Large Cases Unit (LCU) monitoring activities: quick and complete assessment for complex restructuring cases

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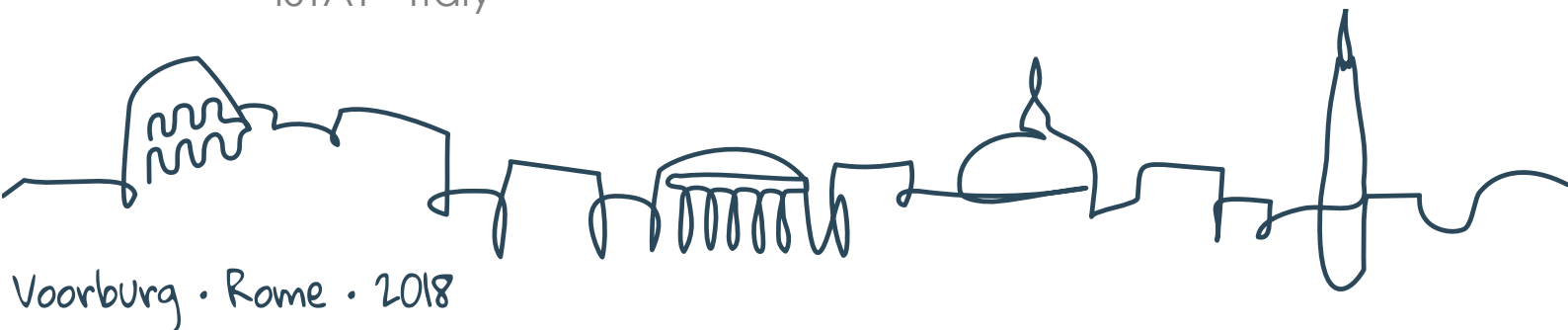
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LARGE CASES UNIT (LCU) MONITORING ACTIVITIES: QUICK AND COMPLETE ASSESSMENT FOR COMPLEX RESTRUCTURING CASES

1. Introduction[1]

In 2016 Istat adopted a new organizational structure and the modernization programme established the Large Cases Unit (LCU) within the Directorate for Economic Statistics. During the first six months the LCU carried out analyses, developed examples and case studies as well as continued to evaluate the good practices of the other NSOs about LCUs2, while starting its activities in the beginning of 2017.

Currently, the LCU is organized as a network and the human resources are primarily focused on keeping the statistical domains informed on the main changes concerning the top 140 groups defined in terms of employment and turnover.

The main objectives of this paper are: a) to describe the key aspects of the monitoring activities for the top Groups in the target; b) to show the mutual benefits for LCU and Service Sector Statistics through increasing cooperation.

The Italian LCU framework is described in the paragraph 2. The different kind of monitoring activities carried out by the LCU team are shown in the paragraphs 3, 4 and 5 as well as the paragraph 6 explains how to enhance the quick case impact assessment for the statistics together with some practical examples. Conclusions and future perspectives are proposed in the final paragraph 7.

2. The Italian LCU activities

The LCU activity is carried out by a team and all the staff is part-time involved in the project allowing their professional development in expertise areas and guarantying an extensive network across different domains. The members of the team are currently from SBR, SBS, STS, FATS and Foreign Trade statistics.

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[1] Attributions to the authors: to S. Ambroselli paragraphs 1, 2, 6 and 7; to B. Gentili paragraph 3, 3.1, 3.2; to S. Amante paragraph 4 and 4.1; to E. Bilotta paragraph 4.2.; to C. Orsini paragraph 5. The views expressed in this paper are those of the authors only and do not necessarily represent the position of Istat.

[2] The paper "A consistency unit for a consistent picture of the Italian economy" was presented in Tokyo (November 2016) during the 25th Meeting of the Wiesbaden Group on Business Registers International Roundtable on Business Survey Frame, and mainly reflected the theoretical aspects evolved up to that point.

The LCU cooperates with the Directorate for National Accounts in order to have a common and coherent treatment for specific and complex cases as well as to consistently manage the globalization aspects. Promoting a good cooperation with the Enterprise Groups is the main LCU task jointly accomplished with the Directorate for Data Collection.

The main objective of LCU is to keep the internal users informed on the main restructuring events of the top Groups by strengthening cooperation across the various domains; by sharing information of restructuring cases; by creating specific data reporting for single Groups; by developing methods to promptly identify consistency problems.

