There must be strong reasons to go against the group's own opinion; especially because discontinuity among the largest groups is rare. However, there are difficult cases, for instance when two large groups combine. Is it a merger (discontinuity) or a takeover (continuity of the larger group)? These may have to be decided case by case.

22.46 What components of continuity could be applicable in practice and approximate the theoretical continuity as mentioned in paragraph 22.38? Considering what is available in business registers, and can be updated to a large extent by using administrative sources, continuity concerning the following components could be used:

1. Global group head, composition and location(s)

- (a) Global group head
- (b) Enterprises which belong to the group
- (c) Main location(s)

2. Economic activity, which has different components:

- (a) Principal activity in NACE
- (b) Employment
- (c) Intangible assets

### **Use of the continuity components**

22.47 It is obvious that the practical rules based on three most important production factors, which were used for defining the enterprise continuity, are less suitable for enterprise groups. If all the components change, discontinuity is obvious. In other cases, the components need to be chosen and weighted in practice. An important case especially for smaller groups is when a new controlled unit enters the group and changes the whole profile of the group, both principal activity and employment and possibly intangible assets. This event should be considered as the creation of a new group, even if the group head remains the same.

22.48 The main components (1a and 1b, 2a and 2b) have been used and may be a suitable basis for the creation of an algorithm on which an automated decision on the continuity could be based. However, basing the decision on one criterion only should be avoided. Basing the decision just on the group head is particularly oversimplified and may lead to misinterpretations. The change of group head is an important indication, but not decisive for discontinuity if no other changes occur. Thus even for the smallest groups, where the algorithm should be simple, at least the group composition should be taken into account, that is, that there are no major changes in the enterprises the group comprises.

#### **Change of global group head**

22.49 The controlling legal unit controls the strategy and production policy (and thus planning of the production factors, including intangible assets) of the enterprise group. The continuity of the management of the group may be assumed to be positively correlated with the continuity of the controlling legal unit.

22.50 It should be noted that when the group head changes, the administrative addresses (of the group head, possibly also of the head office) or even the name of the enterprise group may change. The change of administrative address as such does not have any consequence for the continuity of the enterprise group if no other changes occur. However, changing the head office

and the research and development locations in particular, but also the location(s) where the main production activities are carried out, are frequently initiated by the change of controlling legal unit.

22.51 The change of the group head may take place without other immediate changes; the structure of the group may remain unchanged and the same activities may be carried out. The group head may also be only a financial holding (which should be indicated in its NACE class), which does not interfere in the management of the group in the short term. The convention is that if there are no other changes, there is deemed to be continuity of the enterprise group; a change in group head is in itself not sufficient for discontinuity, but it is a good indication to check if there are other changes in the continuity components.

#### Change of principal economic activity

22.52 Economic activities are recorded in terms of NACE, required at 2-digit level, but recommended at 4-digit level. Continuity of the NACE code of the principal activity may be assumed to be positively correlated with the continuity of the production factors. However, this criterion is probably not relevant for multi-activity enterprise groups, where, using a top-down approach, relatively small changes to one part of the group may cause a major change to the NACE code of the group as a whole. Also a gradual shift in activities may occur at a certain moment (while respecting the NACE stability rule), resulting in a reclassification of the enterprise group. In such cases, there is continuity and the change of activity must be ignored.

22.53 To use the principal economic activity for determining the continuity, the approach is to follow the mix of economic activities of the group members in terms of turnover (value added should be used if available). Employment could also be used, especially in cases where no reliable turnover is available for each enterprise, only consolidated turnover for a VAT group. Employment is also generally more stable over time than turnover.

The approach has been tested (see the French document presented at 1997 Roundtable: [http://circa.europa.eu/Public/irc/dsis/businesssurvey/library?!=/1997\\_tokyo&vm=detailed&sb=Title](http://circa.europa.eu/Public/irc/dsis/businesssurvey/library?!=/1997_tokyo&vm=detailed&sb=Title)). It seems to work quite well if the enterprise group has one clear principal activity. However, for multi-activity groups, it is very sensitive to the definition of the principal activity (especially at 4-digit level) and also whether some pre-defined threshold (e.g. 50 %) should be used. Using the principal activity as a single criterion is therefore not a good solution. However, especially for all-resident groups, the sudden change of principal economic activity, if combined with some other change (group head or employment) but not alone, is a strong indication of discontinuity. At global level, the principal economic activity is more difficult to apply.

#### Change of employment

22.54 Following continuity based on employment has also been studied recently (see the French document presented at 2005 Roundtable session 4: [http://circa.europa.eu/Public/irc/dsis/businesssurvey/library?!=/2005\\_cardiff/enterprise\\_measurement&vm=detailed&sb=Title](http://circa.europa.eu/Public/irc/dsis/businesssurvey/library?!=/2005_cardiff/enterprise_measurement&vm=detailed&sb=Title)). The approach is to follow the employment of the legal units of the group from year t to t+1 and if the majority of the employment remains within the group, it is considered as continuous. The continuity of the national group head was also studied and it is strongly correlated with the employment, but as it changes more easily, the employment is a better suitable measure. Following employment is a very practical measure, as it can even be totally automated. Moreover, other demographic events taking place at enterprise group level can also be followed in the same procedure, including their share in enterprise group creations and deletions.

22.55 Even though following the employment within an all-resident enterprise group (or truncated group, if the EuroGroups register does not yet cover the global group) seems to be,

according to the studies done so far, the most practical way to determine continuity, there are also weaknesses. One is the changeability of the legal units due to restructuring within the group. Following the enterprises or subgroups, if possible, would be more stable over time. A main issue is that it is not clear how the procedure would work in the global framework due to the availability of the necessary data, its timing etc. There are also groups which exist mainly for investment purposes and can change their products and markets on a regular basis as they buy and sell subsidiaries.

#### Change of main location(s)

22.56 The locations of the global group head and head office have already been examined above. They have a strong impact on the enterprises of the group, on the continuity of locations where the research and development are carried out and where the actual production takes place. The location of the production may depend on many factors; it may depend on the proximity of the clientele or the material input, on the availability, skills and price of the workforce etc. Unlike with enterprises, practical rules on how to apply the main locations as a criterion for the enterprise group level are difficult to find and — apart from the change of group head — have not been used.

#### Intangible assets

22.57 According to the definition of enterprise group continuity above, the economic activity and its components are apparently most important in deciding about the continuity of the enterprise group. Intangibles are generally related to the economic activity, but the relation is not straightforward. They cover patents, trademarks, know-how, etc. If the group has a well-known brand, its continuity is a very valuable intangible asset, but it can also be sold, in which case there is no effect on the continuity.

## 22F — Summary

22.58 In principle, because the enterprise group is mainly a financial and strategic actor, its continuity depends on the continuity in its decision-making on the overall policy on production, sales and profits, financial management and taxation, and a centralised strategy concerning the units it comprises. The continuity of these factors is too abstract to be measured and weighted and therefore practical rules must be applied.

22.59 In practice, the decision on the continuity must be based on the available information by annual monitoring in a cost-effective way. For truncated groups, this means they should follow the continuity of the global group when this information is available and only the events concerning the group need also to be taken into account. The continuity of all-resident groups should be checked when the group head changes or other demographic events occur. The decision on continuity can be based mainly on automated procedures which follow the employment in the units which the group comprises. If the decision on continuity has a major (financial, concentration of economy) impact, profiling and other methods can also be used when deemed appropriate.

22.60 The allocation of new identity numbers for the multinational groups is done at international level in the EuroGroups register procedure following the information from the country in which the decision-centre is located when this is in Europe or when there is a European group head. The decision on continuity should follow the same rules: The change in global group head should be used as an indicator. If the group head changes, it should be checked whether the structure of the group and the units it comprises (their employment, if possible) remain predominantly the same. For the largest groups, the available information in the commercial sources and in the EU Industrial R&D Investment Scoreboard must be checked.

## **22G — Relation to the BR Regulation**

22.61 The rules given in this chapter relating to the creation and deletion of identity numbers in business registers, in particular how they relate to real world events, are an interpretation of the BR Regulation and pertain to characteristics of the Regulation. The same applies to the date of commencement of activities. The use of the typology of demographic events itself goes beyond the scope of the Regulation. The same applies to the recommendations for recording time links between enterprise groups before and after events and recording the cause of register creations and deletions, whether or not they are affected by limitations in the scope of the business register.

22.62 This chapter also discusses the continuity rules and how they relate to the interpretation of two characteristics (the identity numbers of the all-resident/truncated and global enterprise groups) which have to be recorded according to the BR Regulation. Following the continuity of units is stated in the Regulation. How this should be carried out is examined both in theory and in practice. The practical rules given go beyond the scope of the Regulation. Compulsory rules could be specified in a separate Commission Regulation, if this is deemed necessary.

**STATISTICAL UNITS IN  
AGRICULTURE, FORESTRY  
AND FISHING**

**23**

## **CHAPTER 23 — STATISTICAL UNITS IN AGRICULTURE, FORESTRY AND FISHING**

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### **23A — Introduction**

23.1 The main purpose of this chapter is to describe the framework and procedures for including agricultural units in statistical business registers. This is an important step towards a wider aim: Integrating agricultural statistics into the comprehensive system of business statistics, in order to develop integrated economic statistics as proposed by the United Nations Statistical Commission. A coherent system of information is essential, especially for the purposes of national accounts. In this context, 'agriculture' refers to activities which are included in farm structure surveys (FSS) and surveys on agricultural production methods (SAPM). In NACE Rev. 2, they are classified from 01.11 to 01.50, as principal or secondary activities. From 01.49 onwards, only the raising and breeding of ostriches, emus and rabbits and beekeeping are included. The other NACE Rev. 2 classifications in section A are also examined briefly in section 23F.

23.2 The observation unit (the basic unit for which data is collected) in agricultural statistics is an 'agricultural holding'. It has similar features to the statistical units used in economic statistics, as defined in the Statistical Units Regulation (Council Regulation No 696/93), but it does not have a clear one-to-one relationship directly with any of them and may refer to different units in different cases. However, for the vast majority of cases, the agricultural holding = the local unit = the enterprise.

23.3 The reporting unit is often also the agricultural holding, but in some countries it may be another unit, the legal unit or the enterprise, which has agricultural activity. Any unit having any agricultural activity could, in principle, be considered as an agricultural holding, even if the agricultural activity is marginal to the enterprise as a whole (in terms of income, output etc.). The threshold issue is examined in section 23G.

23.4 Economic accounts for agriculture are compiled according to Regulation of the European Parliament and of the Council No 138/2004. The basic units used are the same as in the European System of Accounts, the institutional unit and the local kind-of-activity unit (LKAU), which are defined in the Statistical Units Regulation. There is additional information in paragraph 1.17 of the Annex on their relation to agricultural holdings. It states that the strict application of the ESA rule to units and their grouping should result in a division of the agricultural holding into separate LKAUs when several of the NACE four-digit activity classifications are performed on the same holding (which is very often the case). Therefore, it is stated in Regulation 138/2004 that *'the variety of agricultural activities that can be performed on agricultural holdings makes them a special type of LKAU'*, which is the practical approach most appropriate to the agricultural industry.

## **23B — The concept of an agricultural holding**

### **Statistical definitions**

23.5 The Proposal for a Regulation (EC) No. .../2008 of the European Parliament and of the Council on farm structure surveys and the survey on agricultural production methods and repealing Council Regulation (EEC) No 571/88 defines an agricultural holding as:

*Agricultural holding means a single unit, both technically and economically, which has a single management and which undertakes agricultural activities listed in Annex I within the economic territory of the European Union, either as its primary or secondary activity.*

23.6 This is the basic definition for agricultural statistics. Explanatory notes on the definitions are given in the Handbook on implementing the FSS and SAPM definitions (of which only the few most important are examined later in this chapter). Annex I lists the NACE Rev. 2 activities mentioned above in 23.1 and the exclusive maintaining of agricultural land, which is mentioned in the explanatory notes of NACE Rev. 2 class 01.61. It may be argued that this support activity for crop production should be excluded from business registers because it is not a productive activity. Some countries may, however, be in favour of including it for the sake of consistency between farm and business registers. In this instance, the Member State should verify that the land maintenance is not a secondary activity of a production unit and that it exceeds the generally used business register threshold.

23.7 The relationship between this definition and that of the enterprise is examined in detail in 23D below. The proposed Regulation concerns surveys that cover agricultural holdings where the agricultural area utilised for farming is one hectare or more, where the area is less than one hectare but the unit produces a certain proportion for sale or where the production exceeds certain physical thresholds. Member States may also use a higher threshold but may exclude only the smallest holdings which contribute 2 % or less of the total utilised agricultural area or of the total livestock units.

23.8 The geographical location of the holding is specified in the FSS-SAPM Handbook as:

*The agricultural holding is located where the main part or all agricultural production takes place. It can be a agricultural building (i.e. largest administrative building/construction used to house livestock or other buildings or constructions used for agricultural production e.g. a greenhouse) or another identified part of the holding such as the most important parcel of the holding.*

The definition is in line with the discussion on the local unit in agriculture (see 23E).

23.9 For the sake of completeness, the FAO (Food and Agriculture Organisation of the United Nations) definition is also given below; it is relatively similar to the definition above:



*An agricultural holding is an economic unit of agricultural production under single management comprising all livestock kept and all land used wholly or partly for agricultural production purposes, without regard to title, legal form, or size. Single management may be exercised by an individual or household, jointly by two or more individuals or households, by a clan or tribe, or by a juridical person such as a corporation, cooperative or government agency. The holding's land may consist of one or more parcels, located in one or more separate areas or in one or more territorial or administrative divisions, providing the parcels share the same production means, such as labour, farm buildings, machinery or draught animals.*

### **Administrative definitions and sources**

23.10 Administrative registers can be important sources of statistics, but their definitions of agricultural activities and units may differ from the statistical ones. This is a major hurdle to the development of farm registers at Member State level and their possible harmonisation at European level. The administrative registers referred to below may include large or complex units or units in other sectors than agriculture. Links to business registers can be utilised to identify such units and eliminate possible over-coverage.

23.11 A holding is defined in Council Regulation (EC) No 1782/2003 (amended by Commission Regulation 293/2008) establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers:

*'Holding' means all the production units managed by a farmer situated within the territory of the same Member State.*

*'Farmer' means a natural or legal person, or a group of natural or legal persons, whatever legal status is granted to the group and its members by national law, whose holding is situated within Community territory and who exercises an agricultural activity.*

23.12 This definition is mainly for policymaking purposes. The definition of a holding is very broad and could, in extreme cases, comprise even a truncated enterprise group (there is no restriction to be a technically and economically single unit). Moreover, in the future, it may be necessary to face the problem of cross-border holdings, when the plots of the agricultural holdings are located in neighbouring Member States. The Regulation also provides that each Member State shall set up an Integrated Administration and Control System (IACS) that shall apply to the support schemes. The system must have the following elements:

- (a) A computerised database;
- (b) An identification system for agricultural parcels;
- (c) A system for the identification and registration of payment entitlements;
- (d) Aid applications;
- (e) An integrated control system;
- (f) single system to record the identity of each farmer who submits an aid application.

23.13 Another useful regulation for administrative sources on agriculture is Regulation (EC) No 1760/2000 of the European Parliament and of the Council (amended by Council Regulation 1791/2006) establishing a system for the identification and registration of bovine animals. The Regulation requires that each Member State establishes a system with the following elements:

- (a) Ear tags to identify animals individually;
- (b) Computerised databases;
- (c) Animal passports;

(d) Individual registers kept on each holding.

A third useful regulation is Council Regulation (EEC) No 2092/91 (amended by Commission Regulation 133/2008) concerning organic production. Organic farming registers can also be used as sources.

### **The institutional sector**

23.14 When we look at the agricultural holding from the perspective of the institutional sector, the majority of holdings consist of a family (or part of it) or a single person and thus belong to the household sector as own-account workers or employers (S.141 or S.142 in the ESA Handbook Table 2.1). In most countries, the majority of agricultural production takes place in the household sector. There is usually a one-to-one relationship between an agricultural holding and a household, as the agricultural production by members of a household is usually undertaken under single management.

23.15 An agricultural holding can also be a non-financial corporation (S. 11; it can be national, private, public or foreign controlled) or it can belong to the general government sector (S. 13). The forms of ownership also vary greatly. Cooperatives and non-profit institutions are recognised as independent legal entities. Partnerships may or may not be legal entities (or quasi-corporations); if they are not, they belong to the household sector along with sole proprietors.

23.16 The agricultural holding can thus be an institutional unit and an enterprise. However, the situation becomes more complicated in the non-household sector when the agricultural holding is only part of an institutional unit. In such cases, the agricultural holding may be equal to the kind-of-activity unit. This is examined in more detail in 23D.

## **23C — Legal units in agriculture**

23.17 The definition of the legal unit depends on national legislation and there are considerable differences between Member States. In some countries, the legal units in agriculture can be defined in the same way as in other economic activities, i.e. they are either legal persons or natural persons who are engaged in an economic activity in their own right. The legal units are used for taxation (with some possible exceptions) and for subsidies (because there may be specific fiscal regimes for agricultural activities, legal units may also be created for purposes of taxation or subsidy). An agricultural holding may be a legal unit; on the other hand, agricultural holdings may be based on the recording of units which comply with the thresholds of agricultural variables (area, number of animals etc.), independently of their legal status. One legal unit often comprises both agricultural and other activities. The legal unit can be the owners' association. In rare cases, it may be possible that the agricultural holding consists of several legal units, natural persons or separate production factors, such as machinery or land.

23.18 A legal unit forms the legal basis for an enterprise. Similarly, an agricultural holder is defined as the person legally and economically responsible for the holding.

The holder is defined in the draft implementing regulation:

*The holder is the natural person, group of natural persons or legal person on whose account and in whose name the holding is operated and who is legally and economically responsible for the holding, i.e. who takes the economic risks of the holding.*

*The holder can own the holding outright or rent it or be a hereditary long-term leaseholder or a usufructuary or a trustee.*

23.19 The holders are divided in three categories:

- (a) A natural person who is a sole holder where the holding is independent. (Spouses or close family members who own or rent a holding together should normally be considered to have one independent holding managed by one sole holder).
- (b) One or more natural persons who is/are a partner where the holding is a 'group holding'. Partnerships not recognised as separate legal persons belong to this category.
- (c) A legal person.

23.20 The holder may have delegated all or some of its decision-making powers regarding the normal daily financial and production routines of running of the holding to a manager, who is defined as follows:

*Manager of the holding is the natural person responsible for the normal daily financial and production routines of running the holding concerned.*

The manager is generally, but not always, the same person as the holder who is a natural person.

In cases where the holder is not also the manager, they have charged or employed someone else with the running of the holding. This could, for example, be a member of their family or their spouse, but may also be a person with no family ties to the holder.

There can be only one manager of the holding.

23.21 For group holdings, it can be interpreted that no decision-making power has been delegated to a manager, if a separate manager has not been appointed.

23.22 The owner is the person who owns the holding. They are not always the holder, although in family holdings they are usually one and the same. The owner(s) may lease the holding to another person, the holder, who is then responsible for the management of the holding. The contract between the owner and the holder may vary: It can be a flat rent for the use of the land or it may be related to the profits or losses. The role of the manager, who is responsible for the day-to-day management of the holding, may also vary: They can be just a hired person or can actually be the holder, if the owner is just interested in the holding financially, without participating in the decision-making process.

23.23 The definition does not specify any duration for the lease to the holder, so the period of the contract could be only the few months during which the crop is growing. It would be logical to define a time threshold before a contractor can become a holder, for instance one year or two years, to be consistent with the rule on temporary sites in Chapter 8. However, a practical solution for business registers is to follow agricultural statistics in applying the definition.

23.24 If the owner and the holder are different and the owner is a natural person who is not recorded in the business register, the recording can be restricted to the holder. Recording the owner(s) would involve considerable additional burden, which may not be justifiable. The owner could also change without influence on the operation of the holding when it is rented out. Knowing the owner could be useful for defining the institutional sector, but this can generally be inferred from the legal form (household or corporation) and the control information if the unit belongs to an enterprise group, whether national private (the normal case), foreign or government controlled.

## 23D — Enterprises and kind-of-activity units in agriculture

23.25 The agricultural holding does not directly correspond to any of the units in the Statistical Units Regulation. It has many features that are common with the enterprise, but it can also be the agricultural part of a multi-activity enterprise and thus could be regarded as a kind-of-activity unit (KAU). These are not required to be separately recorded in business registers. KAUs are generally used only for large enterprises with important secondary activities and are observation units used mainly in short-term business surveys. KAUs can be recorded separately (in some Member States) or found by secondary activities, which are required for enterprises subject to surveys. If an agricultural holding does not correspond to an enterprise but to a part of it, it should be checked if it could be related to a local unit or a legal unit, which are required in business registers. If a country records KAUs separately, the practice in agriculture should be the same as in other sectors. Let us see how the agricultural holding definition given in 23.5 is related to the definitions of KAU and enterprise.

*Agricultural holding is a single unit both technically and economically.*

23.26 In general, this is indicated by a common use of labour and means of production (machinery, buildings, land, etc.). It is close to the 'organisational unit producing goods or services' in the enterprise definition. If the agricultural holding has several activities, it does not fit well with the KAU, which is a part of the enterprise mainly performing a single activity at NACE 4-digit level.

*Agricultural holding has single management.*

23.27 The single management can also be carried out by two or more persons acting jointly. Single management is related to the 'autonomy in decision-making' in the enterprise definition. Although the KAU is an operational subdivision of the enterprise, there are no specifications for its management. The single management refers to the agricultural activity, but it does not exclude the single management from also comprising other activities, generally the whole enterprise.

*Agricultural holding undertakes agricultural activities within the economic territory of the European Union, either as its primary or secondary activity.*

23.28 The word 'secondary' raises a question: Should agriculture be the principal activity of the agricultural holding? This is not specified in the proposed Regulation, but if agriculture is not the principal activity of the multi-activity enterprise, the agricultural holding should instead be defined as the agricultural part of the enterprise not as the whole enterprise. The agricultural holding should comprise all the agricultural production and service activities of the enterprise and it may also cover other activities. The agricultural holding should be one unit (enterprise, KAU, local unit or LKAU) and should not be divided into several units.

