

NEW BUSINESS ORGANISATIONS  
A CHALLENGE FOR BUSINESS STATISTICS

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## Overview

Business organisations have been considerably changing in the recent past, so that data collection based on the ‘traditional’ legal unit may generate strange results when such a unit is no more consistent with the concept of enterprise.

In large groups or companies, the organisation is increasingly based on domains of strategic activity and/or geographical divisions, and the management reporting, which is the real pool of economical information on the activity and the performance of each domain or division, is fully based on the management structure issuing from the organisation matrix. This system may not integrate the legal unit as support of economical information, but keep it only as reporting unit to the Administration!

Small or medium enterprises as well may be federated in a group entity in order to distribute among them the basic components of an enterprise: one will operate the staff management, another will be specialised in buying materials or ordering subcontracted processes on behalf of others which are in charge of the trademark management.

The phenomenon may thus affect all enterprises, whatever the size, but quite always in a group environment.

Not taking in account the organisation matrix in data collection, that may explain why some large groups are quite reluctant to fill in the forms from the national statistical office. The requested report increase the statistical burden by not being simply derived from the information management system; furthermore, to the group’s view, the statistics based on that report will be of a very little interest, for obvious reasons.

Not taking in account the complementary nature of SMEs which have split up a former legal unit in different functions of the enterprise, may lead to wrong analysis by considering separately, in different NACE classes, the staff management, the retail trade, the manufacturing process or the subcontracting management, and different services which can be operated separately for the benefit of all units belonging to one group.

## Background

Considering the challenges to be faced in a mid-term perspective of business statistics, INSEE organised its 1995 seminar on that topic.

The following paragraphs are issued from the minutes of this seminar, which was mostly attended by French statisticians and representatives from professional associations from all industries; three lectures were given by speakers from Eurostat, Statistic Canada and from the UK Central Statistical Office.

### **The classical factors of the organisational breakdown**

‘A company, it is the meeting point of a will of an entrepreneur’s determination, a market, a product or a know-how’. But as soon as the enterprise size reaches some tens or hundreds of employees, it needs to be split and, hence, it becomes more complex.

The enterprises create as many entities (often legal entities) as required, to be in line with the activity and to improve the effectiveness of the management and the profitability. In particular:

As many enterprises as ‘métiers’.

The groups which carry out, in general, several métiers, create divisions which have to produce their proper ratios of competitiveness.

An entity, a manager.

The manager must have some freedom to handle his activity and to produce his own operating account which relates to his performance.

An entity, a market (nearly).

Markets are segmented by countries,

- by types of customers,
- by sales or distribution channels.

Cooperations often require the creation of entities, in order to benefit from an autonomous manager and from a separate operating account, which reflects the economical activity of the joint venture. Examples in cooperations with a partner:

- creating a common research centre
- creating a joint venture for running or marketing a specific process
- isolating in their own structures each individual activity in a common workplace

**Considering the financial and the fiscal factors** for a creation of a new legal entity within a Group,

There often are two objectives:

- reduce the legal and financial risk, linked to a contract or to the development of a new activity,
- optimise the costs, and particularly the tax burden.

To cooperate with a partner (see above)

To adapt oneself to the diversity of fiscal systems

- by creating service companies based abroad,
- by moving geographically a cash department,
- by moving a production centre.

To transmit at the lowest cost

- by fully using financial set up with lever effects,
- by subsidiarising an activity before selling it, in order to reduce the weight of registration rights and to limit the effects of the guarantee on liabilities,
- by reducing inheritance taxes.

**The connections between the Social Law and the organisation of the businesses are numerous.**

They contribute to increase the operating complexity of the productive entities. In spite of successive simplification efforts, numerous dispositions induce to the segmentation of the labour market, and lead to the co-existence of heterogeneous situations in a same workshop or in a same local unit.

It would be excessive to consider the sole Social Law evolution as responsible of this situation. The latter is the reflected image, more or less delayed, of the inflexions wished by the French society, including the business managers. The working schedule diversification, the fast part-time work development are some examples of basic evolutions which affect the French society. If they are based on the Social Law, they result as well from the internal need of flexibility wished by a part of the wage earners.