The LCU is also in charge of the Early Warning System, which is a network recently developed by Eurostat within the European Statistical System (ESS) with the main objective of triggering and sharing qualitative information on the main cases of business Groups' restructuring to all the NSOs involved.

Monitoring activities are carried out internally by sharing signals and Reports on the main restructuring events while externally via the EWS network. Internal monitoring activities are mainly based on the information collected from the Istat Business Portal, which is the web device focused on retrieving data and managing the contacts with all the enterprises, and public news gathered from specialized newspapers and magazines.

Generally, information from Istat Business Portal allows us to evaluate the *ex post* situation while news from specialized newspapers and magazines might be used for sharing e*x ante* signals and/or reports. In the latter case, public news are events needed to be share when they are certain, by producing effects from an identifiable date and relevant, significant, able to influence the produced statistical outputs or affect the contact activities with the large and complex units.

The main tool used by the LCU team for sharing information is the Report. The Reports are drafted in order to map the cases development and the final contents are summed up as follows:
- the description of the events, signal types (internal/external; statistical/newspapers; surveys/registers) and data available;
- the impact evaluation for the statistical production in terms of statistical units (Groups, enterprises, legal units and partially local units) and variables (particularly employment, turnover, economic activity, location);
- the outcome of the preliminary analysis such as the potential impact and the proposals/decisions for the involved domains;
- the list of the involved statistical units (names and Register codes);
- contributors and contact persons for the cases.

In order to achieve the highest level of contribution to the cases in terms of interested statistical domains, the Reports contains some schemes drafted according to a "before and after" comparison useful to highlight the main aspects of the restructuring events (see paragraph 6).

3. Monitoring activities: internal signals (Istat Business Portal)

For the enterprises, the Istat Business Portal is also a communication channel. The main objective of the LCU monitoring activity is to evaluate the signals from a group point of view

besides the enterprise level. In some cases, in fact, organizational changes in a Group consist of structural changes of several companies belonging to the same Group.

The first step of the monitoring activity is to identify the target population to be monitored in terms of structural changes, both at Group and at individual legal units (LeUs) level. The procedure for the identification of the LCU target is described in paragraph 3.1 while in paragraph 3.2 the main monitoring results are shown.

3.1 The process for the delineation of the target

The process of defining the LCU target is based on the Italian Business Register and the Italian Business Register of Enterprises Groups data.

The steps to identify the perimeter for the year "t" are as follows:

1) sorting business Groups by turnover;

2) sorting business Groups by number of employees;

3) selecting the Groups belonging to the top 200 ranking both for turnover and number of employees;

4) completing the list (to get the number of 130 groups in the target) following only the turnover order.

Annually, the Groups selected in the target for the year "t" are compared with those of the year "t-1" in order to identify the most significant differences. This comparison is necessary to assess the perimeter also from a longitudinal point of view.

The target population were integrated also with those Groups of enterprises operating in the e-commerce and the sharing economy sectors. Such an extended scope of reference includes 140 groups formed by 3,397 resident legal units when considering 2015 reference year, while in 2014 the monitored groups included 3,667 active legal units.

A further check was carried out at the legal unit level to assess their degree of persistence for the two years under analysis: 2,653 units were in common, 744 units entered in 2015 and 1,014 left the perimeter in 2015. With regard to the latter set, the status in the Business Register was analyzed: 54% of the cases were inactive or liquidated units while 46% of the units (471 units) were active but belonging to groups not in the target in the 2015 reference year.

3.2 Main results for the target groups - year 2017

All the communications sent by the units in the target through the Istat Business Portal were analyzed. In fact, the system allows LCU to automatically process data as identification codes, type of communication, variables affected (tasks) and dates. Through this procedure a data base containing signals on potential complex restructuring events involving the main Groups of enterprises active in Italy is built up.

The LCU team contributed to the analysis activities necessary to solve such cases.

Concerning the groups in the target population, 109 Groups (almost 84% of the reference population) and a total of 592 companies (17.4% of the whole reference population) communicate via Istat Business Portal.

In the last three years, 944 communications were received, 70% of those cases were posted by external users. The rest of 30% came from internal users, especially from short-term surveys. The communications were associated to 1,087 tasks both to demographic characteristics and structural changes (Table 1).