23.29 The agricultural holding may or may not be a separate legal unit. When an agricultural holding consists of a legal unit, it can generally be regarded as an enterprise. This is not the case for the agricultural holdings of research institutes, sanatoria and convalescent homes, religious communities, schools and prisons, industrial enterprises, etc. Even if the holding were a separate legal unit, these cases may differ from the enterprise definition as the holding is usually strongly integrated with the main unit, e.g. the persons working in the holding are staff of the main unit. In this case, the agricultural holding would be a KAU and possibly not registered in the business register, where only the main unit is registered. If it is a local unit or a legal unit, it would be registered as such. However, there may be cases when the agricultural holding can only be identified in the business register by the secondary activities of the main unit if these are recorded, and cross-checking between the farm and business registers must be introduced to ensure that there is no duplication of such units. Defining the principal activity in these cases is also often complicated: For instance, the use of value added could lead to a religious

organisation being classified under agriculture (or manufacturing or distributive trade); in such cases, the employment could be a better measure. Moreover, enterprises cannot be forced to split into KAUs due to problems with separate bookkeeping, division of general costs etc.

23.30 Another important situation is when the agricultural products are used as input for manufacturing or trade, e.g. in a shop or restaurant managed by the holder. If all the agricultural output is consumed by this other activity, the agricultural activity is in a vertical integration chain, which can include all three sectors, e.g. the production of grapes, manufacture of wine and selling of wine. However, if the agricultural output is also sold elsewhere on the market and there are separate legal units for the agricultural and other activities, these separate legal units are also separate enterprises. As using value added may pose problems for defining the sector of the principal activity, the NACE Rev. 2 Introductory guidelines give the following guidance:

*In agriculture, a frequent situation where the decomposition of the value added presents difficulties is when the unit produces grapes and manufactures wine from the own-produced grapes, or when it produces olives and manufactures oil from the own-produced olives. In these cases the most suitable proxy variable is the 'number of hours worked', and its application to these vertically integrated activities would generally lead to the classification of the units in agriculture. In the same case for other agricultural products, units will be classified in agriculture by convention, in order to guarantee a harmonised treatment.*

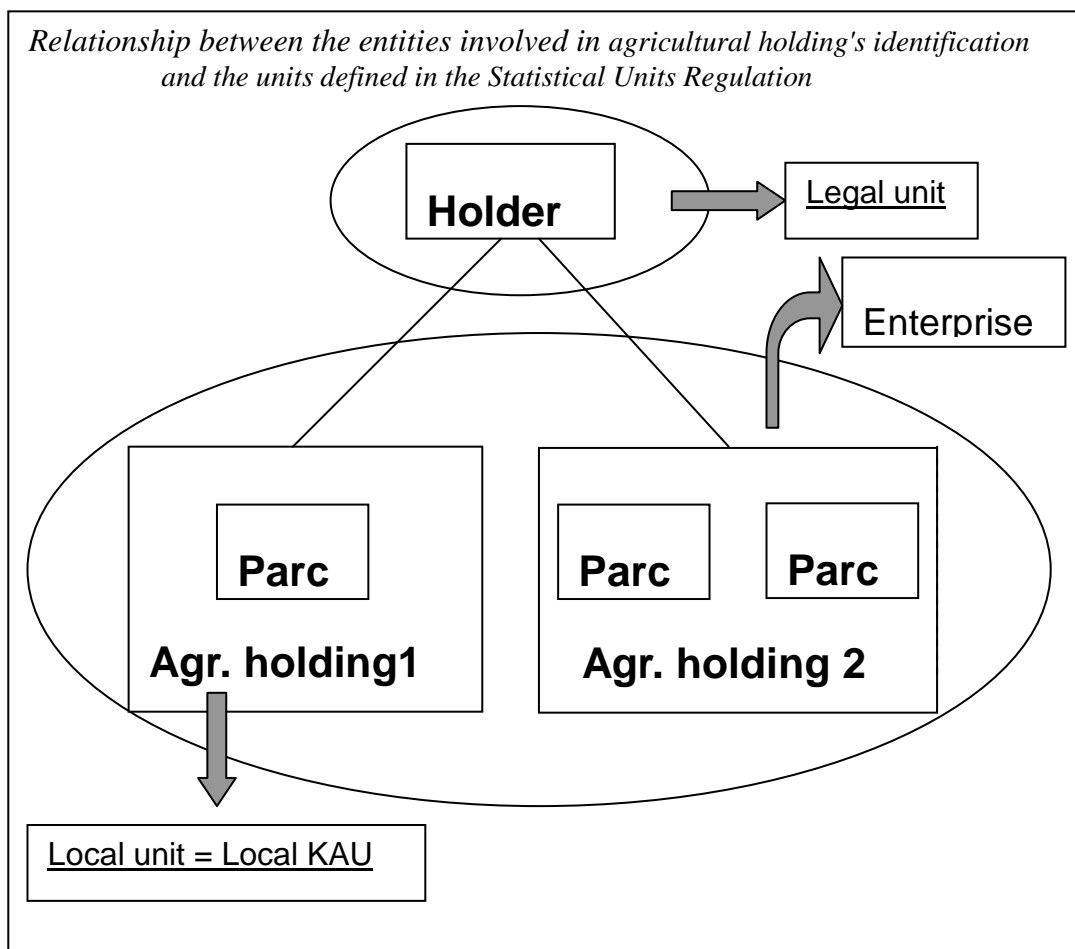
### **23E — Local units and local kind-of-activity units in agriculture**

23.31 Local kind-of-activity units are not required in the BR Regulation, but they are included in some Member States and can then be used for the link with agricultural holdings. More generally, it can be possible to link agricultural holdings directly to local units, taking into account their principal and possible secondary activities. This can also be the case for holdings in the non-household sector, where the LKAU is generally the same as the local unit. Although, in theory, the link between the agricultural holding and local unit may be on a many-to-many basis, such cases are likely to be rare in practice.

23.32 The local unit should generally be located at the address of the farm building or the place from which the agricultural activities are directed (Annex to Chapter 8). There is no requirement that the local unit should be restricted to a contiguous land area, it may comprise several parcels located in one or more areas separated either administratively or geographically, providing that the same production means, such as labour, farm buildings or machinery are shared.

23.33 Care must be taken in the matching of addresses because, when conducting agricultural surveys, the address of the holder is very important and whether this refers to the seat of enterprise, legal unit or local unit may vary by country and type of holding.

23.34 The figure below illustrates the situation between the agricultural units and the business register units. If the holder could be assimilated to the legal unit, the totality of the agricultural holdings under the holder's control (even if each holding is characterised by using different production means) could represent the enterprise, while single agricultural holdings could be considered as local units (or local KAUs). The figure does not cover all possible situations, notably if an enterprise consists of only one local unit but two (or more) KAUs, one of which is in agriculture. Such a situation requires careful cross-checking or matching of the units, as examined in 23D above.



## 23F — Units in support activities to agriculture; in forestry and in fishing

23.35 The local units in these activities are examined in Chapter 8.

### Support activities to agriculture

23.36 In this group (NACE Rev. 2 group 01.6), the units are generally different from farms. They are normally registered as legal units and included in business registers. The service activities listed in the NACE explanatory notes are similar to the service activities in other parts of the economy with the possible exception of "maintenance of agricultural land in good agricultural and ecological condition", which was examined in 23.6.

### Hunting, trapping and related service activities

23.37 This group of activities (NACE Rev. 2 group 01.7) are seldom principal or secondary activities, but most often recreational and then included in NACE Rev. 2 class 93.19.

### Forestry and logging

23.38 Forestry and logging (NACE Rev. 2 division 02) are important in certain areas and a holding is defined in Forest Resources Assessment 2000 as:

*One or more parcels of forest and other wooded land which constitute a single unit from the point of view of management or utilisation. For State-owned forest and other wooded land a holding may be defined as the area forming a major management unit administered by a senior official, e.g. a Regional Forestry Officer. For forest and other wooded land that is owned publicly, other than by the State, or owned by large-scale forest owners, e.g. forest industries, a holding may constitute a number of separated properties which are, however, managed according to one corporate strategy. Under any category of ownership, other than State-owned, one holding may be the property of one or several owners.*

23.39 Forestry and logging are increasingly carried out by specialised enterprises, which are included in business registers. There can also be many small-scale forest owners but their secondary or hobby-like activity may not be within the scope of the business register. It is also common for forestry to be combined with farming or other activity and the value added for deciding the principal activity, whether forestry, farming or some other, may vary annually. It is therefore significant that the NACE stability rule is followed, i.e. that the secondary activity should be more important for two years before it becomes the principal activity.

23.40 Gathering of wild-growing, non-wood products such as mushrooms and berries can be for own use or an activity carried out seasonally by individual persons, but often organised by enterprises, the activity of which is in the refinement of agricultural products. Such enterprises should be in the business register, while for the individuals it is mostly a secondary activity and difficult to capture.

### **Fishing and aquaculture**

23.41 Fishing and aquaculture (NACE Rev. 2 division 03) may be compared to agriculture for its complexity. FAO has defined 'aqua cultural holding' in a similar way to agricultural holding:

*An economic unit of aqua cultural production under single management.*

23.42 The problems with units in fishing and aquaculture are very similar to those examined above for agriculture and the solutions should be found in a similar way. A unit often specialises either in fishing or in aquaculture, but may be involved in both, sometimes also in agriculture.

23.43 Fishing and aquaculture generally require licenses or other types of regulatory procedure. There should therefore be administrative sources for these activities, usually separate from farm registers. Both fishing and aquaculture are strictly regulated and for aquaculture operations there are generally no thresholds, they are inspected at least on an annual basis to prevent disease outbreaks etc. The available sources can form the basis of an input to the business register, although their structure may not always be very suitable for statistical use. Due to the varying national situations and administrative sources available, special solutions should be found to cover fishing and aquaculture in business registers; fortunately the number of units is much smaller than in agriculture.

23.44 Subsistence fishing, which is common and could be defined in a similar way to subsistence farming (below), is excluded. Recreational fishing and its supporting activities belong to NACE class 93.19.

## **23G — Relationship between business registers and farm registers**

23.45 It is foreseen that the business register data on agriculture comes from administrative sources and farm registers and does not involve collecting any data directly from the units themselves (apart from perhaps some exceptional cases). Tax and social security data is used for agriculture as for other sectors, mainly for units with employees or subject to VAT. The key source for business register data on agriculture is the farm registers, which exist in almost all Member States in different forms. The farm registers can also use various administrative

sources available in the Member State (subsidy registers, animal registers and organic farming registers, as examined in 23B), but statistical surveys are also very important, especially for agricultural holdings of natural persons.

23.46 The farm registers should include an identity number for the agricultural holding and information on the links with other registers, including the business register. The link between the two registers could be best performed by including the business register identity number of the unit in the farm register and the agricultural holding identity number in the business register. The agricultural holding may have a one-to-one relationship to different units (ranging from LKAU to enterprise) in the business register, but as the identity numbers for these different units in the business register are in different formats, unequivocal linkage should always be possible. The relation of the agricultural holding to the upper level units in the business register is thus also known. Another important factor is consistency in data updating processes for both registers. Because the farm register situations in Member States differ greatly, it is not possible at this stage to provide more detailed recommendations on how to implement the farm-business registers relationship.

### **Thresholds and coverage**

23.47 The coverage of the existing farm registers in Member States varies greatly. The threshold for the inclusion of units can be based on one of several different criteria:

(a) Commercial farms that sell more than 50 % of the production.

Farms where the holder's household consumes more than 50 % of the production are referred to as subsistence holdings.

(b) Subsidised farms that benefit from Common Agricultural Policy measures.

(c) Physical threshold that includes units that exceed a predefined threshold based on utilised agricultural area or number of livestock (see the thresholds in the proposed FSS-SAPM Regulation Annex II).

(d) Macro-economic threshold that excludes the smallest units that contribute less than e.g. 1 % to the total agricultural value added.

(e) Micro-economic threshold based on predefined standard output.

(f) Some other criteria.

23.48 The coverage of small units in farm registers is generally wider than in business registers, as thresholds for farm registers are often lower. Farm registers in some Member States may also include subsistence holdings, but in order to be consistent with business register coverage in other sectors, subsistence holdings should be excluded from business registers.

23.49 Agriculture should be handled in the same way as other industries in business registers. The national situation on the coverage of the smallest units in other NACE sections in the Member State should be the guiding principle when considering the need to cover small agricultural holdings in business registers. The BR Regulation requires the coverage of enterprises with at least half a person employed. If some Member States include units below this threshold for other sectors, they should handle agriculture in a similar way. If non-subsistence agricultural holding (recognised in the farm register) below the half-person threshold forms a secondary activity for a unit already in the business register, the link between the registers should be stored.

23.50 However, employment may not be the only criterion for the inclusion of units in business registers. There are many farms operated by a holder, who earns their main income from other



activities, e.g. as an employee. In principle, such farms fulfil the enterprise criteria and sometimes a significant part of agricultural means and production can come from these farms. In such cases, value added or turnover could also be used as criteria.

## **23H — Summary of rules for linking agricultural holding to business register units**

23.51 This summary brings together the main rules examined in this chapter. The rules should be applied in a top-down approach, first checking if an agricultural holding can be linked to an enterprise (the majority of cases). If this is not possible, then it should be linked to a local unit. If this is not possible either, then it must be linked to an LKAU or KAU if these are separately recorded in the business register; if they are not, there is no one-to-one relationship between the units and the link should be stored for the enterprise or local unit, which has agriculture as a secondary activity.

### *1. Agricultural holding linked to an enterprise*

23.52 If an agricultural holding consists of a legal unit legally responsible for an enterprise, the holding should be linked with the corresponding unit in the business register when it exists. In this case, agriculture should be the principal activity of the enterprise.

If there is no corresponding unit in the business register, this generally means that the holder is a natural person. In this case, the holding can be below the threshold defined in the business register, in which case no link will be recorded. This may not be easy to decide, because turnover in agriculture may not be taxable (in which case income tax could be used) and the employees can be in a separate social security system (which could be used as a source) or be unpaid family workers.

### *2. Agricultural holding linked to a local unit*

23.53 If different agricultural holdings are controlled by the same management unit (the holder; a natural person or a legal person) and the holdings are situated in different geographically identified locations, then each holding should be linked with the corresponding local unit when it exists.

If there is no corresponding local unit, but the controlling unit is recorded in the business register (a unit controlling several holdings should in general exceed the business register threshold), consideration should be given to the creation of a local unit which corresponds to the agricultural holding.

### *3. Agricultural holding linked to a KAU or LKAU*

23.54 If the holding is neither an enterprise (with agriculture as principal activity) nor a separate local unit, it must consist of an agricultural activity, which is a secondary activity of the main unit situated in the same place.

If KAUs or LKAUs are separately recorded in the business register, the linking of the agricultural holding to them can be done in a similar way as for local units, or a KAU or LKAU which corresponds to the holding can be created.

When KAUs and LKAUs are not separately recorded in the business register, a secondary (agricultural) activity must be recorded for the corresponding enterprise or local unit.

23.55 Finally, as discussed in 23G, the identity number of the agricultural holding should be stored for the corresponding unit in the business register, including when this is only the secondary activity of the enterprise or local unit. Thus, once the links between the units have been created by a unique identifier or by matching names and addresses, the exchange and

updating of information can be done by using the existing linkage and further updating of the links is only necessary when business demographic events take place.

### **23I — Relation to the BR Regulation**

23.56 This chapter examines the problems related to the definition of units in NACE Rev. 2 section A, the relationships between these units and their relation to a specific unit used in agricultural statistics, the agricultural holding. It is not therefore a direct interpretation of the Regulation, but is intended to assist with the implementation of the provisions of the Regulation relevant to these units.

**STATISTICAL UNITS IN  
PUBLIC SECTOR**

**24**

## CHAPTER 24 — STATISTICAL UNITS IN PUBLIC SECTOR

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### 24A — Introduction

24.1 The main purpose of this chapter is to provide operational rules for determining the different levels of statistical units within public sector organisations, held in statistical business registers. The public sector contains most units of NACE section O and all units in other NACE sections owned by the state. The aim of this chapter is to ensure the definition of statistical units in the public sector is consistent across that sector, and between economic activities. This will lead to improved harmonisation of public sector units between European Union countries, and will facilitate coherent survey results for different NACE sections, and the production of comparable indicators by economic activity or region.

24.2 Public sector units should be defined in a way that is consistent with that used for private sector units wherever possible. NACE is very clear that a unit (enterprises, or in a broader sense legal units) should be classified according to its real activity (schools in Education, hospitals in Human health and social work, etc.), but there are differences between Member States in the definition of units and in the treatment of private and public units which lead to inconsistencies. The concepts of enterprise and local unit are especially important for eliminating institutional differences for the purposes of comparisons, particularly regarding the inclusion of data on activities performed by the public sector that are not considered purely administrative (i.e. activities outside of NACE Rev. 2 section O).

24.3 Units in NACE section O (public administration and defence; compulsory social security) provide certain general services - foreign affairs, defence, justice, police, fire department, etc., as well as regulation of services including health, education and culture (NACE section P, Q,

and R). The costs of producing such services are covered by the collection of taxes, or possibly directly from the users of these services. Public administration is also involved in direct redistribution of income between households and other sectors of the economy when it manages taxes, pensions and social security funds.

24.4 The services included in section O are considered to be provided to the community in such a way that generally there is no “market” for these services. However, some of these services can be outsourced, for instance there can be private prisons. They still belong to section O, but, although they are strictly supervised (controlled) by the government they may (theoretically) belong to the private sector under the condition that they would be market producers (sales cover more than 50% of the production costs).

24.5 Goods and services provided by public sector units in other NACE sections than O may be provided on market terms, though there are also areas such as health and education where public sector services are provided to the whole population, funded largely through taxation or similar compulsory contributions. The way in which public sector activities are funded can be useful for determining the appropriate statistical unit structure, though a range of other factors that need to be taken into account are discussed below.

## **24B — The Public Sector and the Statistical Units Regulation**

24.6 Section IV of the annex to the Statistical Units Regulation (Council Regulation No 696/93) has the following additional explanatory notes on government and non-profit bodies:

1. In the case of general government bodies, the appropriate statistical unit for the collection and compilation of statistics is very variable (e. g. central government, social security administration, or local government of the region, province, department, county, municipality, metropolitan area, etc.). These various bodies collectively plan, supervise and administer the finances of their constituent bodies (which can be ministries, directorates-general, directorates, bureaus, agencies, offices, etc.). As regards the type of activity, however, some of these bodies, particularly local authorities, are likely to be much more heterogeneous than corporate enterprises.

2. The activities of these bodies often belong to NACE section 'Public administration and defence; compulsory social security', although other bodies carry out activities which basically belong to other sections, including 'Education' and 'Human health and social work activities'.

3. When series of data on private-sector entities have to be combined with data on these general government and private non-profit institutions classified by type of economic activity, their identification and classification must be carried out using statistical units corresponding to entities which are closest to the statistical units defined in the private sector. This is why all the criteria used in the private sector are - by analogy - applied to general government bodies. The same applies to private non-profit institutions.

24.7 These notes refer to the public sector as a whole, not just to public administration. The general government bodies mentioned in point 1 refer to legal units rather than to statistical units. Point 3 is the most important and gives some guidance on the relation between general government and private non-profit institutions, the legal unit and the enterprise.

24.8 The Statistical Units Regulation states that “in the corporate enterprises sector the enterprise corresponds to the institutional unit”. According to the guidelines for the International Standard Industrial Classification (ISIC) “an institutional unit in its capacity as a producer of goods and services is known as an enterprise”. This statement does not differentiate between the public and private sectors.

24.9 The features of the institutional unit as described in the Statistical Unit Regulation are:

- that it is an elementary economic decision-making centre characterised by uniformity of behaviour and;
- it has decision-making autonomy in the exercise of its principal function.

24.10 This can be compared to the autonomy in decision making for the enterprise. An institutional unit has to have a complete set of accounts (with some exceptions such as households).

24.11 In the public sector a complete set of accounts and the responsibility for its budget means in practice that such a unit has to set up a budget plan for the coming year and has to have a complete set of accounts for its budget and possibly for its assets (if available).

24.12 Autonomy in decision-making in the exercise of its principal function means that it:

- can be an owner of goods or services and,
- is responsible for carrying out its economic activities and,
- can make contracts on its own initiative and enter into obligations by itself.

24.13 In practice this means that the tasks and aims of these units are described precisely but they have a certain degree of freedom in carrying out their tasks and how to reach their aim. The institutional unit can be made operational by checking, whether they draw up a budget plan in advance and whether they have a complete set of accounts on their budget (and their assets). However, the relation of institutional unit, as used in the government accounts, to enterprise is not always straightforward, as discussed below.

## **24C — The Public Sector in the European System of Accounts**

24.14 This section considers the relationship between the statistical units in business registers and those in the European System of Accounts (ESA95 – taking into account further clarifications in the ESA95 Manual on Government Deficit and Debt). As the units used in business registers and ESA95 (which uses institutional units and local kind-of-activity units) are not the same, a one-to-one relationship is not always possible. Trying to link business register units too closely to those in ESA95 could cause problems for the use of business registers as survey frames for certain surveys concerning non-market units. An important issue concerns also the institutional sector classification of enterprises in business registers.

24.15 The public sector comprises general government units (S.13) and public corporations. Public corporations are units that sell most of their output at economically significant prices but whose policies are controlled by the general government units. Control is to be understood as majority ownership, or ability to determine general corporate policy by choosing appropriate directors, if necessary (ESA95 paragraph 2.26). Public corporations can be further split into public non-financial and financial corporations units. Public non-financial corporations units (S.11001) comprise resident government controlled non-financial corporations, quasi-corporations and non-profit institutions that are principally engaged in producing goods or non-financial services for the market. Public financial corporations comprise government controlled banks, including central banks (S.121), and other resident government controlled financial corporations, quasi-corporations and non-profit institutions which primarily engage in financial intermediation on a market basis, like the public financial corporations in sector S.12.