## **New trends**

### ***The 'holomorph' enterprises,***

each entity is representative of the enterprise, because it has assimilated the 'enterprise project' (the EGO) and its relationship with the market and with the competition (the ECO). The 'holomorphism' is a factor of performance and the enterprises are looking for organisation in homogeneous and autonomous entities involving some tens or hundreds employees, without any other requirement than gaining a better motivation than in larger size entities. This factor is responsible for the breakdown of the enterprises.

***The network enterprise.***

Today, the trend is, for an enterprise, to focus on its core activity and to ‘purchase’ the most part of subsets of services. This evolution has tremendous advantages : flexibility, lower risk, auto-motivation of the personnel, improvement of productivity and focus on the actual ‘métier’. The consequence is the creation of a network of linked enterprises which could not survive without one another: car sale agents, sub-contractors, franchise holders, captive carriers... This concept of linked enterprises will become more and more important and must be handled in one way or another.

***The specialisation of the activities, at a worldwide level,***

within the group between different enterprises, has, as consequence, the obligation for each, entity to sell its production to the other entities of the group and, in return, to buy their production. The entity is considered as an autonomous enterprise within the group, a concept which has proved to be highly necessary for a long time.

***Integration of the services to the products.***

The distinction between products and services becomes more and more tenuous. On one side, the production in proper is more and more reduced, and, on the other side, there is a tendency to integrate the services required by the commercialisation of the products which are sold to a ‘transformer’ or for the products tailored to the final user. Today, appears the concept of leader enterprise on the market (= need) which promotes and sells related products and services. This evolution is close to the concept of network enterprises, which has been described above.

**Another observation for a better representation**

The French business statistics system uses mainly two statistical units: the unit ‘enterprise’, defined as the legal unit, and the local unit. So the statistics by industries are statistics of legal units. If these two units allow to observe and to report correctly the economic activity of quite the totality of the enterprises, they do not report properly the activity of the very large businesses, which contribute to a large part of the general activity.

The present observation of the large economical entities raises two main issues: the large enterprises are usually very pluri-active and so induce a high heterogeneity of the statistics by industries and weaken the estimation of the statistics by branches, the large enterprises have often a complex legal structure (the main production factors being eventually managed by distinct legal units) and so make the analysis of the production function more difficult, both at the micro and macro-economic levels. The first issue derives from the fact that the smallest observation area is the legal unit, and the second just from the reverse phenomenon.

These difficulties are still made more important by restructuring, which mainly affects these large units; these restructures often consist in the transfer of a branch of activity to

another enterprise, affecting significantly the statistics by industries, the major ruptures of which being then relative mainly to the modification of the legal structures rather than to an evolution of the economical activity.

Economical statistics elaborated using the present procedures will then be particularly sensitive to the legal organisation of the economical activity (mainly the ones relative to the output of goods and services). But, the parameters which explain the legal organisation and its evolution are not directly linked to the production itself (fiscal law, labour law, management...).

Two evolutions of our survey strategy can solve most of the issues we are facing: no longer limit our investigation area to the legal unit, but broaden it to the legal units which are tightly linked with the parent enterprise and which do not enter into the market, investigate more closely the large pluri-active enterprises, according to their main activity branches. Therefore, the aim is, for the sole population of large enterprises, to broaden the range of the kind-of-activity unit (KAU) and to dispose of extended possibilities to define the statistical unit 'enterprise'.

These two joint approaches require a close relationship with the enterprise, to define the outlines of the economical entity, its legal structure and its main activities. Moreover, the setting of such statistical units is relevant only if it is consistent with the internal information system of the enterprise: the only data a statistician can correctly collect are those already managed by the enterprise for its own use, for the follow-up of its activity. Internal information systems are generally connected with the operational structures of the firm (often profit centres) and correspond to the different trades the enterprise is based on. It is in the use of these internal information systems that KAU can be defined and set up.

But, such a widening of our statistical units, if well adapted to the analysis of the production sphere, is probably not relevant in other fields like the financial activity of the firms: in this case, the right level to investigate is probably more aggregated (group or sub-group). As long as the statistics we want to compile have been explicitly defined, there cannot be a single response to the choice of the most relevant statistical units.