

VOORBURG GROUP ON SERVICE STATISTICS

Tenth meeting

Voorburg, 11 - 15 September 1995

Session 5
Globalisation
Establishment Trade

Internationalisation of services :

UNUSUAL SERVICES !

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« Commercial presence », defined as « the delivery of services through any type of business or professional establishment ... owned or controlled by natural or juridical persons from other countries » has been retained by the GATS as one of the four modes of supply of services. « Establishment Trade (ET) Statistics » is therefore considered by international organisations as a new domain to develop ; some proposals of concepts and definitions have been prepared by WTO [1].

ET is new in so far as it concerns services : countries have already collected ET statistics on the manufacturing sector for many years. In France, the extension of ET statistical observation for the service sector did not raise particular difficulties.

The main difficulty lies elsewhere. With respect to the peculiar links established between some service enterprises, ET statistics are not sufficient to give a complete view of the internationalisation of the service sector. The ET domain needs then to be completed by an « NT domain » concerning the firms networks.

Having a complete framework covering all theoretical needs of the GATS negotiators, it is clear that priorities will be necessary to define. What is at stake for internationalisation of services ? for the firms involved ? for national economies ? Answering these questions will help to specify a reasoned programme.

1. ET statistics : let's try and be operational !

According to the method presently used in France, every enterprise for which the amount of voting stocks held abroad is above or equal to 20 % of the total is considered as foreign-controlled (majority-owned if the foreign amount is above or equal to 50 % of the total, minority-owned if this amount is between 20 % and 50 %). Consequently, the nationality of the firm is decided upon the basis of the Ultimate Beneficial Owner (UBO) of the firm and not on the country of the foreign investing parent. When two or more countries are involved, a majority rule (absolute majority, relative if necessary) is applied. Boarder cases exist of course, but they are scarce.

The « majority ownership criterion » proposed by WTO [1] as a statistical tool as a proxy control criterion is close to the one used in France to identify foreign majority-owned

enterprises, except with regard to the following point : the GATS proposal refers to a country whereas the French criterion refers to **all** countries. When three persons from three different countries own for example 40 %, 30 % and 20 % of a resident enterprise E, E is considered as foreign-owned for national statistics (which may appear as a reasonable choice for French authorities), although E remains French for the GATS. As a matter of fact, the impact of such cases on the ET statistics is rather limited, due to the structure of the shareholding of foreign companies established in France : among 869 service enterprises considered at the moment as majority foreign-owned, 846 remain definitely majority foreign-owned according to the GATS criterion, only 9 are eliminated and 14 are impossible to classify due to the incomplete information on the country of origin of these enterprises.

A more complete investigation has been conducted about the structure of the shareholding of 1,025 foreign enterprises of services (about three-quarters of the whole universe at present) for which it was possible to get access to the information relative to foreign owners. Two simple indicators are shown below, the distribution of foreign services affiliates according to the number of foreign shareholders, and according to the level of the control rate.

Table 1 - Number of foreign service enterprises in France & of foreign shareholders

Number of foreign shareholders per enterprise	Number of enterprises	%	Total number of foreign shareholders	%
1	629	61.4	629	37.3
2	254	24.8	508	30.1
3	84	8.2	252	14.9
4	28	2.7	112	6.6
5	11	1.1	55	3.3
6 & +	19	1.9	130	7.7
TOTAL	1,025	100.0	1,686	100.0

Both indicators show that the problem of differentiation between foreign and national enterprises is « from a statistical point of view » much more simple than one can imagine when facing theoretical examples !

Table 2 - Distribution of the number of foreign service enterprises in France by rate of control (on the basis of the UBO country)

Foreign control	Number	% of total
= 100 %	387	37.8
90 % < <= 100 %	253	24.7
80 % < <= 90 %	48	4.7
70 % < <= 80 %	50	4.9
60 % < <= 70 %	50	4.9
50 % < <= 60 %	81	7.9
40 % < <= 50 %	73	7.1
30 % < <= 40 %	56	5.5
20 % < <= 30 %	27	2.6
TOTAL	1,025	100.0
of which = 50 %	34	3.3

It would be too long to report about the complete results of this investigation, but what can be said is that even the more « sophisticated cases » (with 3 or more shareholders) are easy to treat since, either one of them holds alone more than 50 % of the capital of the firm, or the various shareholders have the same country of origin.