24.16 In ESA95, paragraph 2.16 three important cases for the public sector are deemed to be institutional units:

(a) public producers which by virtue of special legislation are recognized as independent legal entities;

(b) agencies of general government;

(c) quasi-corporations which keep a complete set of accounts and have no independent legal status. However, they have an economic and financial behaviour that is different from their owners and similar to that of corporations, therefore they are deemed to have autonomy of decision and are considered as distinct institutional units. They have a market activity and should cover more than 50 % of production costs by sales.

24.17 Cases (b) and (c) are quite clear and the institutional units thus defined should equal the enterprise in business registers. Case (a) is complicated and requires detailed discussion.

24.18 According to ESA95, if an entity does not keep a complete set of accounts (or it would not be possible and meaningful to compile a complete set of accounts if required) it has to be combined with the institutional unit into whose accounts its partial accounts are integrated. If the entity has no autonomy of decision in the exercise of its principal function, it should be combined with the unit that controls it. The general government sector (S.13) only includes public non-market institutional units, but these non-market institutional units can have secondary market activities (which may be recognised as kind of activity units), which are also included in the general government sector. Public corporations, on the other hand are wholly or mainly engaged in market activities.

24.19 ESA95 further states that non-profit institutions controlled and mainly financed by government are included in the general government sector (paragraph 2.69b). This indicates that control and financing are different. A mere majority funding from the general government does not mean control (even if the institutions may be effectively supervised by the government). A non-profit institution must be both controlled and mainly financed by government to be considered as public.

24.20 In the majority of cases, the institutional unit defined in ESA95 can thus equal the enterprise as used in business registers, and convergence of country practices towards this is to be encouraged. If there is a need to combine several legal units within public administration to form an enterprise, this can be done according to the normal rules, which apply both to institutional units and enterprises.

24.21 There are two cases which may involve difficulties. The first concerns the treatment of market activities which are not sufficiently autonomous to be considered as enterprises. These can often be treated as local units (or kind of activity units / local kind of activity units, if these are recorded in business registers). The second problem concerns the definitions of institutional unit and enterprise in the non-market general government sector. The hierarchical structures of central, regional and local government vary between Member States. Thus to maximise comparability it is necessary to define public sector units independently from national hierarchy structures where possible.

## **24D — Legal Units and Quasi-Legal Units in the Public Sector**

### **Legal Units by Institutional Sectors**

24.22 The institutional sectors and sub-sectors are given in ESA95 (table 2.1). The following institutional units are classified into the public sector:

- Public financial and non-financial corporations (including the central bank)

- General government (and its units): Central, state and local government; Social security funds

24.23 General government units are controlled directly or indirectly by a parliament, assembly or council representing the users and the contributors. This body decides on the budget for the unit, and has access to its annual accounts.

24.24 Legal units of central government are units in charge of the “central administration”, the legislative assembly, and other bodies which control or advise the central government but are independent from it, such as the judiciary. The legislative assembly usually allocates the budget of all legal units of central government. Legal units of state governments are similar to those of the central government.

24.25 The Statistical Units Regulation states that local governments cover governments of the region, province, department, county, municipality, metropolitan area, etc. Legal units of e.g. municipal government can include: the municipal assembly, the municipal administration, headed by an identifiable leader, (e.g. a mayor), and other independent bodies, which control and/or advise the local government.

24.26 The legal units of the general government sector also include “governmental units”. These operate with varying degrees of autonomy to perform specific tasks, whether administrative or outside of NACE section O. *Example: A central IT service is supporting all ministries of the government with system and application management.*

24.27 Social security funds managed by central, state or local governments are often separate legal units. Because of the importance of the funds involved, there may be different legal units according to the nature of the social security benefit (e.g. sickness, work accident, unemployment, retirement, etc.) and the geographical level.

24.28 Each social security fund unit receives a budget allocation from the level of government to which it is linked, and is obliged to provide accounts of its activities and of the use of the funds. Such legal units may constitute a separate enterprise, but according to ESA, non-autonomous pension funds are not institutional units and remain part of the institutional unit that sets them up. Social security funds controlled by general government are not exactly the same as NACE Rev. 2 class 84.30, Compulsory social security activities. It is possible that a private institution manages compulsory social security funds and on the other hand general government may control also non-compulsory funds (e.g. in NACE Rev. 2 class 65.30, Pension funding).

24.29 Public corporations often operate in similar ways to private corporations, though they are controlled by institutional units in the general government sector. They may be created to produce goods or services on market terms. Examples include special bookshops for the sale of official publications, and the sale of timber by government forest agencies. There can also be public corporations which provide ancillary services to general government units, which should be combined with their customer unit as discussed in chapter 19.

24.30 Non-profit institutions controlled and mainly financed by general government should be considered as separate legal units. Many of them provide services that are not classified in sector O of NACE Rev. 2. These services can be provided to the community (e.g. research) or to households (e.g. some medical services). Usually, a unit provides services classified in a single NACE class, or in closely connected classes. They are normally considered as separate enterprises, except where they have been created to provide ancillary services to general government units, when they should be combined with their customer unit as usual.

24.31 Non-profit institutions serving households that are controlled but not mainly financed by general government can also be considered as legal units. Most of them collect funds from households or enterprises and either re-distribute them to other non-profit institutions or provide



specific services to households or to the community (health, social services, public research, education, etc.).

24.32 For the purposes of comparison and/or aggregation, it is often fairly easy to identify separate legal units in most sectors, which often correspond to enterprises. Public corporations are no different to private corporations except for their controlling unit. Lastly, except for the units created to provide ancillary services, non-profit institutions controlled and mainly financed by general government entities should constitute separate legal units in a similar way to non-profit institutions which are not controlled by the general government.

### **Quasi-Legal Units**

24.33 The legal environment concerning public administration varies considerably between Member States: In some countries legal units are defined officially only at a very high level, in others at a much lower level of the hierarchy (there may be differences even within a country depending on the sector). Using the national official definitions of legal unit would lead to incomparability in public administration and to avoid that, the concept of “quasi-legal unit” is introduced below. It should be noted that this concept shall only be followed in exceptional cases, such as no appropriate legal unit is available for the case in focus.

24.34 A quasi-legal unit is defined as an entity that has similar attributes, and operates in a similar way to a legal unit, though does not necessarily have all the features of a legal unit. A quasi-legal unit receives a separate budgetary allotment within the general decision on the annual budget. Units without budgetary allotments are not qualified as quasi-legal units. The degree of freedom granted to the head of the quasi-legal unit is comparable to those of head of legal units. A unit which is hierarchically responsible for another unit or receives a delegation from the top governing body can be considered as quasi-legal unit. Regarding the relation of legal units and quasi-legal units, a legal unit on the upper hierarchical level can be the head of a group of quasi-legal units (assumed to be the majority of cases) or a quasi-legal unit can consist in several dependant legal units. The concept of quasi-legal units should serve for constructing the enterprise in public sector.

24.35 Quasi-legal units in the public sector can meet the following criteria.

- Auditability - the unit must be capable of being audited to ensure that the budgetary allotment it receives is being used appropriately. This also implies a degree of accountability to some higher body, and the recoding of financial transactions.
- Provision of financial accounts - the unit must produce some form of financial accounts showing at least income and expenditure. These accounts have to be available at least for scrutiny by a publicly elected body (parliament, regional or local council etc.).
- Identifiable leader - there must be an identifiable individual leading the organisation or will carry at least partial responsibility for the activities of the organisation.
- Legal personality - the unit must be capable of being a party in legal proceedings, i.e. it can be a plaintiff or defendant in a court case.
- Contractual powers - the unit must be capable of being a party to a commercial contract. As such it must be able to negotiate terms, and enter into binding agreements with other private or public sector units. Note - this may not be the same as a unit having legal personality if there is some form of joint responsibility within government.

24.36 If at least three of the above mentioned criteria are applied, quasi-legal units in the public sector that meet these conditions should be generally comparable with legal units in the private sector.

24.37 There are a few additional cases to be considered for quasi-legal units.

- In case of a unit provides service for several entities and is funded by these entities it can be regarded as separate quasi-legal unit. *Example: An administrative institution is responsible for the payment of employees in different offices.*
- If budget allotments for one quasi-legal unit come from two (or more) hierarchical levels of the government (legal units) the quasi-legal unit may be separated (provided corresponding information is available). *Example: Secondary schools receive the funds for support staff and maintenance and repair from state governments while the teaching staffs are paid by the central government.*
- In case of a quasi-legal unit is financed by two (or more) legal units of the same government the quasi-legal unit may be not separated. *Example: An old people's home is partly financed by the ministry of social affairs and partly by the ministry of health.*
- The funding and control of a unit for common ancillary service by other quasi-legal units, which will receive this service, can be considered as quasi-legal unit. *Example: The municipalities of a metropolitan area agree to create a common entity to manage public transport services.*

## **24E — Enterprises in the Public Sector**

24.38 Legal units and quasi-legal units defined as above, provide the upper and lower bounds for enterprises in the public sector. The normal autonomy criteria should then be used, as described in Chapter 19.

24.39 The approach for constructing enterprises in the public sector is therefore the same as the approach for defining enterprises in major enterprise groups. The starting point is to identify legal units and/or quasi-legal units (defined here as '(quasi-)legal units') in NACE section O. From these units an organisational structure can be deduced following a top-down approach. (Quasi-)legal units, which have their main activity in section O are not aggregated with their dependent (quasi-)legal units with main activity outside of section O (and vice versa). (Quasi-)legal units which carry out a main activity outside section O, can be aggregated with their dependent (quasi-)legal units outside section O. Both (quasi-)legal units can be regarded as enterprises. A candidate to be the head of the enterprise including all dependent (quasi-)legal units inside section O can be seen in the first (quasi-)legal unit which carries out an activity outside of that section.

24.40 Public sector enterprises can include one or more (quasi-)legal units as well as ancillary non-profit institutions and public corporations which are controlled by one of these (quasi-)legal units.

24.41 There are some special cases to be examined below for the enterprise in the public sector.

- It may be that many (quasi-)legal units could be included in the candidate enterprise. This can pose a problem if there is a great diversity of activities in the enterprise. In that case, it is recommended to find out if it could be broken down further into local units (or kind of activity units / local kind of activity units, if these are recorded in business registers). It is recommended generally to leave the head of the enterprise separate. It may sometimes be aggregated with the further broken down unit, which carries out the closest main activity.
- It seems to be preferable to make several enterprises if there are different fields of activity which cannot be further broken down (provided corresponding information is available). *Example: In a big city, a service in charge of housing has two directorates, one for*

construction of living quarters, and one for renting and selling. However, the service is also directly in charge of the maintenance and repair of the city administrative buildings. The city council votes a budget allocation for housing and maintenance in the general budget, while the mayor makes the repartition across the three functions (construction, renting, maintenance and repair of administrative buildings) on the proposal of the head of the service and each head of unit has the responsibility of the management of the funds. One enterprise is classified in 41.10 of NACE Rev. 2: Development of building projects and the other in 68.20: Renting and operating of own or leased real estate.

- A (quasi-)legal unit can be present in two (or more) hierarchical lines: When a (quasi-)legal unit has main activity in section O, it is included with the enterprise, which contributes most to its budget. When a (quasi-)legal unit has a main activity outside of section O, it will be included in a separate enterprise, and thus it will not be included with its dependent units in any other possible enterprise. *Example: The premises of an urban dispensary are the propriety of the local authority, which pays also the non-medical personnel and ensures the maintenances and repairs, while the medical staff is provided, along with the basic medical products and material (alcohol, syringes, ...) by the city general hospital, which is run by the state government. As the expenditures of the local government (including amortizations) are often higher than the expenditures of the general hospital (salary of the medical staff plus medical products) the dispensary is regarded as a separate enterprise in the local government.*
- An ancillary unit may serve several enterprises. In that case it is not included in any of the enterprises it serves; it is considered as an independent enterprise (it is already a separate legal unit).
- Several candidates for heading enterprises depend on the same administrative (quasi-)legal unit. It is recommended to keep to the rule and not to aggregate the non-administrative enterprises with their administrative enterprise. *Example: A state board of education is in charge of all secondary education institutions in the state. This responsibility covers the definition of the programs and the management of the personnel of all units, whether engaged in teaching or not. However, the funds for each institution are the responsibility of the head of the unit, who also has something to say on the day-to-day organisation of teaching in the institution. Each unit should be defined as an enterprise.*

## 24F — Enterprise Groups in the Public Sector

24.42 According to the Statistical Units Regulation, an enterprise group is a set of enterprises controlled by a group head. This legal unit can be related to private or public sector. There is thus no difference between private and public controlled enterprise groups. As stated above, the hierarchical control structure of units in the public sector is also similar to the enterprise group structure. The head of a public sector enterprise group is generally a directly or indirectly elected body, accountable to its electorate. The electorate have a role that, in some respects, is similar to that of small shareholders in a large private corporation, in that individually they exercise little control, but collectively they have the power to appoint and remove the executive, and thus determine policy.

24.43 A reasonable starting point for determining the enterprise groups in the general government sector is therefore to consider central government as one enterprise group, with the national parliament as the head. Similarly each state or local government assembly or council should be seen as the head of an enterprise group containing the legal units and quasi-legal units controlled by that body.

24.44 Public sector enterprise groups may sometimes consist of several legal units and can be quite complex in their structures. Public sector legal units can not belong to a group where the

group head is a private corporation, and likewise private sector legal units can not belong to a public sector enterprise group.

## **24G — Local Units in the Public Sector**

24.45 Local units are also discussed in chapter 8. All enterprises have at least one local unit and the normal rules concerning local units can be applied to the public sector. Local units in the public sector are often more likely to have secondary activities than their private sector counterparts. The main activity of such a local unit should be determined using the top-down method, based on employment (assuming value added is not available), but it is recommended that the secondary activities of the local unit are also stored on the business register. *Example: The building of the city hall houses a municipal primary school and a small public library. The costs of the primary schools are covered by the municipality, except the salaries of the teaching personnel, who are paid by the central government. The general costs regarding maintenance and repair of the building are taken altogether along with the salaries of non teaching personnel including library personnel. These expenses are covered by the local government. One solution could be to consider that these two activities can form separate (quasi-)legal units outside of the municipality (legal unit). Even if they share the same address they could be considered as two separate enterprises under the control of the municipality and thus also have separate local units. Another solution could be to record the primary school (which is financed by both the central and local government) as an enterprise and the public library as a local unit of the local government.*

## **24H — Defining the Main Activity of Public Sector Units**

24.46 The NACE codes of enterprises (or in a broader sense (quasi-)legal units) in the public sector are determined by their main activity, using the same rules as for private sector units. Each enterprise therefore has a main activity code, which is either in section O or one of the other sections of NACE Rev. 2. When not in section O, the main activity of a public sector enterprise is the provision of goods or services, e.g. health or education. In theory, public sector units can appear in any NACE section except sections T and U. Similarly they can have secondary activities in any of these areas.

24.47 The main activity should be determined using the “top down” method, as specified in the introduction to NACE Rev. 2. In theory, value added should be used to determine the relative importance of different activities. Unfortunately value added is often particularly hard to measure for public sector units. In such cases, employment is recommended as a proxy.

24.48 Unfortunately this approach can lead to rather large and heterogeneous enterprises being allocated to a specific NACE code. For example a local council enterprise employing fifty teachers, forty road sweepers and thirty buildings maintenance staff would be classified to education, even though the majority of the staff works in other sectors. The same is, of course, true for heterogeneous enterprises in the private sector, but the impact of classifying very large public sector units in a certain way can be much greater, and can lead to systematic biases for public sector enterprises that carry out similar functions. Thus for meaningful data by economic activity it is perhaps more important for the public sector than for the private sector to consider the use of lower level units such as the local unit, or even the local kind of activity unit, if information at that level is available.

## **24I — Data Sources for Public Sector Units**

24.49 This chapter presents proposals on how to define statistical units in public administration and more generally in the public sector. The main difficulty is that despite being publicly

accountable, there may be no coordinated list of public sector entities. The coverage of public sector units in administrative sources may vary, possibly due to special schemes, requirements or exemptions. Some information on accounting units may be available based on annual budget allocations, and possibly some information on employees and their wages, though the units used may not correspond with the requirements for legal or statistical units.

24.50 The quality of administrative sources concerning local units may also vary greatly, often with less information available on the local units of local government enterprises. One reason could be that there are great changes in administrative sources ongoing aiming at improvement of efficiency by reducing the content of information. Links to specific administrative registers, e.g. registers of educational institutions, hospitals, etc. may help, and should be developed where possible to make use of the information these registers contain. It is likely, however, that e. g. profiling will be necessary to determine the overall structure, and ensure coverage of all activities of larger public sector enterprise groups.

24.51 In case of no sufficient information is available for units in the public sector a threshold value should be used to take into account the cost-benefit ratio. This could become applicable e. g. for the separation of the administration of smaller local administrations in the municipal government.

## **24J — Relation to the BR Regulation**

24.52 This chapter discusses the problems related to the definition of units in the public sector. It is not a direct interpretation of the Regulation, but the guidelines in this chapter should be followed in national business registers as much as possible in order to improve the harmonisation of treatment of public sector units, and ultimately to improve the comparability of statistics based on these units.

# GLOSSARY

## GLOSSARY

# A

### Activity

An activity can be said to take place when resources such as equipment, labour, manufacturing techniques, information networks or products are combined, leading to the creation of specific goods or services. An activity is characterised by an input of products (goods and services), a production process and an output of products.

Activities can be determined by reference to a specific level of NACE Rev. 2.

If a unit carries out more than one activity, all the activities, which are not ancillary activities are ranked according to the gross value added. On the basis of the preponderant gross value added generated, a distinction can then be made between principal activity and secondary activities. Ancillary activities are not isolated to form distinct entities or separated from the principal or secondary activities of entities they serve.

**Source:** CODED

### Acquisition

Acquisition refers to obtaining ownership and control by one firm, in whole or in part, of another firm or business entity.

**Source:** OECD Glossary of statistical terms

Note: The definition covers both control and influence (minority ownership). There are many other definitions (Wikipedia). If acquisition is used in statistical context, its meaning must always be specified. Acquisition is not a statistical event if it the acquired unit does not cease to exist in which case it is a take-over.

Related terms:

- Control
- Ownership
- Merger
- Take-over

### Active unit [SBS]

Units, which either had turnover or employment at any time during the reference period. This statistic should include all units active during at least a part of the reference period.

**Source:** SBS Regulation No 58/97, variable (11 11 0)

**Note:** In the BR Regulation economically active units are defined and the definition is wider than the SBS definition. A legal unit can be legally or administratively active without any economic activity.

Related terms:

- Economic activity
- Number of active enterprises
- Dormant unit

## **Administrative Source**

A traditional definition of administrative sources is that they are files of data collected by government bodies for the purposes of administering taxes or benefits, or monitoring populations. This narrow definition is gradually becoming less relevant as functions previously carried out by the government sector are, in many countries, being transferred partly or wholly to the private sector, and the availability of good quality private sector data sources is increasing. It is therefore necessary to consider a wider definition of administrative sources. For the purposes of the BR Recommendation Manual, administrative sources are therefore defined in the widest possible sense: Administrative sources are sources containing information that is not primarily collected for statistical purposes. This wide definition was proposed by the Eurostat Task Force on Administrative Sources in 1997. It allows the consideration of virtually the whole range of non-survey inputs to business registers, regardless of origin.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.02 – 20.05

## **Affiliate**

**see:** Foreign affiliate

## **All-resident enterprise group**

All-resident enterprise group shall mean an enterprise group composed only of enterprises that are all resident in the same country.

**Source:** Business Register - Recommendations Manual (edition 2010), paragraph 21.49

Related terms:

- Enterprise group
- Truncated enterprise group (TEG)
- Multinational enterprise group

## **Analytical unit**

Real or artificially constructed units, for which statistics are compiled.

**Source:** CODED



Related terms:

- Observation unit
- Reporting unit
- Statistical unit

## **Ancillary activity**

**see: CODED**

## **Associate**

An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

**Source:** International Accounting Standard IAS 28, Official Journal of the European Union, L 394/126, 31.12.2004

## **Association or co-operation between enterprises**

**see: CODED: Involvement of the enterprise in an association or co-operation agreement with other enterprises**

## **Association/Voluntary organisation**

- A social economy enterprise (non-profit institution) characterized by:
- Voluntary and open membership
- Equal voting rights – resolutions carried by majority
- Members' fees – no capital contribution
- Autonomy and independence
- Service providers, voluntary work, sports and advocacy/representative
- Important providers in health care, care for elderly and children and social services

**Source:** Social Economy enterprises, DG Enterprise

Related terms:

- Legal form
- Non-profit institution

## **Autonomy of decision**

**see: Enterprise**

# B

## Bias

An effect which deprives a statistical result of representativeness by systematically distorting it, as distinct from a random error which may distort on any one occasion but balances out on the average.

**Source:** CODED

## Birth [of Business]

**Enterprise** - A birth amounts to the creation of a combination of production factors with the restriction that no other enterprises are involved in the event. Births do not include entries into the population due to mergers, break-ups, split-off or restructuring of a set of enterprises. It does not include entries into a sub-population resulting only from a change of activity.

A birth occurs when an enterprise starts from scratch and actually starts activity. An enterprise creation can be considered as an enterprise birth if new production factors, in particular new jobs, are created. If a dormant unit is reactivated within two years, this event is not considered a birth.

**Source:** SBS Regulation No 58/97, variable (11 12 0); Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 5

**Local unit** - The birth of a local unit is the emergence of a local unit, which did not exist before. Since the local unit is a part of an enterprise, situated in a geographically identified place, and the enterprise is a combination of production factors, the birth of a local unit amounts to the creation of a (partial) combination of production factors at a geographically identified place.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 15.9

**Enterprise group** - The birth of an enterprise group is the establishing of a link of control, direct or indirect, between two or more independent legal units, where no link of control existed before and no other enterprise group is involved.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 22.11, 22.12, 22.25

Related terms:

- Creation of Business

## Birth date [of Business]

The date, on which a unit was born.

**Enterprise** - In principle the date could be decided by referring to the definition of the enterprise: the birth takes place at the (first) moment the conditions of the definition are met, so the moment there is an organisational unit producing goods or services.

