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Towards a strategy for improving European services sector statistics

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The views expressed are purely those of the author and may not in any circumstances be regarded as stating an official position of the European Commission.

I. Introduction

Statistical information has in recent years gained a more prominent position in political decision making. The European Council meeting in March 2000 in Lisbon “*invites the Commission to draw up an annual synthesis report on progress on the basis of structural indicators to be agreed relating to employment, innovation, economic reform and social cohesion*”. Another example is the e-Europe Action Plan 2005 that includes a comprehensive list of benchmarking indicators. In order to ensure that political decision-making is carried out based on a reliable and sound basis, official statistics need to be capable of meeting the growing demand for supply of statistical information.

The main missions of official statistics are to provide and disseminate reliable, timely and relevant statistical information as a basis for making the democracy and society work. From a user perspective, the EU business statistics can be considered fulfilling the criterion of reliability, but question marks has to be put to the criteria of timeliness and relevance of the European business statistics. This paper addresses only the issue of relevance, as a crucial element in the justification of official statistics is that the statistics produced are relevant, i.e. reflecting the economy and society in a comprehensive and meaningful way.

The statistical production process is fundamentally based on the approach of measuring a range of phenomena in the society and possible changes in these phenomena over time. This approach has a potential built-in conflict with user needs being often of urgent character focusing on changing elements due to shifting political priorities and agenda. In order to overcome this dilemma, a number of core policy needs of a certain “sustainable” character have to be identified by the main users and communicated to the statistical society. Regarding EU business statistics, a useful benchmark is the needs embedded in the so-called Lisbon strategy.

The ambitious and ultimate goal of the Lisbon strategy is that the EU shall “*become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.*”¹ This goal encompasses a range of different policy areas such as economic, social or enterprise policy. This paper will focus only on the needs related to enterprise policy and especially address the problem of the inadequate sectoral coverage of business statistics. The current business statistics do not fully reflect the scale of the services sector and its economic importance which is a serious deficit in the European Statistical System, as the statistical coverage of the services sector is crucial for the monitoring of the progress of achieving the Lisbon goals.

The Lisbon European Council highlighted the role of services in the economy and their potential for growth and employment creation. The importance of the services sector is justified by its sheer weight in the economy (around 70% of EU 15 GDP) and the increasing consumption of services by manufacturing industry, affecting the cost, price and quality of manufactured goods. Consequently, the business statistics cannot be classified as fulfilling the requirement of relevancy, as long as the statistical coverage of the services sector is so incomplete as it is the case with the current EU business statistics.

¹ European Council: Presidency conclusions, Lisbon European Council 23 and 24 March 2000.

II. Services sector statistics: current situation

During the late eighties and the nineties national and international statistical institutes began developing statistics on the services sector, due to their growing economic importance and the derived needs for statistical information from different groups of users².

As a consequence, several EU Regulations covering the services sector were adopted, i.e. on statistical business registers, structural and short-term business statistics. Following the implementation of these Regulations, the European Statistical System has been considerably improved. As an illustration of the improvement: before the adoption of the Structural Business Statistics Regulation December 1996³ harmonised structural business statistics were only available for extraction, manufacturing, energy and water supply and construction. Thus, the implementation of the SBS Regulation also covering business-related services and other services sectors must be seen as a very important achievement.

Nevertheless, serious deficiencies in our understanding of the structure of the services sector and the factors influencing the growth of services enterprises remain. The available statistical material does not reflect appropriately the dominant position of services in the economy and also fails to show the extent of the interdependence between services and the other sectors.