TABLE 1
Number of tasks for variable (absolute values and percentages)

	Absolute value	Percentage value
Structural changes	291	26.77
Status	83	7.64
Economic activity	165	15.18
Unit names	215	19.78
Legal forms	58	5.34
Insolvency proceedings	29	2.67
Administrative offices	246	22.63
Total	1087	100

Structural changes, as spin-offs and mergers, covered almost 27% of the tasks followed by the changes in economic activity (15.2%) and changes in status (8%). These three variables, if considered together, represent an important percentage (50 percent) of the total variations reported.

There were also significant changes in administrative offices (22.6%) and corporate names (slightly less than 20%); there were less changes related to legal forms (5.3%) and insolvency proceedings (almost 3%).

Communications from enterprises are analyzed to determine whether the events may have an impact on the statistical production.

For the Groups in the target, 83% of the communications determined an event or a change in at least one variable recorded in the Business Register while 17% were rejected.

Significant changes are related to the Nace code (77.9% of communication accepted after clerical checks) and to spin-off and merger events (83.1% accepted). It is important to underline that changes in the names are also very important because they often hide operations of structural variations. The highest rates for rejection concerned status (25.3%) and Nace codes (21.9%). The problem is related to a well-known aspect whereby companies have difficulties in understanding proper definitions and concepts from a statistical point of view.

The main innovative aspect of this monitoring activity is related to the possibility to evaluate the communications according to a Group perspective. In that way it is possible to highlight the most complex restructuring cases need to be further investigating by drafting a Report.

In terms of Groups, findings show that:

- for almost 84% of the Groups a report was made on one of the companies belonging to the Group. This highlights a good propensity to use the Istat Business Portal tool and, therefore, to co-operate;
- 78% of the units were present in both the perimeters (2014 and 2015): in practice, the main companies acting in Italy and belonging to business Groups are stable; however, the incoming and outgoing movements for the individual units within the scope were significant and they are mainly due to the different status of the units (births and deaths).

4. Monitoring activities: Specialized newspapers and magazines

The activity of analyzing daily news in specialized newspapers and magazines aims at capturing relevant signals about events that may significantly change the structure of the main Companies and/or Groups with large implications at national and international level.

4.1 The process
The activity of consulting and analysing news from "Il Sole 24 Ore", which is the main Italian daily business newspaper and from other specialized magazines is part of the monitoring activities of the LCU team. The core objective is to identify the events that may involve the most significant enterprises or business Groups active in Italy and the impact for the statistics. The monitoring activity concerns both the main Groups defined in the LCU target and all the events that could involve Italian and foreign multinational companies in order to support mainly the FATS statistics and the Statistical Business Register on Enterprise Groups.

After consulting carefully the news, the main cases are selected in order to carry out in-depth analysis (Figure 1).

Different types of news are taken into consideration, such as acquisition projects, mergers, opening of new sites, probable liquidation, expansion projects abroad, etc. Due to the complexity of the operations described in the news some events may last for several months before finalizing. In these cases our monitoring activity will be completed afterwards and several focuses will be conducted according to fixed deadlines updating cases' descriptions.
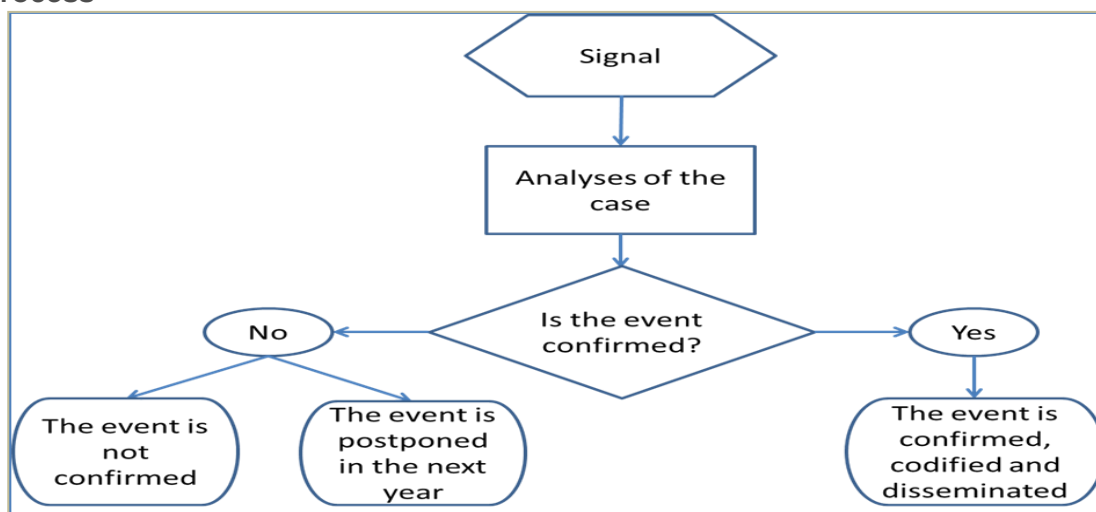
At the end of the year, the events are rechecked and three different groups are identified:
- events confirmed, codified and disseminated during the year;
- events postponed in the next year;
- news not confirmed.