This « somewhat surprising » result was confirmed by the colleagues in charge of a statistical survey on the financial links between enterprises in France : in the service as well as in the manufacturing sector, the control is generally straightforward. This means that in a majority of cases, it is a 100 % rate of control or equivalent ; and, usually the situation is even more clear for the foreign affiliates than for the French ones.

The complex links - especially crossed participations and other forms of capital detention - are probably concentrated in holdings ; at present, these units are excluded from the French survey, as their contribution to production is rather low ; for « productive » units, a clear control may correspond to a necessity of transparency for the investors, especially for the foreign investors. It may be guessed that, in an open world, it is not a peculiarity of French capitalism.

The UBO concept and the control of the enterprise

The second important criterion proposed by WTO [1] concerns the choice of a country of origin for the foreign enterprise, country of UBO or country of the « first foreign parent » ? WTO seems to favour the second option, with an additional clause concerning the involvement of that parent in substantive business operations ; the main argument for such a choice is that « it is easier to implement » ! easier than the UBO concept.

For the 1,025 service enterprises mentioned above, the French statisticians are lucky enough and know the investor country and the country of the UBO. To check the dissimilarities, both variables were crossed and the distribution of enterprises is shown in table 3.

The country of the UBO and the investor country are identical for less than half of the sample (455 among 1,025). But, what is more important is the fact that 425 enterprises which should be considered as foreign according to the UBO concept, are French according to the investor concept ; the distribution by country of origin is also modified : roughly, the weight of distant countries decreases as, obviously, part of the investments of American and Japanese multinational companies come through their European affiliates already established.

For 8 enterprises only, the investor country is unknown, whereas for 113 of them the UBO country is unknown : only from such figures can one say that it is easier to apply one criterion rather than another ; but, it could lead to show that, as an example, Manpower is not American (a result which could be controversial for American experts !)

More seriously, it is a question of consistency : the problems of identifying foreign companies and determining their country of origin are linked as it is mentioned in the WTO proposal of framework : it was shown previously that an enterprise considered foreign according to the UBO criterion may be French according to the investor criterion (and vice versa). If, at a first stage, the majority

Table 3 - Distribution of foreign service enterprises in France by investor country and UBO country

Investor	UBO																				TOTAL					
	ECE									Other																
	Netherlands		Italy		Ireland		Spain			Switzerland			EUR-		North Africa		Canada		Middle East	Other		Rest of the world				
	Belgium & Lux	Germany	United Kingdom	Denmark	Other	Swed	Other	OPE	Other	United States	Other	Japan	Pacific	Unkn												
Belgium & Lux	48	3	0	5	0	2	0	0	1	58	1	2	0	62	0	0	1	0	0	2	0	1	0	7	2	75
Netherlands	1	24	1	1	6	0	1	0	0	34	0	1	1	36	1	0	11	1	1	2	3	0	1	10	0	66
Germany	0	0	51	0	1	0	0	0	0	52	0	0	0	52	0	0	1	0	0	0	0	0	0	1	0	54
Italy	0	0	0	14	0	0	0	0	0	14	0	0	0	14	0	0	0	0	0	0	0	0	0	0	0	14
United Kingdom	2	0	0	0	61	0	0	0	0	63	0	1	0	64	0	0	8	0	2	1	2	1	0	6	1	85
Ireland	0	0	0	0	0	1	0	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Denmark	0	1	0	0	0	0	4	0	0	5	0	0	0	5	0	0	0	0	0	0	0	0	0	0	0	5
Spain	0	0	0	0	0	0	0	7	0	7	0	0	0	7	0	0	1	0	0	0	0	0	0	0	1	9
Others ECE	0	0	0	0	0	0	0	0	2	2	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	2
Total ECE	51	28	52	20	68	3	5	7	3	237	1	4	1	243	1	0	22	1	3	6	6	2	1	24	4	311
Sweden	0	0	0	0	0	0	0	0	0	0	5	0	0	5	0	0	0	0	0	0	0	0	0	0	0	5
Switzerland	2	2	3	1	1	0	0	0	0	9	0	59	0	68	0	0	2	0	0	0	1	0	0	1	3	75
Others EUR	0	0	0	0	0	0	0	0	0	0	0	0	12	12	0	0	0	0	0	0	0	0	0	0	0	12
EUROPE	53	30	55	21	69	3	5	7	3	246	6	63	13	328	1	0	24	1	3	6	6	2	1	25	7	403
North Africa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15	0	0	0	0	0	0	0	0	0	0	15
Others Africa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	0	0	0	0	0	0	0	0	0	4
United States	0	0	0	0	5	0	0	1	0	6	0	0	0	6	0	0	80	1	1	0	1	1	0	2	4	96
Canada	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	11	0	0	0	0	0	0	1	13
Others America	0	0	0	0	0	0	0	0	0	0	0	2	0	2	1	0	0	0	7	1	0	0	0	1	0	12
Middle East	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	27	0	0	0	0	0	27
Japan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	16	0	0	0	0	16
Others Asia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6	0	0	0	6
Pacific	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rest of the world	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Unknown	0	0	0	0	1	0	0	0	1	2	0	2	0	4	0	0	0	0	0	0	0	0	0	1	2	7
TOTAL	63	30	66	21	76	3	6	8	4	254	6	67	13	340	17	4	105	13	11	33	23	9	1	30	14	600
France	13	38	16	12	62	3	0	3	0	147	19	62	1	229	1	0	102	3	2	13	3	1	2	67	2	425
TOTAL	66	68	71	33	137	6	6	11	4	401	25	129	14	569	18	4	207	16	13	46	26	10	3	97	16	1025