The convention is that the date on which the first financial commitments for investments are made should be taken. This may seem somewhat early, since actual production will take place afterwards, but this allows for the statistical coverage of all important variables, such as investments, from the beginning. This date is not considered too early since serious commitments have been made, however, from the point of view of cost-efficiency and response burden it may not always be desirable to actually collect the date of birth from the enterprise; in that case the registration date at the administrative source has to be taken.

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 5; Business Register Recommendations Manual (edition 2010), paragraphs 13.13, 13.30

Related terms:

- Date of creation

## **BR**

**see: Business register for statistical purposes**

## **Branch**

Local units without separate legal entity, which are dependent on foreign enterprises, and classified as quasi-corporations according to ESA95 and SNA93 principles, shall be treated as enterprises in the business registers.

**Source:** Business Register Regulation No 177/2008, Article 3 (3)

Note: CODED: "Branch" only concerns credit institutions.

## **Brand**

Firms marketing differentiated products frequently develop and compete on the basis of brands or labels (Coca Cola vs. Pepsi-Cola, etc.). Each of these brands may be preferred by different buyers willing to pay a higher price or make more frequent purchases of one branded product over another.

**Source:** OECD Glossary of industrial organisation economics and competition law

## **Break-up**

**Enterprise** - Break-up involves one enterprise before and more than one enterprise after the event. In a break-up, the enterprise is divided in such a way that neither (none) of the new enterprises keeps the identity of the original enterprise.

There is no continuity or survival, but the closure of the previous enterprise is not considered to be a real death. Similarly the new enterprises are not considered to be real births. A break-up can be seen as the opposite of a merger.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.22; Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 4

**Enterprise group** - Like enterprise, an enterprise group may disintegrate into two or more enterprise groups. In a break-up, the enterprise group is divided in such a way that neither (none) of the new enterprise groups keep the identity of the original enterprise group.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 22.21, 22.29

Note: In the Sixth Council Directive (82/891/EEC) the corresponding term used is "division by the formation of new companies" means the operation whereby, after being wound up without going into liquidation, a company transfers to more than one newly-formed company all its assets and liabilities in exchange for the allocation to the shareholders of the company being divided of shares in the recipient companies, and possibly a cash payment not exceeding 10 % of the nominal value of the shares allocated or, where they have no nominal value, of their accounting par value.

Related terms:

- Split-off
- Creation of business
- Cessation of business

## Burden

Administrative burdens on enterprises are seen as impediments to their competitiveness. They result from all administrative demands. Requests by National Statistical Offices and other parts of national administrations responsible for statistical data collection figure among the list of administrative burdens. When considering the statistical burden on an enterprise it is useful to distinguish the two terms 'load' and 'burden'. The net burden of a survey can be defined as follows:

+ the additional cost to business arising from their inclusion in a survey (the load)

- value to enterprises of uses of the statistics (the benefits)

= net burden

In practice however, whether businesses see a survey as a burden or not will be a matter of perception which may not be in accordance with the actual costs and benefits involved. Thus:

+ perceived load

- perceived benefits

= perceived burden.

**Source:** CODED

Related terms:

- Statistical burden

## Business closures

see: Cessation of business

## Business demography

Business demography covers events, like births and other creations of units, deaths and other cessations of units, and their ratio to the business population. It covers follow-up of units in time dimension, thus gaining information on their survival or discontinuity. It also covers development in time dimension according to certain characteristics like size, thus gaining information on the growth of units, or a cohort of units, by type of activity.

Demographic information can in principle be produced by any statistical unit; however, a clear political interest in Europe is on enterprise demography.

The demography of enterprises can be assessed by studying enterprise births and enterprise deaths and by examining the change in the number of enterprises by type of activity, i.e. by examining the flows and stocks to get a complete picture of the enterprise dynamism.

The demography of local units could be assessed in a similar way as for enterprises, though this is not common. In many non-European countries demography of establishments is produced regularly. Some European countries are also interested in the demography of local kind-of-activity units.

Discussion of the demography of enterprise groups is only in a starting phase, but it may become important in the future. There are some clear differences with enterprise demography. Births and deaths of enterprise groups are less important than other events: mergers, take-overs, break-ups and split-offs.

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 1

Related terms:

- Number of births of enterprises
- Number of deaths of enterprises
- Survival
- Continuity

**(compare: CODED: "Business demography" (old definition))**

## Business register for statistical purposes

Regulation (EC) No 177/2008 of the European Parliament and of the Council establishes a common framework for business registers for statistical purposes in the Community. Member States shall set up one or more harmonised registers for statistical purposes, as a tool for the preparation and coordination of surveys, as a source of information for the statistical analysis of the business population and its demography, for the use of administrative data, and for the identification and construction of statistical units.

The registers shall be compiled of:

- a) All enterprises carrying on economic activities contributing to the gross domestic product (GDP), and their local units;
- b) The legal units of which those enterprises consist;
- c) Truncated enterprise groups and multinational enterprise groups; and
- d) All-resident enterprise groups.

**Source:** Business Register Regulation (EC) No 177/2008, Articles 1 and 3 (1)

Related terms:

- Frame

## **Business start-ups**

**see:**        **Creation of business**

# **C**

## **Capital**

Capital is generally considered as a wealth component (sum of assets belonging to enterprises, government and households). Capital corresponds in economics to a factor of production.

**Source:** CODED

## **Captive unit**

Situation, generated by strategies of outsourcing, aimed at reducing costs of production and increasing productivity, such as exclusive sales or supply contracts that generate dependency of one legal unit from another without any direct participation from the part of the former into the capital share of the latter. A legal unit can thus be captive by another unit without being owned by that, but linked by a commercial contract, which ensure to the parent legal unit the exclusive rights of the work. In the case of natural persons such units are also called false self-employed.

Note: Captive units are not part of the enterprise group.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.37

Related terms:

- Control
- Ownership

## **Ceased trading**

**see: Cessation of business**

## **Cessation [of Business]**

The cessation of activities of a unit can occur either due to a (real) death of the unit, or due to other cessation by a merger, take-over, break-up or discontinuity point according to the continuity rules.

For more information by unit:

**see: Date of cessation**

Related terms:

- Closure of Business
- Death of business
- Merger
- Take-over
- Break-up

## **Classification of activities**

**see: NACE Rev. 2**

## **Closure [of Business]**

of Enterprise:

Enterprises that are not active in a given period, but were active in the previous period. The number of enterprise deaths is derived from the population of enterprise closures by removing reactivations within two years and closures that do not meet the definition of enterprise deaths.

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 7

Related terms:

- Cessation of Business

## **Co-operation between enterprises**

**see: Involvement of the enterprise in an association or cooperation agreement with other enterprises**

## Co-operative (society)

A social economy enterprise characterized by:

- Voluntary and open membership
- Equal voting rights – resolutions carried by majority
- Members contribute to the capital which is variable
- Autonomy and independence
- Particularly important is the sector of agriculture, manufacturing, banking, retailing and services

**Source:** Social Economy enterprises, DG Enterprise

Related terms:

- Legal form

## Co-ordination of samples

Increasing the sample overlap for some surveys rather than drawing the samples independently is known as positive coordination. A positive coordination is often searched in repeated surveys over time (panels) in order to obtain a better accuracy of statistics depending on correlated variables from two surveys. Reducing the overlap between samples for different surveys is known as negative coordination. A negative coordination is used in order to share more equally the response burden among responding units when statistics from surveys are not used together or are not correlated.

**Source:** CODED

## CODED

Eurostat's Concepts and Definitions Database

## Coding

The process of converting verbal or textual information into codes representing classes within a classification scheme, to facilitate data processing, storage or dissemination.

**Source:** CODED

## Coding error

The assignment of an incorrect code to a data item.

**Source:** CODED



## **Commencement [of business]**

**see:**        **Creation of business, birth of business**

## **Commencement date**

**see:**        **Date of creation**

## **Company**

Freedom of establishment shall include the right to take up and pursue activities as self-employed persons and to set up and manage undertakings, in particular companies or firms with the meaning of the second paragraph of Article 48, under the conditions laid down for its own nationals by the law of the country where such establishment is effected, subject to the provisions of the chapter relating to capital.

Companies or firms formed in accordance with the law of a Member State and having their registered office, central administration or principal place of business within the Community shall, for the purposes of this chapter, be treated in the same way as natural persons who are nationals of Member States.

'Companies or firms' means companies or firms constituted under civil or commercial law, including co-operative societies, and other legal persons governed by public or private law, save for those which are non-profit-making.

**Source:** Treaty of Nice, articles 43 and 48

Related terms:

- Enterprise
- Institutional unit
- Corporation
- Non-profit institution
- Legal unit

## **Complex enterprise**

An enterprise combined of two or more legal units under the same control.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 7.15, 7.29

## **Concentration**

Concentration of enterprises refers to demographic events (mergers and take-overs) involving more than one enterprise before and one enterprise after the event.

The term may also be used to denote that the population of enterprises gets fewer owners or is spread over a reduced number of enterprise groups.

**Source:** Business Register Recommendations Manual (edition 2010), paragraphs 13.18 - 13.19

Related terms:

- Merger
- Take-over
- De-concentration

## Confidential data

Confidential data means data which allow statistical units to be identified, either directly or indirectly, thereby disclosing individual information. To determine whether a statistical unit is identifiable, account shall be taken of all relevant means that might reasonably be used by a third party to identify the statistical unit.

**Source:** Regulation (EC) No 223/2009 on European statistics, Article 3

**(compare: Business Register Recommendations Manual (edition 2010), paragraph 21.81 – 21.90: "Confidentiality according to BR Regulation")**

Related terms:

- Confidentiality
- Statistical units
- Protection of confidential data

## Confidentiality

Confidentiality refers to a property of data with respect to whether, for example, they are public or their disclosure is subject to restrictions. For instance, data allowing the identification of a physical or legal person, either directly or indirectly, may be characterised as confidential according to the relevant national or international legislation. Unauthorised disclosure of data that are restricted or confidential is not permitted and even legislative measures or other formal provisions may be used to prevent disclosure. Often, there are procedures in place to prevent disclosure of restricted or confidential data, including rules applying to staff, aggregation rules when disseminating data, provision of unit records, etc.

**Source:** CODED

Related terms:

- Confidential data

## Consolidated financial statement

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

**Source:** Commission Regulation (EC) No 494/2009 of 3 June 2009 as regards International Accounting Standard (IAS) 27

(compare: CODED: "Consolidation (National Accounts)")

## Continuity

In theory, the continuity rules would be derived from the definition of the enterprise (or other unit) and its statistical uses. In principle, the continuity of an enterprise depends on the continuity of its production factors: employment, machines and equipment, land, buildings, management, and intangible assets. The continuity of these factors can be measured and weighted to decide upon the continuity of the enterprise.

In practice, the continuity rules depend on considerations of cost-efficiency, notably availability of information, costs of additional information collection for the statistical institute, and response burden effects. Practical criteria, if complete information on the continuity of the production factors is not available, is discussed

- for enterprises in chapter 14
- for local units in chapter 16
- for enterprise groups in chapter 22

**Source:** Business Register Recommendations Manual (edition 2010), chapters 14, 16, 22

Related terms:

- Survival

Note: CODED: "Continuity" only available for business demography

## Control

Control over a corporation is defined as the ability to determine general corporate policy by choosing appropriate directors, if necessary. A single institutional unit (another corporation, a household or a government unit) secures control over a corporation by owning more than half the voting shares or otherwise controlling more than half the shareholders' voting power. In addition, government secures control over a corporation as a result of special legislation decree or regulation, which empowers the government to determine corporate policy or to appoint the directors. In order to control more than half the shareholders' voting power, an institutional unit needs not own any of the voting shares itself. A corporation C could be a subsidiary of another corporation B in which a third corporation A owns a majority of the voting shares. Corporation C is said to be subsidiary of corporation B when: either corporation B controls more than half of the shareholders' voting power in corporation C or corporation B is a shareholder in C with the right to appoint or remove a majority of the directors of C.

**Source:** European System of Accounts (ESA) 1995, [2.26]

Related terms:

- Dominant influence
- Ownership
- Majority ownership

(equals: CODED: "Control")

## Corporate governance

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

**Source:** OECD Glossary of statistical terms

## Corporation

A typical corporation may be described as a legal entity, created for the purpose of producing goods or services for the market, that may be a source of profit or other financial gain to its owner(s); it is collectively owned by shareholders who have the authority to appoint directors responsible for its general management.

**Source:** CODED

Related terms:

- Enterprise
- Institutional unit
- Company

## Country of residence of the group head

This is the country where the head office of the group head is located.

Note: certain territories do not have ISO country codes (Isle of Man, Jersey, Guernsey; these do not belong to the European Union). For these, the codes given in the Balance of Payments Vademecum can be used (see Balance of Payments interest group on CIRCA web site).

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.43, 21.44

Related terms:

- Group head
- Nationality of enterprise group

## Coverage

The definition of the population that statistics aim to cover.

**Source:** CODED

## Creation [of Business]

The emergence of a new business unit. This can be either due to a (real) birth of the unit, or due to other creation by a merger, break-up, split-off or discontinuity point according to the continuity rules.

For more information by unit:

**see:        Date of creation**

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 4

Related terms:

- New enterprises
- Birth of business
- Merger
- Break-up
- Split-off

# D

## Date of cessation

The date on which a unit ceased activities. This can be either its death date, or other cessation date due to merger, take-over, break-up or discontinuity point according to the continuity rules.

**Legal unit** - date on which the legal unit ceased to be part of an enterprise - This date is not easy to collect but the registration of the event is far more important than the precise day and month of its having taken place. Basically, the legal unit ceases to be part of an enterprise when:

- a) The legal unit ceases to exist. The death of the legal unit is marked on the register.
- b) The legal unit ceases to be economically active and it is not part of the control chain within the enterprise group. The legal unit can either be kept in the register as marked inactive, or its death can be marked in the register.

**Local unit** - date of final cessation of activities - This variable refers to the death or other deletion date of the local unit. As already explained for legal units above, this date may not be available with any precision, only the fact that the local unit has ceased to exist during the reference year may be known.

**Enterprise** - date of final cessation of activities - This variable refers to the death or other deletion date of the enterprise (when it becomes historical) and is interpreted in a way similar to the corresponding variable for local units (see above).

**Enterprise group** - date of cessation of the all-resident/truncated enterprise group - Cessation of a group means either death of the group (dissolution of the links of control between the units belonging to the group), or (more commonly) other cessation date by merger with or take-over by another group, or break-up, split-off, or restructure into two or more groups.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.5, 2.5, 3.5, 4.6

Related terms:

- Death of business

## Date of commencement

**see:**        **Date of creation**

## Date of creation

The date on which a unit commenced activities. This can be either its birth date, or other creation date due to merger, break-up, split-off or discontinuity point according to the continuity rules.

**Legal unit** - date of incorporation for legal persons or date of official recognition as an economic operator for natural persons - The 'date of official recognition' should be the date on which an identification number is given, or the date on which the legal existence was approved, be it a company/trade register number, a VAT number or other.

**Local unit** - date of commencement of the activities - This date should refer to the birth or other creation date of the local unit according to the continuity rules.

**Enterprise** - date of commencement of activities - The date refers to the date of birth is in principle the date on which the first financial commitments are made, although in practice it may refer to the registration date in the administrative source (and thus be the same as 1.4), if the unit starts its economic activities immediately after that. However, the legal unit may change and be re-registered for instance after a change of legal form, while the enterprise remains the same, because the continuity rules for enterprises should be applied.

**Enterprise group** - date of commencement of the all-resident/truncated enterprise group - The date refers either to a date when a new all-resident group is born), or other creation date of a new group (by merger, break-up, split-off, or restructure). The birth of a new group may be difficult to define in practice, if the smallest groups of no statistical importance to the Member State are not monitored. The date from which the group is being monitored shall then be used as a proxy. However, the approximate dates are important in order to know from which year a certain multinational group is monitored in different countries.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.4, 2.4, 3.4, 4.5

Related terms:

- Birth of business

## De-concentration

De-concentration is defined as changes (break-ups and split-offs) involving one enterprise before and more than one enterprise after the event.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.22

Related terms:

- Break-up
- Split-off
- Concentration

## Death [of Business]

**Enterprise** - A death amounts to the dissolution of a combination of production factors with the restriction that no other enterprises are involved in the event. Deaths do not include exits from the population due to mergers, take-overs, break-ups or restructuring of a set of enterprises. It does not include exits from a sub-population resulting only from a change of activity.

An enterprise is included in the count of deaths only if it is not reactivated within two years. Equally, a reactivation within two years is not counted as a birth.

**Source:** SBS Regulation No 58/97, variable (11 13 0); Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 7

**Local unit** - The death of a local unit is the disappearance of a local unit, which existed before. Since the local unit is a part of an enterprise, situated in a geographically identified place, and the enterprise is a combination of production factors, the death of a local unit amounts to the dissolution of a (partial) combination of production factors at a geographically identified place.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 15.9, 15.10

**Enterprise group** - The death of an enterprise group is the cessation of all control links, direct or indirect, between the legal units of which the enterprise group consists. The legal units become independent again or cease to exist. No other enterprise group is involved.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 22.11, 22.13

Related terms:

- Cessation of business
- Number of deaths of enterprises

## Death code

Classification system used to record the reason for the death of a unit.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.5, 2.5, 3.5, 4.6

## Death date

The date on which a unit died is not easy to collect but registration of the event is more important than the exact day.

There may be no interest from the part of the unit to announce its death. Between activity and death there may be a period of inactivity, in which the unit may be recorded as dormant. Only after 24 months of such status may the unit be erased from the statistical business register and that is the date to be retained.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.5, 2.5, 3.5, 4.6

Related terms:

- Date of cessation

## Delineation

The delineation of statistical units is mainly done by considering groupings or divisions of legal units and applying EU harmonised rules and/or using classifications. Bad delineation may occur when two units are considered as one and vice versa (for instance a cafeteria attached to a supermarket). Another frequent case of difficulties in delineation is encountered with very small enterprises, which represent a total employment less than the full-time equivalent of one year.

**Source:** ESS Handbook for Quality Reports (edition 2009)

## Demography of enterprises

see: **Business demography**

## Demerger

see: **De-concentration**

## Direct control

see: **Control**

Related terms:

- Indirect control

## Divestiture

Divestiture refers to firms selling part of their current operations, divisions or subsidiaries.

**Source:** OECD Glossary of Statistical Terms

Related terms:



- Split-off

## Domestically controlled enterprise group

A domestically controlled enterprise group is a multinational group controlled by a group head that has its headquarters resident in the country compiling the business register.

[Note: All-resident enterprise groups are also self-evidently domestically controlled, but as they are not multinational, they do not belong to this type].

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.50

Related terms:

- Multinational enterprise group
- Group head
- Foreign controlled enterprise group
- All-resident enterprise group

## Dominant influence

The *dominant influence* can be exercised in different ways. The acquisition of the absolute majority (50 % + 1) of shareholdings with voting rights is the main instrument used to take control over a legal unit. On the other hand the absolute majority of ownership of the capital share is neither a necessary nor a sufficient condition to have control.

It is not a necessary condition because there may be situations in which a relative majority of shareholdings with voting rights is enough to take control. This can be due to:

- c) Absenteeism in the meetings from the part of the other shareholders.
- d) Existing contracts about control.

It is not sufficient because the ability to effectively exercise control depends on the possibility to actively participate in the decision making process of the meeting. This may be limited by the presence of:

- e) Shareholdings with limited voting rights;
- f) Statutory provisions that limit the transferability of shares;
- g) Temporary suspension of voting rights.

Situations vary very much from country to country and depend on the legal framework concerning the corporate government, i.e. the legislation that regulates the allocation of property rights and control of enterprises in the economy. In particular the principles vary sometimes notably between civil law systems and common law ones.

**Source:** Business Register Recommendations Manual (edition 2010), paragraphs 21.52

Related terms:

- Control

## Dormant unit

A unit is said to be dormant if it is legally alive and has legal personality, but does not carry on any activity and has neither employment nor turnover.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 7.23

Related Terms:

- death date
- reactivation

## Daughter company

**see:**        **Subsidiary**

# E

## EBR

**see:**        **European Business Register**

## Economic activity

Any activity consisting in offering goods and services on a given market is an economic activity.

**Source:** Judgement of the Court of Justice C-180-184 198 [2000] ECR I-6451

## Economic territory

The economic territory includes the following items:

— the geographic territory administered by a national government within which persons, goods, services and capital

move freely,

— any free zones, including bonded warehouses and factories under customs control,

— the national air-space, territorial waters and the continental shelf lying in international waters, over which the country

enjoys exclusive rights,

— territorial enclaves, i.e. geographic territories situated in the rest of the world and used, under international treaties or

agreements between States, by general government agencies of the country (embassies, consulates, military bases,

scientific bases, etc.),

— deposits of oil, natural gas, etc. in international waters outside the continental shelf of the country, worked by units

resident in the territory as previously defined.

The economic territory excludes the following items:

— extraterritorial enclaves (i.e. the parts of the country's own geographic territory used by general government agencies

of other countries, by the Institutions of the European Union or by international organisations under international

treaties or agreements between States).

This definition follows the European System of Accounts (ESA) 1995 paragraphs 2.05 and 2.06.

**Source:** Commission Regulation (EC) No 1503/2006 of 28 September 2006

## eDAMIS

eDAMIS (electronic Data files Administration and Management Information System) offers standard solutions for collecting data files in the European Statistical System. eDAMIS implements the Single Entry Point policy of Eurostat. As of 1 July 2008 it is compulsory in Eurostat to use eDAMIS for the transmission of all regular datasets. This infrastructure is used in the EuroGroups Register for the data exchange of confidential data between Eurostat and European countries.

**Source:** eDAMIS help centre under <https://webgate.ec.europa.eu/edamis>

Related terms:

- EuroGroups Register

## EDI

**see:**        **Electronic data interchange**

## Editing

The process of scrutinizing and checking the prices reported by price collectors. Some checks may be carried out by computers using statistical programs written for the purpose.