For the confirmed events and the postponed events, two distinct dissemination files are shared within Istat (Figure 2).

FIGURE 1
The process

Excel format to share the cases with a reduced number of variables has been chose in order to obtain files that are easily and quickly interpretable. The content of both files is described in Figure 2.

FIGURE 2
Content of the files

Dissemination file 1 - confirmed events	Dissemination file 2 - postponed events
Progressive identification code	Progressive identification code
Identification code main statistical unit	Identification code main statistical unit
Name statistical unit	Name statistical unit
Type of event	Type of event
Extended description of the event	Extended description of the event
Other Units code	
Other Statistical units names	
UCI name or GGH name	
UCI or GGH country	
Group name involved in the event	
Survey on foreign-controlled companies resident in Italy (Inward FATS)/or foreign affiliates abroad controlled by Italy (outward FATS)	Survey on foreign-controlled companies resident in Italy (Inward FATS)/or foreign affiliates abroad controlled by Italy (outward FATS)
Indication of the different domains interested in the survey	
Territorial impact (IT/FRGN)	
Date (certain) of the event or reference year	
	Expected date of the event
Other notes	Other notes

4.2 Main results for the year 2017

The report created by daily analysing "Il Sole 24Ore" and other specialized magazines for the year 2017 summarizes information on 122 cases concerning companies and MNEs mainly involved in mergers/split-offs and sales or acquisitions of subsidiaries.

News confirmed during 2017 were 74 (61%) while 4 cases (3%) became certain during the first quarter of 2018 (Table 2). For 15 cases (12%) news seemed to be confirmed but ongoing and for the rest of 29 cases (24%) the news were not confirmed. Generally, ongoing cases concern very complex operations. For the 29 cases not confirmed (sometimes news are only hypothesis that do not materialize) monitoring has been continuing for the year 2018.

Due to their considerable impact, 5 cases were investigated with *ad hoc* Reports containing a detailed description of the case and the list of the main involved economic actors. In 4 cases the reference year of the events was 2017 while in one case the closing date was in 2018.

In terms of events (Table 3), acquisitions of companies or Groups by foreign or Italian multinationals were the main typology (61%) while cases of mergers or split-offs cover the 27% of the cases. Events concerning new LeUs or Local Units are less frequent (8%).

For the news confirmed during the year (74 events), 32% of the cases concerned acquisitions of Italian companies by foreign multinationals, 30% operations had an impact only for Italy, 24% concerned operations abroad carried out by Italian multinationals and 14% had an impact only abroad.

TABLE 2
Monitoring results (absolute values and percentages)

	Absolute value	Percentage value
News confirmed during the year	74	61
News confirmed during the first quarter 2018	4	3
News confirmed but ongoing	15	12
News not confirmed	29	24
Total	122	100

TABLE 3
Type of the events (absolute values and percentages)

	Absolute value	Percentage value
Acquisition	45	61
Mergers/split-offs	20	27
New LeUs/Local units	6	8
Others	3	4
Total	74	100

The ongoing events which last several months are very complex cases involving other actors such as Governments or Antitrust authorities. The LCU team follows the evolution of the cases updating also the possible impact for the statistics according to different hypothesis. In fact, decisions from external actors may determine the feasibility of the operations under evaluation or revise parts of the agreements. For the statistical production, decisions may deeply affect, for example, the nationality of the Ultimate Controlling Institution or the perimeter of the Groups.