ownership criterion has been chosen as a proxy for identifying control, then, control should also be favoured when determining the country of origin ; in that respect, the UBO country obviously fits better the research of the economic power than the first foreign parent country.

2. From ET to NT statistics

The inclusion of networks in the field of ET statistics on services was the subject-matter of a report about auditing and management consulting sectors, recently finalised by Mrs. C. Sauviat [2].

Within the next Round of negotiations on services, special attention will be given to « professional services * » with the creation of an ad hoc working group to examine questions dealing with the eventual barriers to internationalisation in this field : refusal of accreditation, of joint-ventures with a non-resident, etc. On the agenda of this group, the first sector which will be discussed, will be accounting and auditing services [3].

In France, the turnover of the sector is about 47 billion FF in 1992, trade in services about 110 million FF (0.2 %) and direct investment about 38 million FF (less than 0.1 %) ; the commercial presence in terms of turnover was evaluated at 0.2 % ! Yet the list of the leaders of the sector published every year by the profession shows that the French representatives of the Big Six are among the seven first French cabinets with a total turnover of about 6 billion FF (13 % of the whole sector). Considering that three quarters of the receipts of the sector concern small cabinets scattered over the territory in order to provide local services, so that these cabinets are not at all in competition with the auditors of the « major accounts » i.e. the largest groups quoted on the Stock exchange, the « commercial presence » of the Big Six then rise to 50 %. To some extent, similar results may be observed with legal and consulting services.

To clarify the situation of « consulting services » with regard to internationalisation, a study was sub-contracted to aim at

* « Profession libérale » is the French proxy to this concept which is not defined at the moment at the international level. There is, of course, no statistical definition, as this term refers to the way of practicing a profession, and not to an activity or a service.

clarifying the concept of « network », designing a first classification of the main types of networks encountered in the professions under review, and with a view to the feasibility of a statistical measurement on the « ET model ». The case study consisted in interviews of representatives of 15 large enterprises of auditing and consulting sectors [2]**.

In fact, « most of the consulting and auditing firms are organised as partnership structures or as more classical structures, but working according to the principles of partnership. Their capital is owned (or controlled) by the professionals who work in the firm ... The group of partners (or associates) own the totality (or almost) of the assets of the partnership ; and their liability is unlimited (nobody can redeem the debts of such firms) ; and, finally these firms are not compelled to publish their accounts. »

Such structures and the fact that partners and consultants are highly-skilled people favour a horizontal-type of organisation instead of a hierarchical one. The revenues are the same - except that a premium is awarded on the basis of the individual performance. This does not mean that every partner is on the same level, according to the basic principle of a « profession libérale à la française ». Some of them are more influent than the others ; centres of power emerge ; and various types of networks exist as it is shown below.

Another consequence of such an organisation deals with the absence in ET statistics. For firms in partnership (sociétés de personnes) created with capital provided by the associates, even if one of them is of foreign origin, he is an associate who should fit the national regulation concerning the professional practice ; he is then a resident and the firm remains considered by the administration as a « French-owned enterprise ». Of course, that enterprise will be out of scope of usual ET statistics.