There are several reasons for this situation:

- Services are difficult to define and thus to measure. The main characteristics of the services sector are that the output can generally be characterised as being of intangible nature. However, the introduction of information technology has changed this situation in the sense that services nowadays can be imbedded in physical products and thus delivered and stored via physical means. Normally, a service contains a considerable element of personal contact between the producer and the client – a social inter-action. This social interaction puts focus on the so-called “soft technology”, being the qualifications of the employees in terms of level of knowledge, capability of presenting to and communicating with the customer, etc.
- The development of new technologies, services products, business models and types of enterprise relations is fast and changing rapidly; consequently the need for inclusion of new indicators or variables puts pressure on the existing data collection to an extent not previously experienced.
- Furthermore, many statistical offices were faced with severe budget cuts in the nineties, hampering the enlargement of the statistical programmes. Also the political demand for reduction of the respondent burden has made new statistical surveys more difficult in many countries. The improvement of services statistics has to be seen in a global context covering all statistical information to be supplied by enterprises: indicating possible reductions in other types of business statistics or innovative approaches utilising existing data in new ways.

² For an overview of the conceptual development and practical measurement issues in the field of services statistics, see UN-Economic and Social Council. Report of the Australian Bureau of Statistics on statistics of services (doc. E/CN.3/2003/12).

³ Council Regulation (EC, EURATOM) N° 58/97.

III. Commission Communication on Business-related services

The European Commission finds that the time has come to make a serious effort to put the economic importance and potential of services on the EU policy agenda as a key component of its revisited competitiveness strategy. There is a need for the Commission to enter into a dialogue with business operators, professional organisations, unions, policy makers, economists, researchers and the media. They are, in the opinion of the Commission, not sufficiently aware of the role of, the functioning and the potential impact that services possess for the development of the EU economy.

There are several reasons for this lack of awareness. *Firstly*, the services sector comprises a large number of different activities, which are difficult to classify and to treat under one heading. *Secondly*, official statistics at national and EU level do not properly reflect the importance of services and their interaction with the rest of the economy. *Thirdly*, and as a consequence of the lack of data, economic research on services is weak compared to the primary and secondary sectors. *Fourthly*, services are not well organised on the business market, mainly because of their diversity and a perceived lack of common interests of business operators.

It is against this background that the European Commission adopted the Communication on The Competitiveness of business-related services and their contribution to the performance of European enterprises.⁴ The Communication contains statistical and economic analysis of the services sector forming the basis for policy actions to be implemented through a wide range of specific actions inside a coherent EU policy framework.

Box 1. Definition of Business-related services in accordance with the EU statistical activity nomenclature, NACE.

Business Services (NACE 70–74) This group can be divided into two groups: 1) *Knowledge-Intensive Business Services*, which are professional services, such as IT-consulting, management consulting, R&D services, and advertising. 2) *Operational services* consisting of services such as industrial cleaning, security services and secretarial services.

Distributive Trade (NACE 50–52) This group consists of enterprises facilitating the distribution of goods and services to other sectors of the economy and to final consumers.

Network Services (NACE 40–41, 60–64) This composite group consists of electricity, gas and water supply, transport and communication services.

Financial Services (NACE 65–67) This group consists of enterprises offering intermediation of financial services such as banks and insurance companies.

The Communication identifies the following key policy issues:

1. Market integration and competition in business-related services markets is not vigorous enough to ensure and strengthen their competitiveness;
2. The inputs necessary for the production (labour qualifications, integration of ICT and capital) are lacking in quality and quantity;
3. The outputs from the business-related services enterprises are not sufficiently transparent (standards), valued (reporting on intangible assets) or documented (quality);

⁴ COM(2003) 747 final

4. The provision and use of business-related services is limited in less developed regions and candidate countries, mainly affecting SMEs and convergence processes;
5. Knowledge about the sector and the markets is scarce, hampering the decision making of enterprises and policy makers.

The Communication states that *“Improvement of the knowledge and statistical coverage of the business-related services is an important action in order to better understand the real forces behind competitiveness. This is an essential instrument for giving guidance to decision making by business operators, policymakers and other stakeholders and for monitoring of progress in the implementation of policy areas of action described in this Communication.*

The importance given to the need for developing sufficient knowledge about the services sector is further underlined by the fact that only key policy area being addressed in more details is the issue of lack of statistical information. The Communication presented a relative detailed strategy for the development of services statistics, briefly described below.