5. Monitoring activities: Early Warning System (EWS)

Globalisation is a new challenge for official statistics. Large-scale economic and financial issues as well as new forms of organising economic production through global value chains and multinationals go beyond the EU Member State borders. For instance decisions of multinational enterprise groups (MNEs) regarding their place of incorporation, ownership of their assets and economic control can result in sizeable revisions of European business statistics. Following the Eurostat mission for 2016-2020, which states 'to be the leading provider of high quality statistics

on Europe', the Early Warning System Task Force (EWS) was launched in 2017 to ensure a consistent treatment of globalisation events in statistics and the timely exchange of information regarding globalisation events with cross-border effects on business statistics and National Accounts.

In line with the European Statistical System Vision 2020, focused on strengthening the cooperation among Member States through sharing knowledge, experiences and methodologies, the EWS is based on the consistent and voluntary cooperation among EU National Statistical Institutes which nominated national correspondents. To ensure a timely, harmonised and interlinked communication towards users of national and European statistics the EWS intends to contribute to the need of identifying and realizing standards for statistical production, as well as increasing responsiveness to emerging globalization issues.

By establishing EWS, a consistent statistical treatment of single major globalisation cases across Member States has been identified in order to provide 'high quality information on the economy and society on European, national and regional levels and make the information available to everyone for decision-making purposes, research and debate'[3]. Hence, the exchange of public information enhancement within EWS by providing an early warning of Multi-National Enterprise (MNE) restructuring affecting economic indicators in other Member States play a key role to fill the statistical gaps on globalisation issues while improving the efficiency in data production. Generally speaking, only public and descriptive information on the restructuring cases should be exchanged within the EWS, removing confidential data.

Member States correspondents trigger the EWS when they learn about the restructuring of an MNE with sizeable effects on national and European statistics. Once the restructuring case is reported to the EWS, Eurostat informs all the Countries concerned by MNE event. Eurostat together with the Countries involved provide an opinion on the case and possible ways to treat it in the National and European statistics concerned. The opinion and an anonymised summary of the case will be shared then with the other Member States, which may offer their additional views.

In cases of a visible impact on the data released, an explanatory methodological note on the specific case is released on the Eurostat website together with the relevant data. The information shared between Countries and Eurostat in the context of the EWS is limited to what is absolutely necessary to achieve the EWS's purpose. The information is treated securely and confidentially.

In October 2017, the Italian Institute of Statistics correspondents triggered the EWS group by drafting the first outward MNE case for Italy. The EWS process started in the second trimester 2017 when Large Case Unit received a signal from Turnover Survey within Short Term Business Statistics. The trend of MNE Industry Turnover involved all concerned Business Statistics, such as the Structural Business Statistics (SBS), the Business Register (BR), the Foreign Affiliates Statistics (FATS), the Statistics of industrial goods and services (Prodcom) and Foreign Trade. In the third trimester 2017 Short Term Business Statistics Team checked MNE financial statement while contacting directly MNE survey reference person. Receiving a trend confirmation, also National Accounts Team was warned and the change was implemented coherently across domains. Hence, Istat correspondents informed the EWS that the MNE new greenfield investment in Italy had an impact on the Industry Turnover Index in the Short Term Statistics (STS) as well as the economic activity classification in the Statistical Business Registers (SBR) and Structural Business Statistics (SBS). Moreover, through public source review the EWS was informed about MNE investment plan in Germany as well as a reconversion plan for manufacturing plants in

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[3] European Statistical System, '*The ESS Vision 2020*',Eurostat.

Greece and Romania. Istat correspondents proposed to EWS also a proposal for treatment and plans for publication in order to harmonize statistical procedures and methods.

On the other hand in the first trimester 2018 EWS Secretariat informed Istat correspondents about a MNE reorganization which might have affected Italian Business Statistics. The signal triggered an internal consultation by involving all concerned statistical domains such as STS, SBS, BR etc., National Accounts as well as by investigating on the public sources. Hence, the EWS inward case allowed Istat to include the enterprise unit in the Quarterly Survey on Turnover of the services in 2018 as well as to identify, eventually, a different Economic Activity (NACE code) to the MNE. The EWS mechanism has strengthened the information exchange by keeping each other Country informed about any aspects of it that was observed.

The EWS process is planned to be further improved in the light of the experience gained with new globalization cases. Furthermore, the need for a legal basis depends might need to be reassessed in 2018/2019. The experiences gained so far underline that the cooperation between National Statistical Authorities as well as between the Member States are crucial. The need for enhanced cooperation and exchange of data on MNEs may involve the European System of Central Banks (ESCB). A strategic orientation is needed to involve the relevant National Central Banks in the discussion of EWS cases with impacts on balance of payments and financial accounts data. The participation of the of the Organisation for Economic Co-operation and Development (OECD) may also be useful in cases where countries outside the EU are involved in restructuring cases.