Not only the internationalisation of these activities is far from negligible. Not only is the competition rate high as it has been shown above, but internationalisation is ancient and singular. As far back as the end of the XIXth century, these firms of auditing and consulting got internationalised in order to accompany international investment flows ; then, their centres of gravity moved from the UK to the US. In more recent years, their globalisation is ahead of its time : from various points of view, (localisation of the centre of the network, nationality of the managers and of the main

** This part is based on the report of Mrs. Sauviat.

associates, origin of the receipts - for most of them, the majority of the turnover comes from abroad), these firms are « stateless ». « Globalisation » was invented by consultants of these firms!

There are networks and networks !

From the panel analysed, Mrs. Sauviat proposes a tentative classification to clarify the various types of networks encountered in the professional services sector. The first criterion which enables a differentiation is the **degree of integration** of the administration of the network. Two extreme forms were identified :

- the integrated network (Mrs. Sauviat proposes to name it the « **firm-network** »), which is governed by a Head, who decides the strategy, manages the trade-mark, etc. ; costs of training and R&D are equalized ; the entrance and exit costs are somewhat high ;

- the set of amalgamated cabinets (Mrs Sauviat proposes the term « **network of firms** »), decentralised and unstable, where the partnership is limited to subscription fees and exchanges of referees.

The second criterion concerns the nature of the clientele. The firms which are service providers of **world** level leaders in their industry are qualified as « **global** », and as « **multidomestic** » those with **national** level leaders as clients.

An NT survey

At the moment, no pilot survey has yet been designed. Nevertheless, some main features of the work to be done can be briefly mentioned.

Unlike ET statistics, no administrative information will be available, of course ! But professional organisations and professionals themselves know their main competitors. In the phase of preparation of the survey, it will be useful to question them in order to get a first list of networks and, to the extent that professionals know, ask for the localisation of the heads of the integrated networks.

As to the survey itself, it will be integrated to the current annual survey on service enterprises, so that all operational variables will be available. Of course, anything one would like to know about the administration and the working of the network will be impossible to be included in a pilot survey. The main objectives should then be focused on the delimitation of the boundaries of the network, the localisation of its central organs, if any, and the definition of national origin, probably on the basis of the nationality of the management (and not on the basis of the localisation of the central organ which may be purely formal !). Formally, the results will be homogeneous with ET statistics, with penetration rates in terms of turnover, employment, value added, etc.

Furthermore and depending on the results obtained during the first phase, more ambitious and in-depth investigations may be foreseen concerning competences assembled, mutualisation of means, internal flows exchanged between members, characteristics of the clientele ...

A difficulty is foreseeable : the necessity of establishing a close collaboration with professionals, in order to get access to information that may be considered as strategic for their activity ; and these professions have not a tradition of transparency !

3. Commercial presence and « commercial logic »

When this statistical programme started in France, the first purpose was simply to measure the global importance of the phenomenon with its sectoral localisation [4]. The second step was to compare the economic results of the two sets of enterprises, those which were foreign-controlled and the others in order to find eventual differences of performance or behaviour.

On the model of what had been done for the manufacturing sector, a set of basic indicators were systematically computed : turnover per person employed, share of the gross operating surplus (GOS) in value added (VA), share of investment (INV) in VA, rate of exports and so on. In fact, differences were too difficult to analyse because of structural effects and of variability of the results of service enterprises : foreign-owned ones operate in some specific activities (mainly belonging to the business services and wholesale trade sectors) ; generally, their size is much larger than that of the national enterprises ; also, some economic ratios may be totally atypical due to the peculiarities of the activity :

GOS/VA in car rentals is around 70 % and the investment rate (INV/VA) 160 %! This distorts the mean of the set under comparison.

Another approach was recently experienced, restricting the comparison to a more homogeneous field in which the commercial presence is significant*.

For the margin rate and the investment rate, the statistical tests were positive only for the sectoral effect ; a significant difference was found for the national effect only for the export rate ; the export rate of foreign-owned enterprises is slightly higher than that for French enterprises. The conclusion is in line with what is usually observed in the manufacturing sector : it is the consequence of the close links between parents and affiliates within a group. The gap is small : the two sets are not homogeneous, the set of foreign enterprises contains only units belonging to a group ; the set of national units is a mix of units belonging to a group and of independant firms.

Much more interesting are the negative results : the margin rate and the investment rate of two enterprises of services with comparable size and activity, but one foreign and the other national, are not significantly different. In the manufacturing sector, the margin rate is higher for foreign enterprises.

* Only enterprises having more than 20 employees and belonging to some precise business service sectors (except real estate and professional services) were selected. Namely, the sectors under study are : catering, engineering services, market research, computer services, advertising, renting of vehicles, renting of computers, cleaning services. This set includes 6,700 enterprises, of which 500 foreign realising 20 % of the sales.