IV. Strategy for development of services sector statistics

In order to furnish the policy makers with needed and relevant statistical information and indicators on business-related services as a tool in shaping Community enterprise policy, a huge range of topics has to be addressed. As the business-related services are very heterogeneous, ranging from highly specialised, knowledge intensive activities such as computer services and engineering services to low skilled jobs in industrial cleaning, growing demands not only for a larger, but also for a more detailed statistical coverage are frequently brought forward by users from governments, branch organisations, researchers, etc.

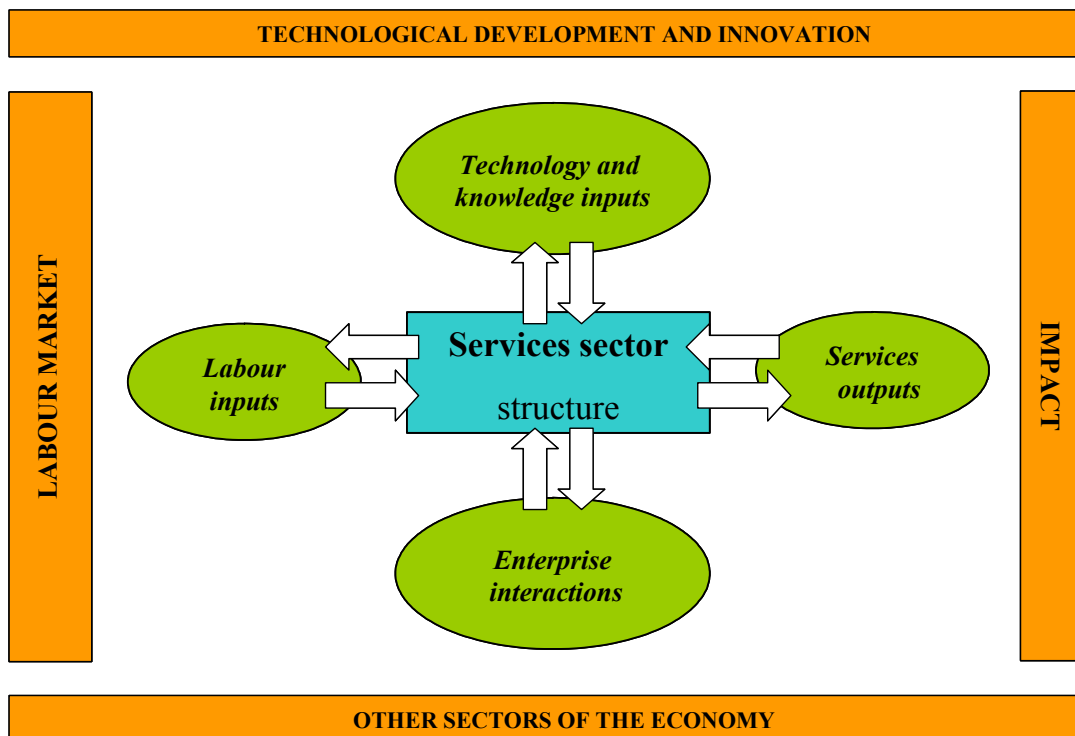
In order to or organise the expressed user needs in a constructive and forward looking manner, allowing for future implementations of the different parts of the strategy plan, a set of building blocks for the development of new statistics on services has been identified. The building blocks are the following:

- *Structure of the services sector* including issues such as enterprise dynamics, entrepreneurship, international trade in services, (exports and imports, foreign direct investment)). Exports and imports of manufactured goods are covered by detailed statistics, but information about the international trade in services at “product level” is missing. Research on globalisation issues (e.g., the impact of migration of jobs to Asia, or competitiveness issues) is high on the political agenda as well as a better knowledge on the processes surrounding the business survival and success of service companies.
- *Labour input* (employment qualifications, skills, education, hours worked). To understand the job creation processes in the services sector, reliable statistics on the qualifications of the employees such as level of education, work experience, other skills, gender and age are essential. Research on training processes and educational levels is also needed, in particular focusing on those skills shortages hampering the growth possibilities of services activities.
- *Technology and knowledge input* (ICT usage, e-business, e-commerce, research and development, innovation and intangibles). Innovation in the services sector is generally brought about by investment in acquisition of new skills, new organisational structures and new ways of co-operation with customers and suppliers. These types of innovation

are fundamentally different from innovation in physical products and require new methods of measurement, concepts and further research;

- *Enterprise interactions* (outsourcing, purchases of services, networking, strategic alliances, franchising, capital chains). Existing statistics on business-related services have focused on the supply side. To understand the development of the services sector and the competitiveness of all sectors of the economy, statistics on the demand for, and use of, services by manufacturing enterprises and other enterprises or the public sector are essential. From the research point of view, new concepts and approaches need to be developed to approach new changes on forms of service provision and entrepreneurial behaviours.
- *Services outputs* (products, prices, productivity). The concepts of productivity work well for manufacturing enterprises, but entail considerable uncertainty when it comes to measuring productivity in the service sectors. The understanding of productivity in services requires new conceptual and theoretical developments and research able to explore the factors enhancing productivity in services. The interrelations between productivity, quality and innovations are particular outstanding for further research projects.

Figure 1. Building blocks of statistics on the services sector.



V. Follow-up to the Communication

As a follow-up to the Communication the Commission has established a European Forum on Business-Related Services, composed of the Community institutions, Member State representatives, professional organisations, workers representations, research institutions and other enterprise-related stakeholders, with the objective of ensuring a continuous dialogue with all involved parties on how to improve the competitiveness of business-related services. As a first step in this direction, the Forum will assist the Commission in preparing an Action Plan for the implementation of the key policy issues identified in the Communication.

In order to come up with proposals for targeted actions, the Forum has established working groups addressing the different key policy issues identified in the Communication. One working group addresses the issue of knowledge and statistics with the following twofold and mutually supportive mandate:

1. To contribute to improving knowledge about and research on services on those topics requiring more analytical or empirical works. The working group will identify current research deficits and put forward proposals to overcome these.
2. To develop elements to be incorporated in a long-term strategy for improving the statistical coverage of the services sector and to present specific proposals for future statistical pilot projects on business-related services in order to overcome the serious deficiencies in our understanding of the structure of the business-related services sector and the factors influencing the growth of services enterprises.

The working group has not finalised its work at this point in time but some preliminary outcome of the current discussions can shortly be described, using the following main headings:

- Promotion of integration and closer co-operation between research and official statistics
- Development of future services statistics
- Development of tools for lowering the respondent burden
- Increased use of existing data and micro data analysis
- Continuous revision of existing data collections

In this paper, only the 4 last headings shall be further described.

V.I Development of future services statistics

From the discussions crystallised a number of main topics for the development of future services statistics, also taking the policy issues and the derived statistical needs of the Lisbon strategy into consideration. As the needs identified in the meetings of the working group to a large extent are identical with the elements in the strategy presented above, the contents of the main proposals will only be listed.

1. Knowledge-based economy

The knowledge-based economy is characterised by the crucial importance of interaction and relations, being between enterprises, across sectors, between employees or between suppliers and clients. It is a huge challenge for statistical offices to develop a methodology to identify and survey these types of more soft and intangible phenomena. Under this heading, issues such as enterprise networking, innovation in services (non-technological innovation), human skills and knowledge management will be categorised.