**Source:** CODED

## Effective control

Effective minority control means having the effective control of a unit without having the majority of voting stock. It does not include indirect control via a majority-controlled subsidiary. The most common case is a minority but large shareholder and a very large number of dispersed small shareholders, none of which holds a significant share of the

capital. The minority shareholder can thus exercise effective control insofar as no majority of shareholders is really able to oppose it. However, it is possible that the small shareholders join forces in order to have more influence over the strategic decisions

- **Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.35

Related terms:

- Control
- Dominant influence

## **EGR**

**see:** EuroGroups Register

## **Electronic data interchange (EDI)**

Electronic exchange of data usually in forms that are compatible so that software or a combination of individuals and software can put the data in a compatible form at the receiving end if necessary.

**Source:** CODED

## **Employees**

**see:** CODED

Related terms:

- Employment
- Number of employees
- Number of persons employed

## **Employment**

**see:** CODED

Related terms:

- Employees
- Number of persons employed

## **Enterprise**

The enterprise is the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise carries out one or more activities at one or more locations. An enterprise may be a sole legal unit.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III A

**Note:** The definition does not limit enterprise to one country. However, by convention this is generally done in the European statistical context. Enterprise may thus be used elsewhere in the meaning of enterprise group, in America also in the meaning of truncated enterprise group.

Related terms:

- Institutional unit
- Corporation
- Company
- Enterprise group
- Statistical unit

(equals: **CODED: "Enterprise - Business statistics"**)

## **Enterprise birth**

**see: Birth of business**

## **Enterprise closure**

**see: Closure of business**

## **Enterprise death**

**see: Death of business**

## Enterprise group

An enterprise group is an association of enterprises bound together by legal and/or financial links. A group of enterprises can have more than one decision-making centre, especially for policy on production, sales and profit. It may centralise certain aspects of financial management and taxation. It constitutes an economic entity, which is empowered to make choices, particularly concerning the units that it comprises.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III C

Related terms:

- Multinational enterprise group
- All-resident enterprise group
- Truncated enterprise group
- Statistical unit

(equals: **CODED: "Enterprise group"**)

## Error - in business register

An error in a statistical business register is a difference in the information presented in the register and the information as it should be according to a chosen image of the real world produced and maintained by an accepted instrument and documented procedures.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 18.4

Related terms:

- Frame error

## ESA

**see: European system of accounts**

## ESS

**see: European statistical system**

## Establishment

An establishment is defined by the System of National Accounts (SNA) as an enterprise, or part of an enterprise, that is situated in a single location and in which only a single (non-ancillary) productive activity is carried out or in which the principal productive activity accounts for most of the value added.

According to the Regulation on statistical units the local kind-of-activity unit (local KAU) corresponds to the operational definition of the establishment. According to the

European System of Accounts (ESA) the local KAU is called the establishment in the SNA and ISIC Rev. 3.

**Source:** System of National Accounts (SNA) 1993, (5.21), P. 116, European System of Accounts (ESA) 1995, [2.106] footnote 15 and Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III G (2),

Related terms:

- Local kind-of-activity unit

(equals: CODED: "Establishment")

## EuroGroups Register (EGR)

The EuroGroups Register is a network of registers, consisting of a central register kept at Eurostat and registers in each EU Member State and in EFTA countries. The central register contains information about multinational enterprises groups (MNEs), which have statistically relevant financial and non-financial transnational operations in at least one of the European countries. Registers in the EU Member States and in EFTA countries contain information regarding MNEs active in the respective countries and are fully consistent with the central register. In practice both, Eurostat and European countries exchange confidential and non-confidential data on MNEs exclusively for statistical purposes. The data exchange is done by a SDMX standard format via eDAMIS.

The EGR integrates data coming from commercial providers and from the National Statistical Authorities. The different sources are compiled to unique MNEs in the central register at Eurostat in co-operation with the concerned statistical authorities of the EU Member States and EFTA countries.

The aim of the EGR network is to hold a complete, accurate, consistent and up-to-date set of linked and co-ordinated statistical registers, which offer compilers a common frame of multinational enterprise groups, global as well as truncated national groups, operating in the economy of the EU and EFTA countries, together with their constituent legal units and enterprises and the ownership and control relationships between legal units.

**Source:** Eurostat homepage; Commission Regulation (EC) No 192/2009 implementing Business Register Regulation (EC) No 177/2008, Article 11

Related terms:

- Enterprise groups
- Truncated enterprise groups
- Multinational enterprise groups
- Confidential data

## European Business Register (EBR)

The European Business Register (EBR) is a network of [administrative] business registers kept by the registration authorities in most of the European countries. EBR

makes it possible to obtain (for a charge) company information (which varies by country) from countries connected to the network.

The EBR EEIG – European Economic Interest Group manages the relationships between members of the EBR network.

**Source:** <http://www.ebr.org>

Related terms:

- Register
- Administrative source
- Business Register for statistical purposes

## European Company (SE)

A company [multinational enterprise group] set up within the territory of the Community in the form of a European public limited–liability company (Societas Europaea or SE) on the conditions laid down in the SE Regulation.

The registered office of an SE shall be located within the Community, in the same Member State as its head office.

**Source:** Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European Company (SE)

Related terms:

- Enterprise group
- Company

## European Co-operative society (SCE)

A co-operative society [multinational enterprise group] set up within the territory of the Community in the form of a European Co-operative Society (SCE) on the conditions laid down in the SCE Regulation.

The registered office of an SCE shall be located within the Community, in the same Member State as its head office.

**Source:** Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Co-operative Society (SCE)

Related terms:

- Enterprise group
- Co-operative

## European Statistical System (ESS)

The European Statistical System (ESS) is the partnership between the Community statistical authority, which is the Commission (Eurostat), and the national statistical



institutes (NSIs) and other national authorities responsible in each Member State for the development, production and dissemination of European statistics.

**Source:** Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009, Article 4

## European System of Accounts (ESA)

The European System of National and Regional Accounts (1995 ESA, or simply: ESA) is an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is a region, country or group of countries), its components and its relations with other total economies.

The 1995 ESA is fully consistent with the revised world-wide guidelines on national accounting, the System of National Accounts (1993 SNA) and replaces the European System of Integrated Economic Accounts published in 1970.

The ESA framework consists of two main sets of tables:

- Sector accounts: provide, by institutional sector, a systematic description of the different stages of the economic process: production, generation of income, distribution of income, redistribution of income, use of income and financial and non-financial accumulation. The sector accounts also include balance sheets to describe the stocks of assets, liabilities and net worth at the beginning and the end of the accounting period.

- Input-output framework and the accounts by industry: describe in more detail the production process (cost structure, income generated and employment) and the flows of goods and services (output, imports, exports, final consumption, intermediate consumption and capital formation by product group).

The ESA encompasses concepts of population and employment. These concepts are relevant for both the sector accounts and the input-output framework. The ESA is not restricted to annual national accounting, but applies also to quarterly accounts and regional accounts.

**Source:** CODED

Related terms:

- System of National Accounts (SNA)

## Event [Business Demography]

The table below contains the main demographic events for enterprises, the number of enterprises involved in the events and their consequences for business registers in terms of number of register creations and deletions.

For enterprise groups a similar table could be constructed as most of the events can be defined for groups as well. For local units only births and deaths are generally observed.

<b>Event</b>	<b>Real, observable world</b>		<b>Business register</b>	
	<i>Number of enterprises before the event</i>	<i>Number of enterprises after the event</i>	<i>Number of creations</i>	<i>Number of deletions</i>
Birth	-	1	1	-
Death	1	-	-	1
Change of ownership	1	1	-	-
Merger	n	1	1	n
Take-over	n	1	-	n-1
Break-up	1	n	n	1
Split-off	1	n	n-1	-
Creation of a joint venture	n	n+1	1	-
Cessation of a joint venture	n	n-1	-	1
Restructuring within an enterprise	1	1	-	-
Restructuring within an enterprise group	n	n	0 or more	0 or more
Change of group	1	1	-	-
Complex restructuring	n	n	0 or more	0 or more

Note: n = 2 or more

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.44

# F

## Factors of production

A factor of production is any good or service used to produce an output. In economics, factors of production are normally grouped into the categories land, labour and capital. Capital includes intermediate inputs.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 14.9

Related terms:

- Capital
- Number of persons employed

## False match

A pair wrongly designated as a match in the matching process

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.20.20.29 – 20.32

Related terms:

- Matching

## False non-match

A pair, which is a match in reality, but is designated as a non-match in the matching process.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.20.20.29 – 20.32

Related terms:

- Matching

## Family workers

**see:** Unpaid family workers

## FATS

**see:** Foreign affiliates statistics

## FDI

**see:** Foreign direct investment

## Firm

**see:** Company

## First shot

**see:** Immediate foreign owner

## Foreign affiliate

'Foreign affiliate' shall mean an enterprise resident in the compiling country over which an institutional unit not resident in the compiling country has control, or an enterprise not resident in the compiling country over which an institutional unit resident in the compiling country has control.

**Source:** Eurostat Recommendations Manual on Production of FATS (edition 2007), page 15

Related terms:

- Subsidiary
- Enterprise
- Institutional unit

## Foreign affiliates statistics (FATS)

'Statistics on foreign affiliates' shall mean statistics describing the overall activity of foreign affiliates. 'Inward statistics on foreign affiliates' shall mean statistics describing the activity of foreign affiliates resident in the compiling economy. 'Outward statistics on foreign affiliates' shall mean statistics describing the activity of foreign affiliates abroad controlled by the compiling economy.

**Source:** Eurostat Recommendations Manual on Production of FATS (edition 2007), page 15

## Foreign controlled enterprise group

A foreign controlled enterprise group is a multinational group controlled by a group head that has its headquarters resident outside the country compiling the business register.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.51

Related terms:

- Multinational enterprise group
- Group head
- Domestically controlled enterprise group
- All-resident enterprise group

(compare: CODED: "Foreign control/ownership")

## Foreign direct investment (FDI)

Foreign direct investment (FDI) is assumed to reflect the objective of obtaining a lasting interest by a resident entity in one economy in an entity resident in an economy other than that of the investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise.

**Source:** CODED

## Foundation

A social economy enterprise (non-profit institution) characterized by:

- Run by appointed trustees
- Capital supplied through donations and gifts

- Financing and undertaking of research, supporting international, national and local projects; providing grants to relieve the needs of individuals, funding voluntary work, health and elderly care.

**Source:** Social Economy enterprises, DG Enterprise

Related terms:

- Legal form
- Non-profit institution

## Frame

A list, map or other specification of the units, which define a population to be completely enumerated or sampled.

**Source:** CODED

Related terms:

- Business register for statistical purposes

## Frame error

Error caused by inherent limitations of input data, or by delays and errors in data acquisition and processing.

**Source:** CODED

## Franchise

The operation of a franchise network is a method of doing business that is popular in a number of service activities, especially hotels, restaurants, and retail sales. Franchisees are independent legal units which sign a contract with another legal unit, the franchiser, to engage in an activity making use of trademarks, trading styles and marketing support provided by the franchiser, usually in return for a fee or a share of the profits. A franchise contract typically includes a number of restrictive clauses limiting the franchisee's freedom of choice, for instance imposing standards as to the goods and services to be produced, their quality and their price. The franchisee may be compelled to obtain supplies from the franchiser and must pay possibly access rights. The franchisee remains entirely responsible for his investment. Contribution towards certain services organised by the franchiser that is common to the entire network. The franchiser, in turn, offers scale economies without completely taking away the autonomy of the franchisee, for example by taking care of collective marketing. Franchise operators may or may not belong to the same enterprise group.

Franchisees are deemed to be separate enterprises because they consist of a complete combination of factors of production, and they run the full entrepreneurial risk. Moreover, the definition of the enterprise requires autonomy but allows for this autonomy to be somewhat restricted ("a certain degree of autonomy" is required), and full accounts tend to be available only at the level of the separate franchisees. The franchiser is also regarded as a separate enterprise.

**Source:** Business Register Recommendations Manual (edition 2010), paragraphs 19.54 - 19.55

Related terms:

- Involvement of the enterprise in an association or co-operation agreement with other enterprises

(compare: CODED: "Franchise")

## FTEs

see: **Full-time equivalent units**

## Full-time equivalent units

Full-time equivalent units are used in annual business statistics to improve the comparability of measures of employment. Figures for the number of persons working less than the standard working time of a full-year full-time worker, should be converted into full time equivalents, with regard to the working time of a full-time full-year employee in the unit. Included in this category are people working less than a standard working day, less than the standard number of working days in the week, or less than the standard number of weeks/months in the year. The conversion should be carried out on the basis of the number of hours, days, weeks or months worked.

**Source:** CODED

Related terms:

- Number of employees
- Head count

# G

## Global decision centre

Unit where the strategic decisions referring to an enterprise group are taken. The term UCI, ultimate controlling institutional unit (used by the foreign affiliate statistics) is equivalent to this term (used by the BR Regulation).

Related items:

- Group head
- UCI

## Globalisation

Globalisation is the existence of interactions between enterprises residing in different countries which are related by other links than mere market trade, and their socio-economic consequences.

**Source:** CODED

## Greenfield investment

Greenfield investments by foreign investors are the creation of an affiliate from scratch, but the transfer of assets takes time. Greenfield investments concern a relatively smaller proportion of direct investment than acquisitions.

**Source:** European Union foreign direct investment yearbook (edition 2007)

Related terms:

- Acquisition
- Foreign affiliates statistics

## Group Head

An enterprise group is a set of enterprises controlled by the group head. The group head is a parent legal unit, which is not controlled either directly or indirectly by any other legal unit. In case of multinational enterprise groups global and domestic group heads can be identified. The global group head is the group head of the multinational enterprise group, the domestic group head is on the top of the truncated national part of the multinational enterprise group.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III C, Explanatory notes 4

Related terms:

- Ultimate controlling institutional unit
- Parent corporation
- Enterprise group
- Global decision centre

**(equals: CODED: "Group Head")**

## Growth

The term growth is used in business demography to study how enterprises develop. Growth is measured in terms of a change in size (in this case employment) over time. It is expected that growth for real births will generally be positive (for those enterprises that have survived) as the vast majority are very small at the time of start-up. There will be occasional cases for births, and more frequent cases for the population of active enterprises, where the growth measured in this way will be negative.

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 6.2

# H

## Head count

The number of physical persons (full-time and part-time) employed by a unit.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 2.9, 10a, 10b

Related terms:

- Number of persons employed
- Full-time equivalent units

(compare: CODED: "Head Count - HC", which concerns R&D, and "Head Count" (Canberra manual))

## Holding company

If an enterprise has a holding legal unit, which is not holding assets of any other enterprise, this legal unit is considered to carry out an ancillary activity. It should be combined with the other legal units of the enterprise.

A legal unit set up to hold the assets of two or more enterprises within an enterprise group (a "holding company") resembles to some extent the previous case. It is not market oriented in the sense that it does not sell goods and services to customers outside the group. Pure holding companies only hold the assets of other units, and therefore have no turnover or employment, though many holding companies also provide some sort of group service, often of a financial nature. The costs of providing such a service are often recovered through transfers from the enterprises involved.

In theory, pure holding companies do not fulfil the definition of the enterprise, as they are not a combination of factors of production producing goods and services. Since an enterprise cannot contain parts of legal units, and as NACE Rev. 2 class 64.20, "activities of holding companies", allows the units concerned to be clearly recognisable and their impact quantifiable, holding companies within groups could be regarded as separate enterprises. This solution does not rule out the possibility of apportioning variables to other enterprises within the group, indeed this may be desirable for certain types of statistics. The possibility of combining all legal units within the truncated group into one enterprise is not considered here as the groups under consideration can be very large. Units that combine holding and other types of activities should be treated as separate enterprises, particularly if this involves the provision of goods and services outside the group.

**Source:** Business Register Recommendations Manual (edition 2010), paragraphs 19.42, 19.47 - 19.48

Related terms:

- Holding corporation



## Holding corporations

Holding corporations are corporations that control a group of subsidiary corporations and whose principal activity is owning and directing the group.

**Source:** CODED

Related terms:

- Holding company

## Horizontal integration

Two legal units are said to be horizontally integrated if they are within the same enterprise group, carry out similar or complimentary activities, are managed as one business, and present themselves as a single business to the market. This means that their operations are integrated, they share resources, inputs are combined, and marketing is done for the business as a whole. If two (or more) legal units are horizontally integrated they can not be considered to act autonomously. Thus, the legal units should be combined to form a single enterprise.

The concept of "complimentary activities" is used here because the activities of horizontally integrated businesses involve similar inputs, and processes. Activities may be complimentary without necessarily falling into the same NACE class. An example could be units that buy steel tubes, and use similar processes and shared resources to make metal furniture and bicycles respectively.

**Source:** Business Register Recommendations Manual (edition 2010), paragraphs 19.52 - 19.53

Related terms:

- Vertical integration

(compare: CODED: "Horizontally integrated enterprise")

# I

## IAS

**see:** International Accounting standards

## Identity number

**Legal units** - The identity number of the legal unit can either be specific to the statistical business register, or an external one, common or shared with other institutions in the Member State, so called unique identifier. The latter is generally preferred.

**Local units** - It is recommended to use a register-specific identity number for local units. The identity number of a local unit should remain the same while the unit is considered as continuous according to the continuity rules, as defined in Chapter 16 (even in the case that the enterprise to which it belongs may change). External (shared) identity numbers may exist for local units, but as these may change during the existence of the

unit, it is recommended to treat external identity numbers as variables, keeping track of their changes.

**Enterprises** - As the continuity rules for enterprises should be applied, the identity number should remain the same from while the enterprise is considered as continuous.

**Enterprise groups (all-resident/truncated group)** - The identity number refers to the all-resident part of the group and should be different from the identity number of the global group (below), even if the group is domestically controlled. The number is given nationally in the business register or it may be common with other institutions. The identity number of truncated group is given centrally in the EuroGroups register procedure. As the continuity rules for enterprise groups should be applied, the identity number should remain the same while group is considered as continuous. For all-resident groups the general enterprise group continuity rules apply and different methods can be used, e.g. profiling for large groups and automated procedures based on administrative information for small groups. The continuity of the truncated group is based on the continuity of the global group.

Because there may be, in the national territory, several seemingly unlinked truncated groups, which in fact belong to the same multinational group. In such case these separate groups generally have same type of NACE activities and it can be advisable to define them as separate enterprises. A truncated group can also consist of only one unit of the group, parent or subsidiary, in the national territory and such cases may be difficult to identify nationally.

As the continuity of the group may remain while the group head changes, the identity number of the group should not be the same as the identity number of the all-resident group head.

**Enterprise groups (global group)** - The identity number refers to the whole group and must be unique. The identity number shall be given in the EuroGroups register to ensure a unique format. The continuity of the global groups is co-ordinated in Europe by Eurostat. The continuity is decided jointly by Eurostat and the country of decision-centre of the group (4.16), when this country is in the EU or in a participating EFTA country. When deciding on the continuity, the information in the commercial sources (which may not respect continuity rules), as well as consistency with other available sources (e.g. the EU Industrial R&D Investment Scoreboard) will be taken into account. The identity number will be distributed to all Member States, where the enterprise group operates.

As the continuity of the group may remain while the group head changes, the identity number of the group should not be the same as the identity number of the global group head.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.1, 2.1, 3.1, 4.1, 4.11

(compare: CODED: "Identifier")

## IFRS

see: **International Accounting standards**

## Immediate foreign owner

Immediate owner or first shot is the first enterprise outside the Member States in an affiliate ownership chain that has an ownership of more than 50 % of the ordinary shares or the equivalent in the case of an unincorporated enterprise.

**Source:** CODED

Related terms:

- Ownership

## Imputation

Procedure for entering a value for a specific data item where the response is missing or unusable.

**Source:** CODED

## Incorporated enterprise

**see:**       **Corporation**

## Indirect control

According to Council Regulation (EEC) No 696/93 of 15 March 1993 on statistical units (Annex Section III C, Explanatory notes 4), "The subsidiary enterprises of a subsidiary enterprise are considered to be subsidiaries of the parent enterprise. (...)". This means that a parent unit may have indirect control over a legal unit (sub-subsidiary) through other subsidiaries. Indirect control does not require the parent unit to own a majority of integrated shareholding in the capital share of the sub-subsidiaries.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.38

Related terms:

- Control
- Dominant influence
- Majority ownership

## Industrial activity

**see:**       **Economic activity**

## Industry

There is no harmonised definition for the term 'Industry' in business statistics due to its wide usage in different circumstances.

'Industry' is often used as a synonym for 'activity', for the 'industrial sector' and for 'industrial activity'. However it is broader than the industrial sector in that it may be used to refer to a population based on observation units other than the enterprise or the local unit, namely the kind of activity unit (KAU) or the local KAU. Care should be taken to

avoid confusion with a 'branch' which is based on the unit of homogeneous production (UHP) or the local UHP.

The European System of Accounts (ESA) defines the term 'Industry' as consisting of a group of local KAUs engaged in the same, or similar, kind-of-activity. At the most detailed level of classification, an industry consists of all the local KAUs falling within a single class (4-digits) of NACE Rev. 2 and which are therefore engaged in the same activity as defined in the NACE Rev. 2.

Industries comprise both local KAUs producing market goods and services and local KAUs producing non-market goods and services. An industry by definition consists of a group of local KAUs engaged in the same type of productive activity, irrespective of whether or not the institutional units to which they belong produce market or non-market output.

**Source:** Eurostat and European System of Accounts (ESA) 1995, [2.108]

Related terms:

- Activity

(equals: **CODED: "Industry"**)

## Institutional sector

Institutional units are grouped into institutional sectors or simply sectors, some of which are divided into sub-sectors. Each of the sectors and sub-sectors group together the institutional units which have a similar type of economic behaviour.

Criteria for assessing 'similar type of economic behaviour' are:

- Type of producer;
- Private and public market producers;
- Private producers for own final use;
- Private and public other non-market producers;
- Principal activity and function.

The ESA distinguishes between the following institutional sectors:

- Non-financial corporations;
- Financial corporations;
- General government;
- Households (as consumers or entrepreneurs);
- Non-profit institutions serving households;
- Rest of the world.

**Source:** European System of Accounts (ESA) 1995, [2.17 - 2.20]

Related terms:

- European system of accounts
- Institutional unit

(equals: CODED: "Institutional sector - ESA")

## Institutional unit

The institutional unit is an elementary economic decision-making centre characterised by uniformity of behaviour and decision-making autonomy in the exercise of its principal function. A unit is regarded as constituting an institutional unit if it has decision-making autonomy in respect of its principal function and keeps a complete set of accounts.