6. A quick assessment of the impact for the statistical domains

Monitoring activities provide a considerable set of cases to be analyzed. Reports and other tools are used to share the preliminary evidences and ask for the contribution of the experts network within the LCU first, and then to the other statistical domains potentially involved.

Cases may be grouped by different features and in the reports LCU members shortly describe the main aspects in order to facilitate a first screening of the cases:

- Sector: manufacturing; trade; financial; services;
- Monitoring activity signals through Istat Business Portal, specialized newspapers and magazines, EWS;
- Specific source (if available) such as STS; LCU analyses; SBS; Profiling; EGR; Data Collection; National Accounts; Foreign Trade; EWS.
- Type of LCU case such as complex restructuring; new ways for data collection; significant impact for one enterprise belonging to some group in the target.

Complex restructuring in Business Groups, generally multinationals, may take very different shapes according to the different business models they adopt. They may derive from strategic and worldwide plans or according to local strategies based on fiscal purposes, for example. Either Business crisis or new business opportunities influence the strategies of the Groups creating changes in their legal entity structures.

For those reasons, the LCU Reports and communication tools generally contain schemes explaining the main changes in terms of legal units. In that way, the main differences are easily pointed out and the users are facilitated through a quick assessments. For instance, two restructuring cases for multinational Groups are shown in Figures 3 and 4.

Figure 3 shows a restructuring case based on different steps (split-offs) during the same year, before and after the summer, while Figure 4 concerns a restructuring case that produced effects and consequences over different years.

FIGURE 3
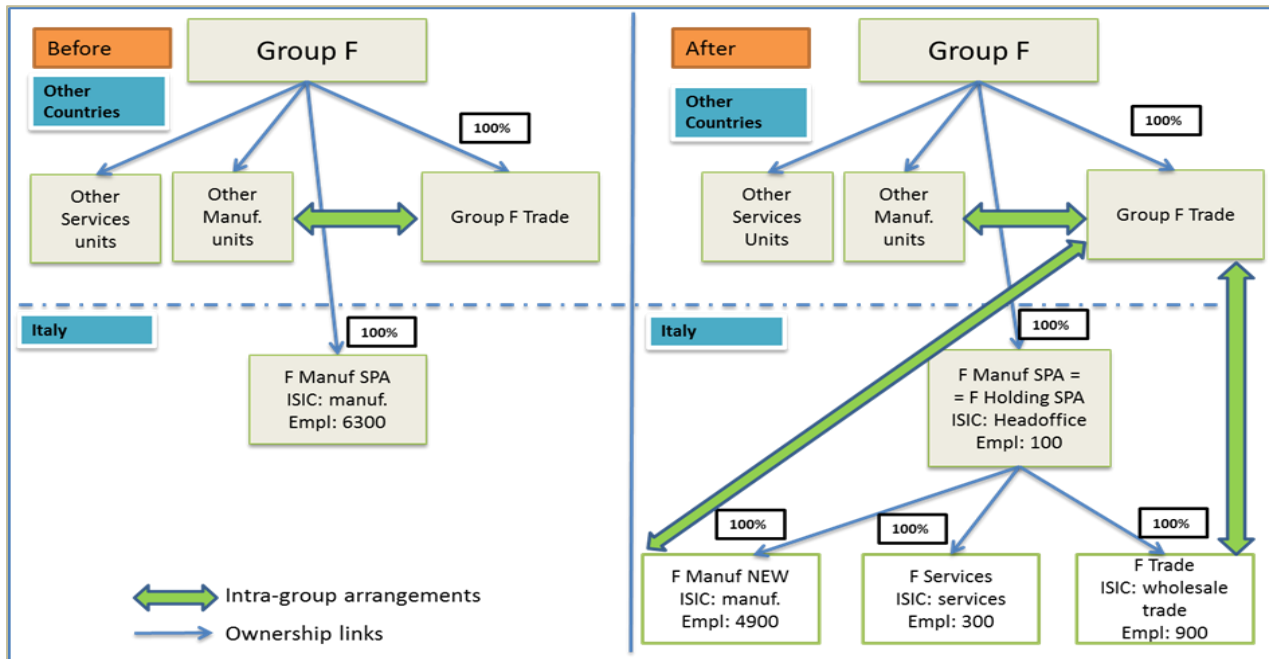**Restructuring case- different steps in the same year**