2. Internationalisation of services

Industrial restructuring has been part of the economic development in the EU in the last decades, especially influencing the manufacturing sector, and leading to a concern about a process of deindustrialisation in Europe.⁵ A more recent trend, having caught high policy attention, is the apparent increasing global sourcing of services. The concern has been based on anecdotal evidence from newspapers, as no official statistical data covering the issue giving a global picture are currently available. Under this heading, issues as international trade in services (detailed services product data), global sourcing of services (measurement problems, outwards FATS) and Internal Market for services (barriers, types of services purchased across border, location of provider) will be categorised.

3. Competitiveness of the European services sector

Competitiveness is at the core of Community enterprise policy and the focal point of the Lisbon strategy. The main factors enhancing competitiveness are the use of ICT by enterprises and integration into the business processes, innovation and human capital – and the interaction of these factors. Indicators for competitiveness have to be developed. The current main indicator is productivity. With the growing importance of services and their reported poorer productivity performance compared to manufacturing and the US services sector, the issue of productivity in services is important for the Lisbon process.⁶

As mentioned above, reliable measurement of services productivity is a challenge for national statistical institutes as we are confronted with major problems both measuring inputs (e.g. labour) and output (e.g. prices, quality and changes in quality).

V.II Is it possible to lower the respondent burden?

On the one hand, policy shaping is hampered by the lack of statistical coverage of the services sector, on the other hand the administrative burden on enterprises is of concern for policy makers both at the EU and national level.

The respondent burden must be considered a major obstacle for developing business statistics as many statistical offices are facing obligations for considerable cuts in respondent burden to be realised in the coming years. In reply, measures are taken by NSIs to extract the most recent ICT technologies to deliver the data electronically from companies, even directly from business accounts (XBRL).

⁵ COM (2004) 274 final

⁶ O'Mahony, van Ark (ed.): EU productivity and competitiveness: An industry perspective. European Commission 2003

Another tool for replying to the user needs is to utilise existing statistical or administrative data by data linking in new and innovative ways, the recent workshop “*Services sector statistics – Future needs and possible answers*” organised by Eurostat and DG Enterprise gave examples of such uses to provide rapid information on topics of emerging policy interests.⁷ Data linking should not be restricted to only enterprise statistics but due to the importance of human skills in understanding the performance of services, it is crucial to investigate the possibilities of linking Labour Force Survey data with enterprise data.

A further innovative tool is the use of firm level data to supplement economic analysis based on aggregated data with new knowledge without launching new surveys.

As mentioned, NSIs are under pressure from national governments to reduce the respondent burden put on enterprises and on the other hand obliged by EU regulations to collect a majority of the data currently in their work programmes. There is an urgent need for revising the existing EU requirements in order to set negative priorities and to develop procedures for continuous revision of statistical regulations and directives in order to reflect future changes in the economy adequately.

VI. Conclusion

From the discussions in the working group and the recent workshop, the conclusion can be drawn that by taking the different tools in terms of 1) lowering the existing respondent burden by introducing digital and standardised reporting and revising existing data collections by introducing negative priorities solutions, 2) utilising existing data registers in new and innovative ways by data linking and 3) supplement existing macro analysis with firm level analysis into consideration, there is *still room for manoeuvre*, i.e. for introducing new statistical data collections regarding the services sector in order to put the coverage of manufacturing and services on equal footing.

For policy shaping purposes, official business statistics is considered the main source of statistical information as official statistics is regarded being of high quality. But the quality of the official business statistics is threatened, if the current imbalanced coverage of the economic sectors are not overcome and the flexibility and capability of official statistics to reply to emerging policy issues not improved. On the long run, the situation might force policy makers to base themselves on other statistical sources, if the relevancy of the EU business statistics is not improved considerably. The on-going activities of the European Commission related to the development of services statistics is an important action to prevent the deterioration of the quality and relevance – and thus the utility - of official business statistics.

⁷ Tony Clayton: Offshore service purchases and other issues; can we tackle new questions by linking existing data sources? and Dorte Koch: Factors of business success – results from Danish registers