- In order to be said to have autonomy of decision in respect of its principal function, a unit must be responsible and accountable for the decisions and actions it takes.
- In order to be said to keep a complete set of accounts, a unit must keep accounting records covering all its economic and financial transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities.

Note: According to the Regulation on statistical units an institutional unit corresponds to an enterprise in the corporate enterprises sector.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex, Section III B

Related terms:

- Enterprise
- Corporation

(compare: CODED: "Institutional unit")

## International Accounting Standards (IAS)

Accounting standards issued by the International Accounting Standards Committee (IASC) were designated "International Accounting Standards" (IAS).

In 2001, IASC became the International Accounting Standard Board (IASB) and announced that its accounting standards would be designated "International Financial Reporting Standards" (IFRS).

Accounting Standards are authoritative statements of how particular types of transaction and other events should be reflected in financial statements.

**Source:** Accounting and statistics glossary

Related terms:

- Publicly traded company
- Corporation

## **International Standard Industrial Classification of all economic activities**

The International Standard Industrial Classification of all Economic Activities (ISIC Rev. 3) of the United Nations is intended to be a standard classification of all productive economic activities. Its main aim is to provide a set of activity categories that can be used when analysing statistics according to such activities. The detailed groups and classes of the ISIC are best suited for classifying the kind of economic activity of establishments.

The ISIC Rev. 3 is a classification by activity. The activity carried out by a statistical unit is the type of production in which it engages.

Economic activities are classified within the European Union according to NACE Rev. 2.

**Source:** International Standard Industrial Classification of all Economic Activities, Rev. 3, United Nations, New York 1990

Related terms:

- NACE Rev. 2

**(equals: CODED: "International Standard Industrial Classification of all economic activities")**

## **Intrastat**

With the removal of frontier controls between Member States under the Single Market programme, a new system, known as Intrastat was devised to collect statistics on intra-Community trade. Developed by Eurostat and operational since 1st January 1993, Intrastat involves collecting information directly from businesses and makes use of Value Added Tax (VAT) data and the VAT reporting system.

Intra-EU trade statistics record the arrival and dispatch of movable property recorded by each Member State.

Intra-EU trade statistics do not record goods in transit. Intra-EU trade statistics are not based on either the general or the special trade system; these concern customs procedures. Given its coverage of transactions, however, Intrastat closely matches the general trade system.

Intra-EU trade statistics do not cover the following arrivals and dispatches:

- those effected by private individuals or small enterprises which are exempt from periodic tax declarations;
- those which are excluded pursuant to special provisions of Community legislation.

**Source:** Statistics on the trading of goods - user guide (edition 2006), section 1

**(equals: CODED: "INTRASTAT")**

## **Involvement of the enterprise in an association or co-operation agreement with other enterprises**

**see: CODED**

Related terms:

- Enterprise
- Franchise
- Legal form

# **J**

## **Jobs**

A job is defined as an explicit or implicit contract (relating to the provision of labour input, not to supplying output of a good or service) between a person and a resident institutional unit to perform work (activities which contribute to the production of goods or services within the production boundary) in return for compensation (including mixed income of self-employed persons) for a defined period or until further notice.

In that definition, both employee and self-employment jobs are covered: that is, an employee job if the person belongs to another institutional unit than the employer and a self-employment job if the person belongs to the same institutional unit as the employer.

The concept of jobs differs from the concept of employment:

- It includes second, third, etc. jobs of the same person. Those second, third, etc. jobs of a person may either successively follow one another within the reference period (usually, a week) or, as when someone has an evening job as well as a daytime job, run in parallel.
- On the other hand, it excludes persons temporarily not at work but who have a 'formal attachment to their job' in the form, for instance, of 'an assurance of return to work or an agreement as to the date of return'. Such an understanding between an employer and a person on lay-off or away on training is not counted as a job in the system.

**Source:** European System of Accounts (ESA) 1995, [11.22-23]

Related terms:

- Employment

**(equals: CODED: "Job")**

## **Joint stock company**

**see: Legal form**

## Joint venture

A joint venture is created when two or more independent enterprises agree to commit some of their resources to work together on a common project or towards a common goal. An important feature of a joint venture enterprise is that none of the original enterprises exercise outright control over the entity created, therefore it is considered to be an enterprise.

For business demography purposes, joint ventures may be considered to be real births if they involve the creation of new factors of production. The cessation of a joint venture mirrors the above. It can be considered a real death if less than half of the employment is transferred to the participating enterprises.

The proportion of the new factors of production necessary for a joint venture to be considered a real birth should be at least half, i.e. if less than half of the total employment of the joint venture enterprise is transferred from the participating enterprises, it is considered to be a real birth.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.23; Eurostat – OECD Manual on Business Demography Statistics (edition 2007), sections 4.1 and 5.1

# K

## KAU

**see:**        **Kind-of-activity unit**

## Kind-of-activity unit

The kind of activity unit (KAU) groups all the parts of an enterprise contributing to the performance of an activity at class level (4-digits) of NACE Rev. 2 and corresponds to one or more operational subdivisions of the enterprise. The enterprise's information system must be capable of indicating or calculating for each KAU at least the production value, intermediate consumption, manpower costs, the operating surplus and employment and gross fixed capital formation.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III D

Related terms:

- Activity
- NACE Rev. 2
- Statistical unit

**(equals: CODED: "Kind-of-activity unit")**



# L

## Legal form

The legal form (also known as legal status) is defined according to national legislation. It is useful for eliminating ambiguity in identification searches and as the possible criterion for selection or stratification for surveys. It is also used for defining the institutional sector (3.11). Statistics according to legal form are produced e.g. in business demography. The character of legal or natural person is decisive in fiscal terms, because the tax regime applicable to the unit depends on this. It means that any statistical register fed with fiscal records will have that information. Experience has shown that legal form will often be useful to make adjustments to information collection processes and questionnaires on the legal unit operating an enterprise. A code representing the legal form should therefore be recorded in accordance with the classification of legal forms or categories. The following legal forms can be found in most Member States:

- Sole proprietorship: Enterprise owned exclusively by one natural person.
- Partnership: Association of persons who conduct a business under a collective name. It can take the form of a limited partnership.
- Limited liability companies: Enterprises comprising joint-stock companies, limited partnerships with share capital and private limited company. Harmonised rules at European level governing the publication of accounts for these types of companies are laid down by the Fourth Council Directive.
- Co-operative societies: These are bodies set down by law in each country. They observe a number of general principles, for example they may only be entitled to provide their services to members, profits are often distributed in proportion to members' dealings with the society, etc.
- Non-profit making bodies.
- Enterprises with other forms of legal constitution: This group includes nationalised industries, publicly owned enterprises and state or local authority monopolies.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.6

Related terms:

- Non-profit institution
- Co-operative
- Mutual society
- Association
- Foundation
- Publicly traded company

(equals: CODED: "Legal form")

## Legal person

The term "legal person", which is used in the legislation of a number of countries, though not all, corresponds to all forms of legal construction organised by the constitution and laws of countries and endowed with rights and obligations characteristic of legal personality.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 7.11

Related terms:

- Natural person
- Legal unit

## Legal status

see: **Legal form**

## Legal unit

Legal units include:

- Legal persons whose existence is recognised by law independently of the individuals or institutions which may own them or are members of them.
- Natural persons who are engaged in an economic activity in their own right.

The legal unit always forms, either by itself or sometimes in combination with other legal units, the legal basis for the statistical unit known as the 'enterprise'.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section II A 3 - 4,

Related terms:

- Enterprise
- Statistical unit

(equals: CODED: "Legal unit")

## Limited liability companies

see: **Legal form**

## Listed company

see: **Publicly traded company**

## Local kind-of-activity unit

The local kind-of-activity unit (local KAU) is the part of a KAU which corresponds to a local unit.

The local KAU corresponds to the operational definition of the establishment.

According to the European System of Accounts (ESA) the local KAU is called the establishment in the SNA and ISIC Rev. 3.

**Source:** Council Regulation (EEC) No 696/93, of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III G, and European System of Accounts (ESA) 1995, [2.106], footnote 15

Related terms:

- Establishment
- Statistical unit

(equals: CODED: "Local kind-of-activity unit")

## Local unit

The local unit is an enterprise or part thereof (e.g. a workshop, factory, warehouse, office, mine or depot) situated in a geographically identified place. At or from this place economic activity is carried out for which - save for certain exceptions - one or more persons work (even if only part-time) for one and the same enterprise.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III F

Related terms:

- Number of local units
- Statistical unit

(equals: CODED: "Local unit")

## Local unit of homogeneous production

The local unit of homogeneous production (local UHP) is the part of a unit of homogeneous production which corresponds to a local unit.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III H

Related terms:

- Statistical unit

(equals: CODED: "Local unit of homogeneous production")

# M

## Main activity

see: **Principal activity**

## Main location

The main location of an enterprise is the location of the local unit with the largest number of persons actually employed.

**Source:** Business Register Recommendations Manual (edition 2010), Paragraph 14.11

## Majority ownership

The acquisition of an absolute majority (50 % + 1) of shareholdings with voting rights is the main instrument used to take control over a legal unit and in the absence of other information it is generally used as a proxy to control. On the other hand the absolute majority of ownership of the capital share ownership is not always necessary or a sufficient condition to have control.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.32

Related terms:

- Ownership
- Control
- Dominant influence
- Effective control

## Market output

Market output consists of output that is disposed of on the market or intended to be disposed of on the market.

Market output includes:

- h) Products sold at economically significant prices;
- i) Products bartered;
- j) Products used for payments in kind (including compensation of employees in kind and mixed income in kind);
- k) Products supplied by one local KAU to another within the same institutional unit to be used as intermediate inputs or for final uses;
- l) Products added to the inventories of finished goods and work-in-progress intended for one or other of the above uses (including natural growth of animal and vegetable products and uncompleted structures for which the buyer is unknown).

**Source:** European System of Accounts (ESA) 1995, [3.17-3.18]

Related terms:

- Market producer
- Non-market output

(equals: **CODED: "Market output - ESA"**)

## Market producer

Market producers are local KAUs or institutional units the major part of whose output is market output.

It should be noted that if a local KAU or institutional unit is a market producer its main output is by definition market output, as the concept of market output is defined after having applied the distinction market, for own final use and other non-market to the local KAU and institutional unit that have produced that output.

**Source:** European System of Accounts (ESA) 1995, [3.24]

Related terms:

- Other non-market producers

(equals: **CODED: "Market producer - ESA"**)

## Match

A match is a pair that represents the same entity in reality.

- **Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.20. 20.29 – 20.32

Related terms:

- Matching

## Matching

Matching is the process of linking data from different sources. There are various forms of matching, including:

- Exact Matching (Record Linkage) - linking corresponding records from two or more sources using a common identifier.
- Probabilistic Matching - determining a probable link between records from two or more sources using an algorithm based on common fields, e.g. name, address, economic activity code.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.20. 20.29 – 20.32

Related terms:

- Match

- Non-match
- False match
- False non-match

## Merger

**Enterprises** - Enterprises may integrate to the extent that the number of existing enterprises is reduced. If two enterprises integrate entirely, the enterprises involved may lose their identity because they are dissolved beyond recognition in the new organisation. If both enterprises lose their identity, the event is called a merger.

There is no continuity or survival, but the closures of the previous enterprises are not considered to be real deaths. Similarly the new enterprise is not considered to be a real birth. This event can be seen as the opposite of a break-up.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.18; Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 4

**Enterprise groups** - Like enterprises, enterprise groups may have many kinds of inter-group relations and integrate their operations partly or totally. Two (or more) enterprise groups may integrate entirely and become one group. In this process either both groups involved may lose their identity, because they are dissolved beyond recognition in the new organisation, or one group may remain largely the same. In the latter case the other group is generally much smaller; it is merely absorbed by the larger group, which remains largely the same. If both groups lose their identity, the event is called a merger.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 22.17

**Note:** In Third Council Directive (78/855/EEC) mergers are divided in two types (of which the first refers to take-over and the second to merger. Thus 'merger' often covers both mergers and take-overs. The terms can also be used interchangeably):

1. "Merger by acquisition" shall mean the operation whereby one or more companies are wound up without going into liquidation and transfer to another all their assets and liabilities in exchange for the issue to the shareholders of the company or companies being acquired of shares in the acquiring company and a cash payment, if any, not exceeding 10 % of the nominal value of the shares so issued or, where they have no nominal value, of their accounting par value.

2. "Merger by the formation of a new company" shall mean the operation whereby several companies are wound up without going into liquidation and transfer to a company that they set up all their assets and liabilities in exchange for the issue to their shareholders of shares in the new company and a cash payment, if any, not exceeding 10 % of the nominal value of the shares so issued or, where they have no nominal value, of their accounting par value.

Related terms:

- Take-over
- Acquisition
- Creation of business

- Cessation of business

## Minority control

see: **Effective control**

## Misclassification

When a subject is falsely classified into a category in which the subject does not belong. It may result from misreporting by study subjects, from the use of less than optimal measurement devices, or from random error.

**Source:** OECD Glossary of Statistical Terms

(equals: **CODED: "Misclassification"**)

## MNE

see: **Multinational enterprise group**

## Mother company

see: **Parent corporation**

## Multinational enterprise

Multinationals usually comprise companies or other entities established in more than one country and so linked that they may co-ordinate their operations in various ways. While one or more of these entities may be able to exercise a significant influence over the activities of others, their degree of autonomy within the enterprise may vary widely from one multinational enterprise to another. Ownership may be private, state or mixed.

**Source:** OECD Guidelines for Multinational Enterprises (edition 2000)

Note: The definition is ambiguous but in practice Multinational enterprise is used in the same meaning as 'Multinational Enterprise group'.

Related terms:

- MNE
- Multinational Enterprise group

## Multinational Enterprise group (MNE)

A multinational enterprise group shall mean an enterprise group, which has at least two enterprises or legal units located in different countries.

Note: Multinational enterprise group is effectively the same as 'Multinational enterprise' or 'Multinational company'.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.47

Related terms:

- Enterprise group
- Domestically controlled enterprise group
- Foreign controlled enterprise group
- All-resident enterprise group
- Group head

## Mutual society

A social economy enterprise characterized by:

- Voluntary and open membership
- Equal voting rights – resolutions carried by majority
- Members' fees based on insurance calculations (where relevant) – no capital contributions
- autonomy and independence
- Medical, life and non-life insurance; guarantee schemes; home mortgages

**Source:** Social Economy enterprises, DG Enterprise

Related terms:

- Legal form

# N

## NACE Rev. 2

**see:** **CODED: Statistical classification of economic activities in the European Communities**

Related terms:

- International Standard Industrial Classification of all economic activities

## National enterprise group

The term covers both truncated and all-resident enterprise groups.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.48 – 21.49

Related terms:

- All-resident enterprise group
- Truncated enterprise group



## Natural person

The term natural person is used by the law and by many administrative authorities to denote a human being endowed with all the rights constituting legal personality.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 7.2, 7.4

Related terms:

- Legal person

## New enterprises

Enterprises that are active in a given period, but were not active in the previous period. The number of enterprise births is derived from the population of new enterprises by removing reactivations and other enterprise creations that do not meet the definition of enterprise births.

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 5

Related terms:

- Creation of business
- Number of births of enterprises

## Non-market output

Non-market output includes:

- Output produced for own final use - this consists of goods or services that are retained either for final consumption by the same institutional unit or for gross fixed capital formation by the same institutional unit.
- Other non-market output - this covers output that is provided free, or at prices that are not economically significant, to other units.

**Source:** Eurostat and European System of Accounts (ESA) 1995, [3.20 and 3.23]

Related terms:

- Market output

(equals: **CODED: "Non-market output - ESA"**)

## Non-market producer

**see: Other non-market producers**

## Non-match

A pair that represents two different entities in reality

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.20.20.29 – 20.32

Related terms:

- Matching

## Non-profit institutions

A non-profit institution is defined as a legal or social entity created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit or other financial gains for the units that establish, control or finance them. In practice, their productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units.

Non-profit institutions serving households are separate legal entities, which are private other non-market producers. Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general governments and from property income.

**Source:** European System of Accounts (ESA) 1995, [2.87, 3.31]

Related terms:

- Other non-market producers
- Legal form
- Association
- Foundation

(equals: **CODED: "Non-profit institutions (NPIs)"**)

## Number of active enterprises

A count of enterprises that had either turnover or employment at any time during a given reference period.

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 3.1

## Number of births of enterprises

A count of the number of births of enterprises registered to the population concerned in the business register corrected for errors. A birth amounts to the creation of a combination of production factors with the restriction that no other enterprises are involved in the event. Births do not include entries into the population due to mergers, break-ups, split-off or restructuring of a set of enterprises. It does not include entries into a sub-population resulting only from a change of activity.

**Source:** SBS Regulation No 58/97, variable (11 12 0)

Related terms:

- Birth of business

(equals: CODED: "Number of births of enterprises")

## Number of deaths of enterprises

A count of the number of deaths of enterprises registered to the population concerned in the business register corrected for errors. A death amounts to the dissolution of a combination of production factors with the restriction that no other enterprises are involved in the event. Deaths do not include exits from the population due to mergers, take-overs, break-ups or restructuring of a set of enterprises. It does not include exits from a sub-population resulting only from a change of activity.

**Source:** SBS Regulation No 58/97, variable (11 13 0)

Related terms:

- Death of business

(equals: CODED: "Number of deaths of enterprises")

## Number of employees

The number of employees is defined as those persons who work for an employer and who have a contract of employment and receive compensation in the form of wages, salaries, fees, gratuities, piecework pay or remuneration in kind.

The relationship of employer to employee exists when there is an agreement, which may be formal or informal, between an enterprise and a person, normally entered into voluntarily by both parties, whereby the person works for the enterprise in return for remuneration in cash or in kind.

A worker is considered to be a wage or salary earner of a particular unit if he or she receives a wage or salary from the unit regardless of where the work is done (in or outside the production unit). A worker from a temporary employment agency is considered to be an employee of the temporary employment agency and not of the unit (customer) in which they work.

In particular the following are considered as employees:

- Paid working proprietors;
- Students who have a formal commitment whereby they contribute to the unit's process of production in return for remuneration and/or education services;
- Unemployed persons;
- Home workers if there is an explicit agreement that the home worker is remunerated on the basis of the work done and they are included on the pay roll.

The number of employees includes part-time workers, seasonal workers, persons on strike or on short-term leave, but excludes those persons on long-term leave.

The number of employees does not include voluntary workers.

The number of employees is calculated in the same manner as the number of persons employed, namely as the number of jobs and is measured as an annual average.

**Source:** SBS Regulation No 58/97, variable (16 13 0)

Related terms:

- Employment
- Number of persons employed

**(equals: CODED: "Number of employees")**

## **Number of employees in full-time equivalent units**

This heading is defined as a count of the number of employees converted into full-time equivalents (FTE).

Figures for the number of persons working less than the standard working time of a full-year full-time worker, should be converted into full time equivalents, with regard to the working time of a full-time full-year employee in the unit.

Included in this category are people working less than a standard working day, less than the standard number of working days in the week, or less than the standard number of weeks/months in the year. The conversion should be carried out on the basis of the number of hours, days, weeks or months worked.

**Source:** SBS Regulation No 58/97, variable (16 14 0)

Related terms:

- Employees
- Employment
- Number of persons employed

**(equals: CODED: "Number of employees in full-time equivalent units")**

## **Number of enterprises**

A count of the number of enterprises registered to the population concerned in the business register corrected for errors, in particular frame errors. Dormant units are excluded. This statistic should include all units active during at least a part of the reference period.

Note for insurance enterprises: all enterprises authorised at the end of the reference period are included. Enterprises wound up or being in the run-off or enterprises without a large amount of investments or provisions should be excluded. Branches of enterprises with their head office in non-EEA countries are covered.

**Source:** SBS Regulation No 58/97, variable (11 11 0)

Related terms:

- Enterprise

**(equals: CODED: "Number of enterprises")**

## Number of hours worked

For business statistics the number of hours worked is based on the concept of the number of hours actually worked. This should be distinguished from the number of hours usually worked.

The total number of hours worked represents the aggregate number of hours actually worked for the output of the observation unit during the reference period.

This variable excludes hours paid but not actually worked such as for annual leave, holidays and sick leave. It also excludes meal breaks and commuting between home and work.

Included are hours actually worked during normal working hours, hours worked in addition to those, time which is spent at the place of work on tasks such as preparing the site and time corresponding to short periods of rest at the work place.

If the exact number of hours actually worked is not known, it may be estimated on the basis of the theoretical number of working hours and the average rate of absences (sickness, maternity, etc.).

For the **Labour Force Survey** the following definitions are used:

**Number of hours per week usually worked** - The number of hours given here corresponds to the number of hours the person normally works. This covers all hours including extra hours, either paid or unpaid, which the person normally works, but excludes the travel time between the home and the place of work as well as the main meal breaks (normally taken at midday). Persons who usually also work at home are asked to include the number of hours they usually work at home. Apprentices, trainees and other persons in vocational training are asked to exclude the time spent in school or other special training centres. Some persons, particularly the self-employed and family workers, may not have usual hours, in the sense that their hours vary considerably from week to week or month to month. When the respondent is unable to provide a figure for usual hours for this reason, the average of the hours actually worked per week over the past four weeks is used as a measure of usual hours.

**Number of hours actually worked during the reference week** - The number of hours given here corresponds to the number of hours the person actually worked during the reference week. This includes all hours including extra hours regardless of whether they were paid or not. Travel time between home and the place of work as well as the main meal breaks (normally taken at midday) are excluded. Persons who have also worked at home are asked to include the number of hours they have worked at home. Apprentices, trainees and other persons in vocational training are asked to exclude the time spent in school or other special training centres.

**Source:** Based on the definitions of SBS Regulation No 58/97, variable (16 15 0); European Union labour force survey, methods and definitions – 2001 (edition 2003)

Related terms:

- Employees
- Employment

**(equals: CODED: "Number of hours worked")**

## Number of kind-of-activity units

A count of the number of kind-of-activity units registered to the population concerned in the business register corrected for errors, in particular frame errors, or an estimate if this type of unit is not registered. This statistic should include all units active during at least a part of the reference period.