An attempt of main components analysis failed because of the size of the same sectoral effect previously mentioned. Subsequently, a standard deviation analysis model was tried to test the significancy of the activity effect, size effect, and nationality effect, for three variables : the rate of margin (GOS/VA), the investment rate, the export rate. Calculations were done by Mrs. N. YAHOU, student at the National School of Statistics and Economic Administration. Formally :

y_n is the variable under study for enterprise n (n from 1 to N)

i is the index of the sector (from 1 to S)

j is the index of the size (from 1 to T)

k is the index of the nationality (from 1 to K)

and ε_n is a random variable, in a law of Gauss.

$$y_n = a + bi + cj + dk + \varepsilon_n$$

A Fisher test is used to test the equality versus differences between coefficients estimated to conclude to the lack or the presence of a sectoral, size, national effect on the studied variable y_n .

The margin rate was analysed by the statistical service of the French Ministry of Industry [5], starting from the observation that the apparent productivity (VA per head) is higher for foreign than for French groups. As the average earnings are the same, the economic profitability (GOS/VA) is superior for the first (34 % vs 29 %). Going further, it was shown that the net profit is the same for the two sets of enterprises (3 % of the sales) ; the R-D expenditure of foreign manufacturing enterprises are lower than that of the French ones as they use the technology transferred from their foreign parent ; the royalties paid to the parent company explain half of the difference of the margin rates ; the other half is more heterogeneous and correspond to various intra-group financial flows.

Having studied BEA statistics about US transnational corporations (TNC), J.P. THUILLIER quoted that *there is a main difference between manufacturing and service TNCs* [6] : *for the first ones, the financial hierarchy results in a functional hierarchy between the parent firm and the affiliate ; for the second ones, the financial hierarchy has less or no consequence at all in terms of functional hierarchy.* Two indicators illustrate this assumption : the skill-level of the labor force is higher in the parent firms than in the affiliates in the manufacturing sector, although these are almost equivalent for enterprises of the service sector ; R-D expenditure, as a percentage of sales is about three times more intensive in parent manufacturing firms than in their affiliates ; they are equally shared between parents and affiliates of service TNCs. Lastly, in the case of services, intra-group flows are less important than for manufacturing TNCs, as *the affiliate is much more autonomous (self-governed) on its market* [6].

Of course, the conclusion found in the previous statistical test about the lack of nationality effect on the rate of margin of service enterprises fitted well the analysis of J.P. THUILLIER. If, for such enterprises, the production factors, the organisational type, and the characteristics of the customers are the same, whether foreign or national, parent or affiliate, how could the operational results differ ?

Then a new question arises dealing with the behaviour of such firms : why to expand ? especially at the international level ? From another point of view, it is the « flag effect » question : if, for the the national market, the foreign and the national supplies cannot be differentiated by the clients, why trying to differentiate a foreign supply and a national supply, and finally what's the use of ET statistics ?

J.P. THUILLIER proposes an alternative model to the classical « research of profitability of the capital invested » ; referring inter alia to the results of a study managed by K.P. SAUVANT [7], he proposes the « commercial logic » to qualify the international strategy of service TNCs. In such a strategy, the aim is not at first the research of profitability ; the objective is to establish a « dominating position ».

Unusual services to observe

Internationalisation of services appears as an unusual area to observe. Whatever the point of view, economic, statistic, politic, one cannot apply purely and simply the usual model, which could be termed the manufacturing or the good-producing model, to these activities.

It is therefore a first priority to concentrate on the service singularities (pessimists will say on the main difficulties) :

- priority number one should be given to the **investigation of business service enterprises** - those which are most internationalised and most important strategically with regard to the competitiveness ; here, « business service enterprises » do not refer to a specific statistical classification, but refers to the professional expression « B to B - Business to Business », covering all activities for which a significant part of the clientele is enterprises ;

- within that field, no form of internationalisation can be ignored or even its study delayed ; **NT statistics** for professional services as for other business service sectors where this concept is meaningful, have the same degree of priority as ET statistics ;

- lastly, **comparative studies** between sets of firms (foreign versus national) are essential to identify the key variables that may quantify the stakes of internationalisation, and ultimately, provide the basic information necessary to design an original model of internationalisation of services required by the negotiators in Brussels, last May. This is a subject which needs further thoughts for the Voorburg Group.

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