**Source:** SBS Regulation No 58/97, variable (11 31 0)

Related terms:

- Activity
- Kind-of-activity unit

(equals: **CODED: "Number of kind-of-activity units"**)

## Number of local units

A count of the number of local units registered to the population concerned in the business register corrected for errors, in particular frame errors. Local units must be included even if they have no paid employees. This statistic should include all units active during at least a part of the reference period.

**Source:** SBS Regulation No 58/97, variable (11 21 0)

Related terms:

- Local unit

(equals: **CODED: "Number of local units"**)

## Number of persons employed

The **number of persons employed** is defined as the total number of persons who work in the observation unit (inclusive of working proprietors, partners working regularly in the unit and unpaid family workers), as well as persons who work outside the unit who belong to it and are paid by it (e.g. sales representatives, delivery personnel, repair and maintenance teams). It includes persons absent for a short period (e.g. sick leave, paid leave or special leave), and also those on strike, but not those absent for an indefinite period. It also includes part-time workers who are regarded as such under the laws of the country concerned and who are on the pay-roll, as well as seasonal workers, apprentices and home workers on the pay-roll.

The number of persons employed excludes manpower supplied to the unit by other enterprises, persons carrying out repair and maintenance work in the enquiry unit on behalf of other enterprises, as well as those on compulsory military service.

**Unpaid family workers** refer to persons who live with the proprietor of the unit and work regularly for the unit, but do not have a contract of service and do not receive a fixed sum for the work they perform. This is limited to those persons who are not included on the payroll of another unit as their principal occupation.

**Note:** In order to check the comparability of data, it is necessary to indicate whether voluntary workers have been included under this heading or not.

**Source:** SBS Regulation No 58/97, variable (16 11 0)

Related terms:

- Occupied persons

(equals: **CODED: "Number of persons employed"**)

## NUTS

Nomenclature of Territorial Units for Statistics - A common statistical classification of territorial units in order to enable the collection, compilation and dissemination of harmonised regional statistics in the Community.

The NUTS classification subdivides the economic territory of the Member States into territorial units. It ascribes to each territorial unit a specific code and name.

The NUTS classification is hierarchical. It subdivides each Member State into NUTS level 1 territorial units, each of which is divided into NUTS level 2 territorial units, these in turn each being subdivided into NUTS level 3 territorial units. However, a particular territorial unit may be classified at several NUTS levels. In each Member State there can be further hierarchical levels of detail, decided by the Member State, whereby NUTS level 3 is subdivided.

**Source:** Regulation (EC) No 1059/2003 of the European Parliament and of the Council on the establishment of a common classification of territorial units for statistics (NUTS)

(compare: **CODED: "NUTS"**)

# O

## Observation unit

An observation unit represents an identifiable entity, about which data can be obtained.

During the collection of data, this is the unit for which data is recorded. It should be noted that this may, or may not be, the same as the reporting unit.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 17.7, 17.35

Related terms:

- Reporting unit
- Statistical unit

(equals: **CODED: "Observation unit - Business statistics"**)

## Occupied persons

In order to be classified as occupied - i.e. either employed or self-employed - the person must be engaged in an activity that falls within the production boundary of the SNA.

**Source:** System of National Accounts (SNA) 1993, paragraph 7.23

Related terms:

- Persons employed

(equals: CODED: "Occupied persons")

## Offshore enterprises

In balance of payments accounts, the residency of so called offshore enterprises is attributed to the economies in which they are located without regard to the special treatment they may receive by the local authorities, such as exemptions from taxes, tariffs, or duties. This treatment applies to enterprises such as those engaged in the assembly of components manufactured elsewhere and in the processing of re-exported goods, to those engaged in trade and financial operations, and to those located in special zones (e.g. special trade zones, free-trade zones, or tax-havens).

**Source:** OECD Glossary of Statistical Terms

## Offshoring

Production located in a foreign country, either to a foreign affiliate, or outsourced to a third-party provider abroad. The third-party provider can be an independent company or an affiliate of another multinational enterprise group.

**Source:** OECD Glossary of Statistical Terms

## Other non-market producers

Other non-market producers are local KAUs or institutional units whose major part of output is provided free or at not economically significant prices.

**Source:** European System of Accounts (ESA) 1995, [3.26]

Related terms:

- Market producer

(equals: CODED: "Other non-market producers - ESA")

## Out-of-scope units

Out-of-scope units are units that should not be included in the sampling frame because they do not belong to the target population in the reference period. If enumerated, they cause over-coverage.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 18.27

(equals: CODED: "Out-of-scope units")

## Outsourcing

Delegating (part of) activities to an outside contractor. Production can be externalized to a third-party service provider in home country, or to a third-party provider abroad; either to an independent company or to an affiliate of another multinational enterprise group.



**Source:** OECD Glossary of Statistical Terms

## Over-coverage

Over-coverage arises from the presence in the frame of units not belonging to the target population and of units belonging to the target population that appear in the frame more than once.

These cases are usually observed for contacted units, but not necessarily for non-contacted units or those excluded from a sample. Reasons for over-coverage are the death of units, misclassification and a non-updated frame. The over-coverage in a register generally biases the estimators drawn from that sampling list.

- **Source:** Business Register Recommendations Manual (edition 2010), paragraph 18.7; ESS Handbook for Quality Reports (edition 2009)

(compare: CODED: "Over-coverage")

## Ownership

The ownership of a unit or a group of units is related to the property of its assets and determines the distribution of financial flows and income. If a unit or group of units is owned by shareholders, its ownership is vested in the shareholders collectively and can be seen as diffused among the legal units that own its shares in proportion to their shareholdings, and independently of voting rights.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.40

Related terms:

- Control

(equals: CODED: "Ownership")

## Ownership rates

Ownership rates are computed by following chains of ownership, taking into account direct and indirect ownership links, without restriction to the economic territory of any country, as follows:

If enterprise A owns 70 per cent of enterprise B and B owns 60 per cent of enterprise C, then A owns  $70\% \times 60\% = 42\%$  per cent of C.

If enterprises B1 and B2 own 20 and 35 per cent, respectively, of enterprise C, and if enterprise A, owns 100 per cent of B1 and 80 per cent of B2, then A owns  $100\% \times 20\% + 80\% \times 35\% = 48\%$  of enterprise C.

If ownership rates are to reflect the share of dividends of an enterprise accruing to another one, their computation should be based on the total shares owned, as opposed to the voting shares. If they are to reflect the "degree of influence" exercised by an enterprise on another one, voting shares should be used.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.39, 21.40

Related terms:

- Shares by owner

(equals: CODED: "Ownership rates")

# P

## Paid employment

see: Employment

## Parent corporation

A parent corporation is one, which controls more than half of the shareholders' voting power in another corporation, or is a shareholder in another corporation, with the right to appoint or remove a majority of the directors of that corporation

**Source:** System of National Accounts (SNA) 1993, paragraph 4.32, 4.33

Related terms:

- Group head
- Subsidiary

(equals: CODED: "Parent corporation - SNA".

compare: CODED: "Parent corporation - Globalisation", which is based on the Seventh Council Directive. It is more detailed, e.g. including cases of effective control without majority ownership - but it may also include cases without real control, only influence)

## Parent legal unit

see: Parent corporation

## Partnership

see: Legal form

## Persons employed

see: Number of persons employed

## Persons occupied

see: Occupied persons

## Population of active enterprises

see: **Number of active enterprises**

## Principal activity

The principal (or main) activity is identified as the activity which contributes most to the total value added of a unit under consideration. The principal activity so identified does not necessarily account for 50 % or more of the unit's total value added. The classification of principal activity is determined by reference to NACE Rev. 2, first at the highest level of classification and then at more detailed levels ("top-down" method).

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 2.6, 3.6, 4.7

Related terms:

- Activity
- Statistical unit

(equals: **CODED: "Principal activity - NACE"**)

## Production

Production is an activity carried out under the control and responsibility of an institutional unit that uses inputs of labour, capital and goods and services to produce goods and services. Production does not cover purely natural processes without any human involvement or direction, like the unmanaged growth of fish stocks in international waters (but fish farming is production).

Production is an activity resulting in a product. It is used with reference to the whole range of economic activities. The term is not reserved for the agricultural, mining or manufacturing sectors. It is also used in relation to the service sector. More specific terms may be used to denote production: provision of services, processing, manufacturing, etc., depending on the branch of activity. Production may be measured in various ways either in physical terms or according to value.

**Source:** European System of Accounts (ESA) 1995, [3.07]; NACE Rev. 2 Statistical classification of economic activities in the European Community (Methodologies and Working papers), (edition 2008)

(equals: **CODED: "Production - ESA"**)

## Production factors

see: **Factors of production**

## Production unit

A production unit carries out an economic activity under the control and responsibility of an institutional unit using inputs of labour, capital and goods and services to produce outputs of goods and services.

**Source:** System of National Accounts (SNA) 1993

(equals: CODED: "Production unit")

## Productive activity

see: Activity

## Profiling

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.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 19.9

## Protection of confidential data

1. The following rules and measures shall apply to ensure that confidential data are exclusively used for statistical purposes and to prevent their unlawful disclosure.

2. Confidential data obtained exclusively for the production of European statistics shall be used by the NSIs and other national authorities and by the Commission (Eurostat) exclusively for statistical purposes unless the statistical unit has unambiguously given its consent to the use for any other purposes.

3. Statistical results which may make it possible to identify a statistical unit may be disseminated by the NSIs and other national authorities and the Commission (Eurostat) in the following exceptional cases:

(a) where specific conditions and modalities are determined by an act of the European Parliament and of the Council acting in accordance with Article 251 of the Treaty and the statistical results are amended in such a way that their dissemination does not prejudice statistical confidentiality whenever the statistical unit has so requested; or

(b) where the statistical unit has unambiguously agreed to the disclosure of data.

4. Within their respective spheres of competence, the NSIs and other national authorities and the Commission (Eurostat) shall take all necessary regulatory, administrative, technical and organisational measures to ensure the physical and logical protection of confidential data (statistical disclosure control).

The NSIs and other national authorities and the Commission (Eurostat) shall take all necessary measures to ensure the harmonisation of principles and guidelines as regards the physical and logical protection of confidential data. Those measures shall be adopted by the Commission in accordance with the regulatory procedure referred to in Article 27(2).

5. Officials and other staff of the NSIs and other national authorities having access to confidential data shall be subject to compliance with such confidentiality, even after cessation of their functions.

**Source:** Regulation (EC) No 223/2009 on European statistics, Article 20

Related terms:

- Confidential data
- Confidentiality

## Proving

see: **Register proving**

## Public undertakings

Public undertakings means:

Any undertaking over which the public authorities may exercise directly or indirectly a dominant influence by virtue of their ownership of it, their financial participation therein, or the rules which govern it.

A dominant influence on the part of the public authorities shall be presumed when these authorities, directly or indirectly in relation to an undertaking:

- m) Hold the major part of the undertaking's subscribed capital; or
- n) Control the majority of the votes attaching to shares issued by the undertakings; or
- o) Can appoint more than half of the members of the undertaking's administrative, managerial or supervisory body.

**Source:** Commission Directive 80/723/EEC of 25 June 1980 on the transparency of financial relations between Member States and public undertakings, Article 2.

(equals: **CODED: "Public undertakings"**)

## Publicly traded company

For each financial year starting on or after 1 January 2005, companies governed by the law of a Member State shall prepare their consolidated accounts in conformity with the international accounting standards adopted if, at their balance sheet date, their securities are admitted to trading on a regulated market of any Member State within the meaning of Council Directive 93/22/EEC on investment services in the securities field.

**Source:** Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards, Article 4

Related terms:

- Unquoted shares
- International Accounting Standards

## Pyramid company

Pyramids are defined as chains of holding companies with the ultimate control based on a small total investment thanks to the extensive use of minority shareholders.

**Source:** "Modernising Company Law and Enhancing Corporate Governance in the European Union – A Plan to Move Forward" – COM (2003) 284 final of 21 May 2003 (A Working Document of DG Internal Market)

# Q

## Quality

ISO standard 9000:2000 states that quality is the "degree to which a set of inherent characteristics fulfils requirements". Therefore the quality of statistics can be determined by the extent to which they meet user needs.

Quality of statistics can be defined with reference to several criteria.

- **Relevance:** an inquiry is relevant if it meets users' needs. The identification of users and their expectations is therefore necessary.
- **Accuracy:** accuracy is defined as the closeness between the estimated value and the (unknown) true value.
- **Timeliness and punctuality in disseminating results:** most users want up-to-date figures which are published frequently and on time at pre-established dates.
- **Accessibility and clarity of the information:** statistical data have most value when they are easily accessible by users, are available in the forms users desire and are adequately documented.
- **Comparability:** statistics for a given characteristic have the greatest usefulness when they enable reliable comparisons of values taken by the characteristic across space and time. The comparability component stresses the comparison of the same statistics between countries in order to evaluate the meaning of aggregated statistics at the European level.
- **Coherence:** when originating from a single source, statistics are coherent in that elementary concepts can be combined reliably in more complex ways. When originating from different sources, and in particular from statistical surveys of different frequencies, statistics are coherent in so far as they are based on common definitions, classifications and methodological standards.
- **Completeness:** domains for which statistics are available should reflect the needs and priorities expressed by the users of the European Statistical System.

**Source:** ISO 9000:2000; ESS Handbook for Quality Reports (edition 2009)

**(compare: CODED: "Quality - Eurostat")**

## Quoted company

**see: Publicly traded company**

# R

## Reactivation

A unit that re-commences activity after a period of temporary cessation of no more than 24 months.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 14.32 – 14.35, 16.18

## Real birth

**see:**        **Birth of business**

## Real death

**see:**        **Death of business**

## Record check

A study in which data on individual units obtained by one method of data collection are checked against data for the same units from available records obtained by a different method of data collection (for example, comparison of ages as reported in censuses with information on ages from birth certificates).

**Source:** ESS Handbook for Quality Reports (edition 2009)

## Reference period

It refers to the length of time, e.g. week or year, for which data are collected. Population, statistical units and variables relate to specific times, which may be limited to a reference time point (e.g. a specific day) or a reference period (e.g. a month, calendar year or fiscal year).

**Source:** ESS Handbook for Quality Reports (edition 2009)

**(equals:    CODED: "Reference period")**

## Register

A written and complete record containing regular entries of items and details on particular set of objects. Administrative registers come from administrative sources and become statistical registers after passing through statistical processing in order to make it fit for statistical purposes (production of register based statistics, frame creation, etc.).

**Source:** ESS Handbook for Quality Reports (edition 2009)

Related terms:

- Statistical business register
- Frame

- Administrative source

(compare: CODED: "Register")

## Register proving

Checking the information held on a statistical business register, usually by means of a survey.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 19.9

## Registered office

The location given by a legal unit to registration authorities. According to explanatory note 1 on the definition of local unit, all legal units that serve as the legal basis for an enterprise or part thereof must have a local unit which is the registered office, even if nobody works there.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 3.2a, 3.2b

## Reporting unit

The reporting unit is the unit that reports to the survey authority. It reports information for each of the observation units. In certain cases it may correspond to an observation unit.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 4.4

Related terms:

- Observation unit
- Statistical unit

(equals: CODED: "Reporting unit - Eurostat")

## Restructuring

Restructuring within an **enterprise** does not affect the continuity of the enterprise, but changes its structure in the process. An example could be the creation or deletion of a local unit. Restructuring may affect key characteristics such as size or principal activity. It could be argued that this is not really a demographic event at the level of the enterprise and does not impact on the demographic variables relating to the enterprise, but it could affect the way the enterprise is included in demographic statistics. Restructuring will be reflected through changes to relationships or characteristics recorded in the register.

Restructuring within an **enterprise group** is a change (e.g. creation and/or cessation of one or more enterprises) involving more than one enterprise before and more than one enterprise after the event, where all enterprises involved are under common control. It affects the identity of at least one enterprise, though the total number of enterprises before and after the event may be the same. A typical example is the complete reorganisation of the production capacity of a large enterprise group, involving many enterprises and possibly, but not necessarily, entailing a change in the number of enterprises of the group. Complex restructuring is a similar event, but this is not constrained to one enterprise group. An example is the transfer of a number of



enterprises or parts of enterprises between groups. Restructuring within an enterprise group, or complex restructuring, may entail any number of register creations and deletions.

**Source:** Business Register Recommendations Manual (edition 2010), paragraphs 13.16 - 13.36, 22.15 – 22.23

# S

## Satellite register

One way of using administrative data in practice is to organise these data into specific registers linked to the statistical business register. If these registers meet certain criteria, they can be referred to as "satellite registers". Satellite registers are therefore defined as registers that are available to the national statistical system, contain information about businesses, and fulfil the following conditions:

- They are not an integral part of the statistical business register as referred to in the business registers Regulation, but are capable of being linked to it.
- They are more limited in scope than the statistical business register, e.g. in terms of NACE, but within that scope they may have more extensive coverage of units and/or variables.
- They contain one or more variables that are not found in the statistical business register. Such variables are generally capable of being used for stratification purposes.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 20.40

## SBR

**see: Statistical business register**

## SBS

**see: Structural business statistics**

## SCE

**see: European co-operative society**

## SDMX

**see: Statistical Data and Metadata eXchange**

## SE

**see: European Company**

## Secondary activity

see: **Activity**

## Self-employed persons

**Self-employed with employees** - Self-employed persons with employees are defined as persons who work in their own business, professional practice or farm for the purpose of earning a profit, and who employ at least one other person.

**Self-employed without employees** - Self-employed persons without employees are defined as persons who work in their own business, professional practice or farm for the purpose of earning a profit, and who do not employ any other person.

**Source:** European Union labour force survey, methods and definitions – 2001 (edition 2003)

Related terms:

- Employment

(equals: **CODED: "Self-employed persons"**)

## Service industries

The terms service industry(ies), service sector(s) or simply service(s) are generally used to refer to economic activities covered by Sections G to N and P to S of NACE Rev. 2., and the units that carry out those activities.

**Source:** NACE Rev. 2 Statistical classification of economic activities in the European Community (Methodologies and Working papers), (edition 2008)

Related terms:

- Activity

(equals: **CODED: "Service industries"**)

## Service sector

see: **Service industries**

## Services

The System of National Accounts (SNA) defines services as being not separate entities over which ownership rights can be established. They cannot be traded separately from their production. Services are heterogeneous outputs produced to order and typically consist of changes in the conditions of the consuming units realised by the activities of producers at the demand of the consumers. By the time their production is completed they must have been provided to the consumers.

The production of services must be confined to activities that are capable of being carried out by one unit for the benefit of another. Otherwise, service industries could not develop and there could be no markets for services. It is also possible for a unit to

produce a service for its own consumption provided that the type of activity is such that it could have been carried out by another unit.

**Source:** System of National Accounts (SNA) 1993, (6.8, 6.9), P. 123

Related terms:

- NACE Rev. 2

(equals: CODED: "Services - SNA")

## Services of general economic interest

This is the term used in Article 86 of the Treaty and refers to market services which the Member States subject to specific public service obligations by virtue of general interest criterion. This would tend to cover such things as transport networks, energy and communication.

**Source:** Report to the Laeken European Council, COM (2001) 598 final

## Services of general interest

This term covers market and non-market services, which the public authorities class as being of general interest and subject to specific public service obligations.

**Source:** Report to the Laeken European Council, COM (2001) 598 final

## Shares by owner

Recording %-share ownership is important for identifying indirect control links (or checking the information available in sources), as well as for identifying units for FATS. In Direct Investment statistics, as reported in the balance of payments, shareholdings of over 10 % are considered. It is also useful in identifying associate relationships and trade interest links and thus helps in dealing with monopolies policy. Recording shares below 10 % (portfolio investment) is likely to be too burdensome for register updating.

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.14 – 1.16

Related terms:

- Ownership
- Acquisition

(compare: CODED: "Shareholders" and "Shares and other equity")

## Sister company

see: Fellow company

## Small and medium-sized enterprises

1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover

not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

3. Within the SME category, a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.

#### Types of enterprise taken into consideration

1. An 'autonomous enterprise' is any enterprise which is not classified as a partner enterprise or as a linked enterprise.

2. 'Partner enterprises' are all enterprises which are not classified as linked enterprises and between which there is the following relationship: an enterprise (upstream enterprise) holds, either solely or jointly with one or more linked enterprises 25 % or more of the capital or voting rights of another enterprise (downstream enterprise).

However, an enterprise may be ranked as autonomous, and thus as not having any partner enterprises, even if this 25 % threshold is reached or exceeded by the following investors, provided that those investors are not linked either individually or jointly to the enterprise in question:

- p) Public investment corporations, venture capital companies, individuals or groups of individuals with a regular venture capital investment activity who invest equity capital in unquoted businesses ('business angels'), provided the total investment of those business angels in the same enterprise is less than EUR 1 250 000;
- q) Universities or non-profit research centres;
- r) Institutional investors, including regional development funds;
- s) Autonomous local authorities with an annual budget of less than EUR 10 million and fewer than 5 000 inhabitants.

3. 'Linked enterprises' are enterprises which have any of the following relationships with each other:

- t) An enterprise has a majority of the shareholders' or members' voting rights in another enterprise;
- u) An enterprise has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another enterprise;
- v) An enterprise has the right to exercise a dominant influence over another enterprise pursuant to a contract entered into with that enterprise or to a provision in its memorandum or articles of association;
- w) An enterprise, which is a shareholder in or member of another enterprise, controls alone, pursuant to an agreement with other shareholders in or members of that enterprise, a majority of shareholders' or members' voting rights in that enterprise.

Only autonomous enterprises are regarded as SME. Apart from the exceptions for public bodies, as mentioned in paragraph 2, no partner enterprise or linked enterprise is considered as SME.

**Source:** Commission Recommendation (2003/361/EC), Articles 2 - 3

Related terms:

- Enterprise

**(CODED: "Small and medium-sized enterprises" includes the old Recommendation)**

## **SME**

**see: Small and medium-sized enterprises**

## **SNA**

**see: System of national accounts**

## **Sole proprietorship**

**see: Legal form**

## **Special purpose entities (SPEs)**

Special purpose entities (SPEs) are: (1) generally organised or established in economies other than those in which the parent companies are resident and (2) engaged primarily in international transactions but in few or no local operations. SPEs are defined either by their structure (e.g., financing subsidiary, holding company, base company, regional headquarters), or their purpose (e.g., sale and regional administration, management of foreign exchange risk, facilitation of financing of investment). SPEs should be treated as direct investment enterprises if they meet the 10 per cent criterion. SPEs are an integral part of direct investment networks as are, for the most part, SPE transactions with other members of the group.

**Source:** OECD Glossary of Statistical Terms

## **Split-off**

**Enterprise** - Split-off involves one enterprise before and more than one enterprise after the event. In a split-off, the new enterprise(s) is (are) generally much smaller and the identity of the original enterprise is retained by the larger enterprise.

There is no death, but one or more new enterprises are created. This event can be seen as the opposite of a take-over.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.22;  
Eurostat – OECD Manual on Business Demography Statistics (edition 2007),  
section 4

**Enterprise group** - Like enterprise, an enterprise group may disintegrate into two or more enterprise groups. In a split-off, the enterprise group, which is split off is generally much smaller and the larger enterprise group keeps the identity of the original enterprise group.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 22.21 – 21.29

Related terms:

- Break-up
- Creation of business

## **Statistical burden**

**see: Burden**

## **Statistical business register**

**see: Business register for statistical purposes**

## **Statistical confidentiality**

The privacy of data providers (households, enterprises, administrations and other respondents), the confidentiality of the information they provide and its use only for statistical purposes must be absolutely guaranteed. The indicators for statistical confidentiality are the following.

- Statistical confidentiality is guaranteed in law.
- Statistical authority staff sign legal confidentiality commitments on appointment.
- Substantial penalties are prescribed for any wilful breaches of statistical confidentiality.
- Instructions and guidelines are provided on the protection of statistical confidentiality in the production and dissemination processes. These guidelines are spelled out in writing and made known to the public.
- Physical and technological provisions are in place to protect the security and integrity of statistical databases.
- Strict protocols apply to external users accessing statistical microdata for research purposes

**Source:** European Statistics Code of Practice (edition 2005)

Related terms:

- Confidential data
- Confidentiality

## **Statistical data and metadata exchange**

The SDMX (Statistical Data and Metadata eXchange) initiative aims to develop and implement standards and guidelines for a more efficient transmission and dissemination of statistics, including both data and metadata. The SDMX initiative was launched in 2001 by Eurostat together with six other sponsors: the Bank for International Settlements (BIS), the European Central Bank (ECB), the International Monetary Fund (IMF), the

Organisation for Economic Co-operation and Development (OECD), the United Nations Statistical Division (UNSD) and the World Bank. SDMX currently consists of standard formats for data and reference metadata, together with architecture for data exchange, and content guidelines.

**Source:** <http://www.sdmx.org>

## Statistical disclosure

Statistical disclosure is said to take place, if the dissemination of a statistics enables the external user of the data to obtain a better estimate for a confidential piece of information than would be possible without it.

**Source:** Disclosure control methods in the public release of a microdata file of small business (edition 1996)

(equals: **CODED: "Statistical disclosure"**)

## Statistical territory

The statistical territory is the territory with respect to which data on international merchandise trade statistics are being collected. In the majority of countries, data collection is based on customs procedures and many of these countries adopt their customs boundary as their statistical boundary. In this case the statistical territory coincides with the customs territory.

The statistical territory of the European Union (and its Member States) corresponds generally to its customs territory. However, the statistical territory (but not the customs territory) of Germany includes Helgoland and until 31 December 1996, the statistical territories of France and Spain did not include the French overseas departments - Guadeloupe, Guyana, Martinique and Réunion - and the Canary Islands respectively (which are part of the customs territories of the two Member States)

**Source:** Eurostat, "Statistics on the trading of goods - User guide", Nov. 2002, § 83, p. 18 and Eurostat "Guidelines on Concepts and Definitions 2003, § 161 - 162, 164.

Related terms:

- Economic territory

(equals: **CODED: "Statistical territory"**)

## Statistical unit

The Council Regulation (EEC), No 696/93 of 15 March 1993 on statistical units for the observation and analysis of the production system in the Community lays down a list of eight (types of) statistical units:

- The enterprise;
- The institutional unit;
- The enterprise group;
- The kind-of-activity unit (KAU);

- The unit of homogeneous production (UHP);
- The local unit;
- The local kind-of-activity unit (local KAU);
- The local unit of homogeneous production (local UHP).

Statistical units are defined on the basis of three criteria:

- Legal, accounting or organisational criteria;
- Geographical criteria;
- Activity criteria.

The relationship between different types of statistical units can be summarised in the following way:

- Units with one or more activities and one or more locations;
- Enterprise;
- Institutional unit;
- Units with one or more activities and a single location;
- local unit;
- Units with one single activity and one or more locations;
- KAU;
- UHP;
- Units with one single activity and one single location;
- Local KAU;
- Local UHP.

**Source:** Council Regulation (EEC), No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section I - IV

(equals: **CODED: "Statistical unit - Council Regulation"**)

## Structural business statistics

The objective of the Council Regulation on structural business statistics is to establish a common framework for the collection, compilation, transmission and evaluation of Community statistics on the structure, activity, competitiveness and performance of businesses in the Community. The compilation of structural business statistics has as its purpose, in particular, to analyse:

- i) The structure and evolution of the activities of businesses;
- ii) The factors of production used and other elements allowing business activity, performance and competitiveness to be measured;



- iii) The regional, national, Community and international development of businesses and markets;
- iv) Business conduct;
- v) Small and medium-sized enterprises;
- vi) Specific characteristics of enterprises related to particular groupings of activities.

**Source:** Council Regulation (EC, EURATOM) No 58/97 of 20 December 1996 concerning structural business statistics, articles 1 and 2

## Structural indicators

The Lisbon European Council conclusions (paragraph 36) asked for an agreed set of structural indicators to be used to underpin the analysis in the Commission's annual Spring Report to the Spring European Council. The role of the structural indicators is to allow for an objective assessment of the progress made towards the Lisbon European Council objectives, expanded at Gothenburg and refined at Stockholm and Barcelona. The Commission and the Council agree on a set of structural indicators for a period of three years. These indicators cover six areas: general economic background, employment, innovation and research, economic reform, social cohesion and the environment. Fourteen indicators are included in a short list which forms part of the annual Spring Report, the others are made available in Eurostat's dissemination database New Cronos.

**Source:** Communication from the Commission on Structural Indicators (edition 2002)

## Subcontracting

Two enterprises are linked by a subcontracting relationship whenever conditions A and B are met together:

A. The customer enterprise, also said main-contractor, participates in the conception of the product providing, even partially, technical specifications to the supplier enterprise, also said subcontractor, and/or provides it with the materials to be processed;

B. The customer enterprise sells the subcontracted product, either as such or as part of a more complex product, and takes on the after-sales liability for the product.

Note: The mere stipulation of a colour, size or catalogue number does not constitute a technical specification in itself. The manufacture of a tailor-made product does not of itself necessarily imply a subcontracting relationship.

**Source:** Extract from the definitions of SBS Regulation No 58/97, variable (23 11 0)

Related terms:

- Outsourcing

(equals: **CODED: "Subcontracting"**)

## Subsidiary corporation

Corporation C is said to be a subsidiary of corporation B when:

- x) Either corporation B controls more than half of the shareholders' voting power in corporation C; or
- y) Corporation B is a shareholder in corporation C with the right to appoint or remove a majority of the directors of corporation C.

**Source:** European System of Accounts (ESA) 1995, [2.26]

Related terms:

- Parent corporation
- Associate

(equals: CODED: "Subsidiary corporation")

## Survival

In **general** survival occurs when a statistical unit is active and identifiable both before and after a specific (business) demographic event. The unit may be changed in some way, e.g. in terms of economic activity, size, ownership or location, but there should be continuity of the unit reference number in the statistical business register.

In the **Business Demography** context, survival occurs if an enterprise is active in terms of employment and/or turnover in the year of birth and the following year(s). Two types of survival can be distinguished:

- 1) An enterprise born in year  $xx$  is considered to have survived in year  $xx + 1$  if it is active in terms of turnover and/or employment in any part of year  $xx + 1$  (= survival without changes).
- 2) An enterprise is also considered to have survived if the linked legal unit(s) have ceased to be active, but their activity has been taken over by a new legal unit set up specifically to take over the factors of production of that enterprise (= survival by take-over).

**Source:** Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 6.1

Related terms:

- Continuity
- Event

## System of National Accounts (SNA)

The System of National Accounts 1993 (SNA) has been prepared under the joint responsibility of the United Nations, the International Monetary Fund, the Commission of the European Communities, the OECD and the World Bank. The SNA is a comprehensive, consistent and flexible set of macroeconomic accounts intended to meet the needs of government and private-sector analysts, policy makers and decision takers. It is designed for use in countries with market economies, whatever their stage of economic development, and also in countries in transition to market economies. The system has been welcomed and unanimously approved by the Statistical Commission of the United Nations and should be used as the international standard for the compilation

of national accounts statistics in order to promote the integration of economic and related statistics.

**Source:** CODED

Related terms:

- European System of Accounts (ESA)

# T

## Take-over

**Enterprises** - Enterprises may integrate to the extent that the number of existing enterprises is reduced. If two enterprises integrate entirely, one of the enterprises may remain largely the same. In this case the other enterprise is generally much smaller, it is merely absorbed by the larger enterprise, which remains the same. If one of the enterprises keeps its identity, the event is called a take-over.

Enterprises taken over are not considered to be real deaths. In this case, one of the original enterprises does survive in a recognisable form, and therefore there is both continuity and survival. The remaining original enterprises are closed. This event can be seen as the opposite of a split-off.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 13.18; Eurostat – OECD Manual on Business Demography Statistics (edition 2007), section 4

**Enterprise groups** - Like enterprises, enterprise groups may have many kinds of inter-group relations and integrate their operations partly or totally. Two (or more) enterprise groups may integrate entirely and become one group. In this process either both groups involved may lose their identity, because they are dissolved beyond recognition in the new organisation, or one group may remain largely the same. In the latter case the other group is generally much smaller; it is merely absorbed by the larger group, which remains largely the same. If one of them keeps its identity, it is called a take-over.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.17

**Note:** In the draft Directive on Takeover bids: "takeover bid" means a public offer (other than by the offeree company itself) made to the holders of the securities of a company to acquire all or some of the said securities, whether mandatory or voluntary, which follows or has as its objective the acquisition of control of the offeree company in accordance with national law.

Related terms:

- Merger
- Acquisition
- Cessation of business

## Target population

This is the conceptual population of elements (units for analysis) at which the survey is aimed and for which statistics should be produced.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 10.8, 10.9; ESS Handbook for Quality Reports (edition 2009)

(compare: CODED: "Target population")

## Threshold

A cut off threshold is used, mainly for cost or burden reasons, to exclude from the target population (hence from the frame) units contributing very little to the requested statistics, small businesses for instance. The contribution from the population below the threshold can either be deemed negligible or be estimated by using a model.

**Source:** ESS Handbook for Quality Reports (edition 2009)

Note: Threshold could be used also in statistics for better comparability. An example could be to include in the number of enterprises only units with at least one person employed. This would enable better comparability between the country figures, if the coverage below the threshold varies by country.

(equals: CODED: "Cut-off Threshold")

## Top-down classification

The top-down method follows a hierarchical principle: the classification of a unit at the lowest level of the classification must be consistent with the classification of the unit at the higher levels. To satisfy this condition the process starts with the identification of the relevant position at the highest level and progresses down through the levels of the classification in the following way:

1. Identify the section which has the relatively highest share of the value added.
2. Within this section identify the division which has the relatively highest share of the value added within this section.
3. Within this division identify the group which has the relatively highest share of the valued added within this division.
4. Within this group identify the class which has the relatively highest share of value added within this group

**Source:** NACE Rev. 2 Statistical classification of economic activities in the European Community (Methodologies and Working papers), (edition 2008)

Related terms:

- Activity
- NACE Rev. 2

(compare: CODED: "Top-down classification")

## Trade mark

Trade mark refers to words, symbols or other marks which are used by firms to distinguish their products or services from those offered by others. A trade mark may be registered under the Patent Act or the Trademark Act or other such intellectual property legislation as may be applicable. A trade mark may often become equated with the product itself and may be a source of competitive advantage. Trade marks may communicate information about the quality of a good or service to customers. Firms which license their trade marks to retailers may thus require conditions in the licensing contract assuring uniform quality.

**Source:** OECD Glossary of industrial organisation economics and competition law

## Trading company

**see:**        **Market producer**

## Trading forms

The form of selling of the local unit(s) of the enterprise can be classified into one or several of the proposed classes:

- Trading in stores;
- Trading through fixed market stands and/or stalls;
- Itinerant trading;
- Mail order selling;
- Other forms of trade.

**Stores** are defined as fixed sales premises, which the customers enter to make their purchases.

**Trading through fixed market stands and /or stalls** is done at a stall permanently set up in a public place; customers do not usually enter the sales premises.

**Itinerant trading** is a trading form of commercial enterprises that do not have a fixed point of sale (E.g. holders or keepers of mobile stalls, street sellers, hawkers and peddlers). Itinerant or street trading applies where the trader sells his goods to passers-by in the street; door-to-door trading applies where the trader goes from house to house with his entire range of goods. In "home-selling" the trader goes directly to the home of a possible client.

**Mail order** is defined as retail sales in NACE Rev. 2 class 47.91.

**Mail order selling** is a form of trading in which goods are offered via catalogues, prospectuses, advertising (press, radio, television) or by representatives, and the goods ordered are sent to the purchaser by post or another method. This form of trading is practised by manufacturers (direct mail order sales), by retail enterprises for which this is their sole or near-sole activity (mail order houses) and by enterprises which, in addition to the facilities required for high-street retailing also operate departments suitably equipped for mail order selling (order-processing, dispatch, etc.). A distinction is drawn between general and specialist catalogue selling.

**Other forms of trade** consist mostly of vending machines.

**Source:** Eurostat CODED

Related terms:

- Local unit
- NACE Rev. 2

## Trading style

Legal persons often use initials, an acronym, or a trading style instead of their official name in their business or administrative relations. The official name of a local unit is generally the same as the enterprise that controls it, though different local units within an enterprise may use different trading styles (also known as "signboard names" or "commercial names").

**Source:** Business Register Recommendations Manual (edition 2010), chapter 5, characteristic 1.2a – 1.2c, 2.2a – 2.2c

## Transnational enterprise group

**see:**        **Multinational enterprise group**

## Truncated enterprise group

The part of a multinational enterprise group, which comprises only the legal units resident in the same country, is called truncated enterprise group.

It is thus possible that a truncated group consists of several seemingly unlinked units and subgroups, if their parent is non-resident, but they belong to the same multinational group.

A truncated group may also consist of only one unit, parent or subsidiary, which is in the national territory.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 21.48

**(compare: CODED: "Truncated enterprise group")**

## Turnover [Business statistics]

Turnover comprises the totals invoiced by the observation unit during the reference period, and this corresponds to market sales of goods or services supplied to third parties.

Turnover includes all duties and taxes on the goods or services invoiced by the unit with the exception of the VAT invoiced by the unit vis-à-vis its customer and other similar deductible taxes directly linked to turnover.

It also includes all other charges (transport, packaging, etc.) passed on to the customer, even if these charges are listed separately in the invoice. Reduction in prices, rebates and discounts as well as the value of returned packing must be deducted.

Income classified as other operating income, financial income and extra-ordinary income in company accounts is excluded from turnover. Operating subsidies received from public authorities or the institutions of the European Union are also excluded.

For NACE Rev. 2 classes 65.11 and 65.12, the corresponding title of this characteristic is "Gross premiums written".

Note: Indirect taxes can be separated into three groups.

i) The first comprises VAT and other deductible taxes directly linked to turnover which are excluded from turnover. These taxes are collected in stages by the enterprise and fully borne by the final purchaser.

ii) The second group concerns all other taxes and duties linked to products which are either 1) linked to turnover and not deductible or 2) taxes on products not linked to turnover. Included here are taxes and duties on imports and taxes on the production, export, sale, transfer, leasing or delivery of goods and services or as a result of their use for own consumption or own capital formation.

iii) The third group concerns taxes and duties linked to production. These are compulsory, unrequited payments, in cash or in kind which are levied by general government, or by the Institutions of the European Union, in respect of the production and importation of goods and services, the employment of labour, the ownership or use of land, buildings or other assets used in production irrespective of the quantity or the value of goods and services produced or sold.

**Source:** SBS Regulation No 58/97, variable (12 11 0)

(equals: **CODED: "Turnover – SBS Regulation variables"**)

# U

## UCI

**see: Ultimate controlling institutional unit**

## UIC

**see: Ultimate investing country**

## Ultimate controlling institutional unit (UCI)

'Ultimate controlling institutional unit (UCI) of a foreign affiliate' shall mean the institutional unit, proceeding up a foreign affiliate's chain of control, which is not controlled by another institutional unit.

If the UCI is not known from existing data, the decision about the UCI should be taken preceding the ownership chain of the units involved with a step by step analysis, in each step determining control. Global calculation by multiplication of shares of ownership for alternative candidate UCIs leads to the wrong UCI.

**Source:** Eurostat Recommendations Manual on Production of FATS (edition 2007), page 20

### **Practical application in EGR:**

**see:** Paragraph 21.59 in Chapter 21

Related terms:

- Group head
- EuroGroups Register

### **Ultimate group head**

**see:** Group head

### **Ultimate investing country**

The country in which the ultimate investor is resident is the ultimate investing country (UIC) for the investment in the direct investment enterprise. It is possible that the ultimate investor is a resident of the same economy as the direct investment enterprise.

**Source:** OECD Benchmark definition of Foreign Direct Investment (edition 2008)

Related terms:

- Group head

### **Ultimate parent**

**see:** Group head

### **Under-coverage**

Failure to include required units in the frame, which results in the absence of information for those units.

**Source:** CODED

### **Undertaking**

**see:** Public undertakings

Related terms:

- Legal unit
- Company
- Enterprise

### **Unincorporated enterprise**

An unincorporated enterprise is a producer unit which is not incorporated as a legal entity separate from the owner (household, government or foreign resident); the fixed and other assets used in unincorporated enterprises do not belong to the enterprises but to their owners, the enterprises as such cannot engage in transactions with other



economic units nor can they enter into contractual relationships with other units nor incur liabilities on their own behalf; in addition, their owners are personally liable, without limit, for any debts or obligations incurred in the course of production.

**Source:** System of National Accounts (SNA) 1993, paragraphs 4.140 and 4.141; SBS Regulation No 58/97, variable (12 11 0)

(equals: **CODED: "Unincorporated enterprise"**)

## Unit

**see:** **Statistical unit; Legal unit**

## Unit of homogeneous production

The unit of homogeneous production (UHP) is characterised by a single activity which is identified by its homogeneous inputs, production process and outputs. The products which constitute the inputs and outputs are themselves distinguished by their physical characteristics and the extent to which they have been processed as well (as) by the production technique used, by reference to a product classification. The unit of homogeneous production may correspond to an institutional unit or a part thereof; on the other hand, it can never belong to two different institutional units.

**Source:** Council Regulation (EEC) No 696/93 of 15 March 1993 on the statistical units for the observation and analysis of the production system in the Community, Annex Section III E; SBS Regulation No 58/97, variable (12 11 0)

Related terms:

- Statistical unit

(equals: **CODED: "Unit of homogeneous production"**)

## Unpaid family workers

Unpaid family workers refer to persons who live with the proprietor of the unit and work regularly for the unit, but do not have a contract of service and do not receive a fixed sum for the work they perform. This is limited to those persons who are not included on the payroll of another unit as their principal occupation.

For the **Labour Force Survey** the following definition is used:

Family workers are persons who help another member of the family to run an agricultural holding or other business, provided they are not considered as employees.

**Source:** Extract from SBS Regulation No 58/97, variable (16 11 0); European Union labour force survey, methods and definitions – 2001 (edition 2003)

(equals: **CODED: "Unpaid family workers"**)

## Unquoted shares

Unquoted shares are shares, which are not traded on stock exchanges or other organised financial markets.

**Source:** System of National Accounts (SNA) 1993, paragraph 13.73

Related terms:

- Publicly traded company

(equals: CODED: "Unquoted shares")

## V

### Value added tax

A value added type tax (VAT) is a tax on goods and services collected in stages by enterprises and which is ultimately charged in full to the final purchasers.

This heading value added type taxes comprises the value added tax which is collected by the General government and which is applied to national and imported products, as well as, where appropriate, other deductible taxes applied under similar rules to those governing VAT, for simplicity henceforth called 'VAT'.

Producers are obliged to pay only the difference between the VAT on their sales and the VAT on their purchases for their own intermediate consumption or gross fixed capital formation.

**Source:** European System of Accounts (ESA) 1995, [4.17]

(equals: CODED: "Value added tax (VAT) - ESA")

### VAT

see: Value added tax

### Vertical integration

Two legal units are said to be vertically integrated if they are within the same enterprise group and all of the output of one is consumed by the other. For example, the output of a legal unit engaged in printing could go entirely to a legal unit engaged in bookbinding.

**Source:** Business Register Recommendations Manual (edition 2010), paragraph 19.49

Related terms:

- Horizontal integration

(compare: CODED: "Vertically integrated enterprise")

## W

### Winding up

see: Cessation of business

# X

## **XBRL**

eXtensible Business Reporting Language - an XML based framework that provides the financial community with a method to prepare, publish in a variety of formats, extract and exchange financial statements. It is expected to have major implications for all concerned with presentation and analysis of company accounts. Development is led by a Steering Committee of over 100 organisations and corporations including the US Census Bureau. XBRL taxonomies already existed for some specific reporting schemes, such as US GAAP (Generally Accepted Accounting Principles), and are under development for many others, including IAS and several national GAAPs.

**Source:** Accounting and statistics glossary

## **XML**

eXtensible Mark-up Language : An expandable, self-describing, platform independent data exchange format. Two of the many specific XML languages of particular potential interest to statisticians are ebXML (transaction based XML language which assists e-commerce) and XBRL.

**Source:** Accounting and statistics glossary

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