FIGURE 4
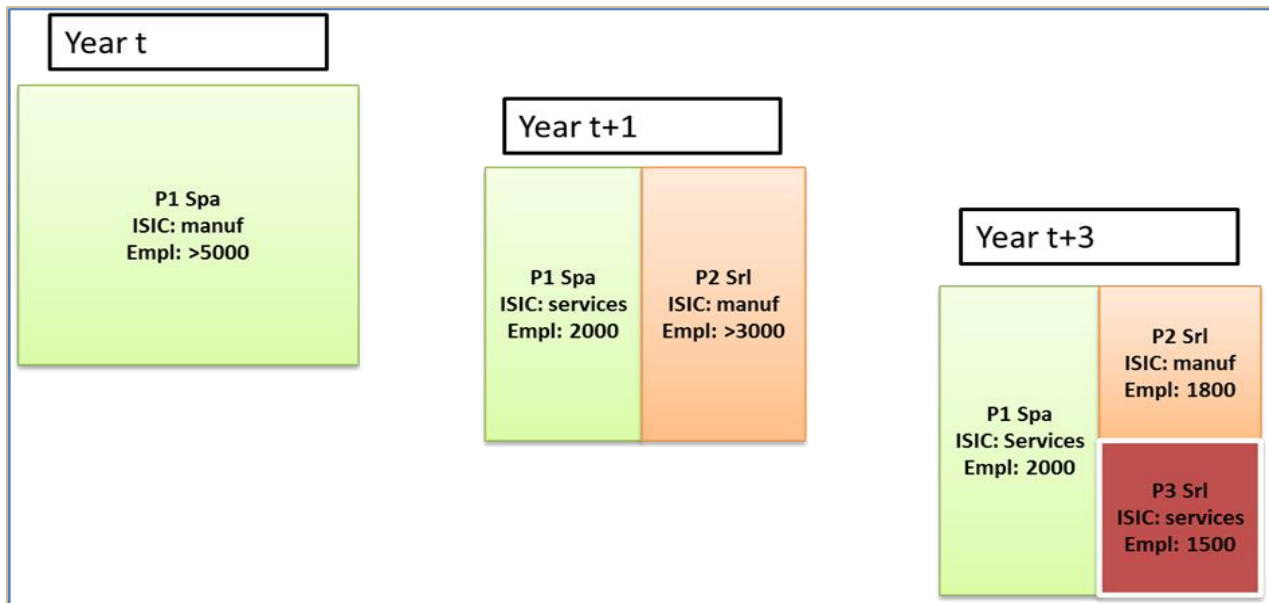**Restructuring case - different steps in different years**

The ex post scheme of Figure 3 shows the events and the Group structure in order to highlight immediately the main aspects: 3 new wholly owned subsidiaries were created in Italy acting in manufacturing, services activities and wholesale trade; the former manufacturing unit changed its role becoming the head-office for Italy; two of the new units are involved in the global intra-group arrangements.

In the second case (Figure 4), the legal unit structure of the Italian part of the multinational Group changed two times in the last four years moving from one big manufacturing unit to 3 different units at the end of the process. The strategy for the year t+1 was to split-off the manufacturing activities in another unit acting both in the same business lines in an integrated manner (nothing changes for the enterprise perspective). After four years, the group completed its strategy creating a new service unit (R&D and Engineering activities). Also in that latter case, business lines continued to be the same.

Within Istat the legal unit currently is the statistical unit "enterprise" thus restructuring cases in the above-mentioned examples have an impact on the surveys because new units appear in other economic sectors while for the Groups nothing change in terms of business: they continue to produce the same things, in the same industrial plants, at the same occupational levels and according to a global strategy irrespective of the borders and the structure of the legal units.

In the first example, the additional information about intra-Group arrangements may be very useful for the evaluation of the impact on different statistics not only for the manufacturing sector. Indeed, also the trade unit is part of a global strategy based on distribution arrangements that influence the economic variables collected by the surveys. In addition, direct contacts allowed us to understand that the services unit carries out its activity for the Group.

In the second example, P1 was for decades the reporting and the observation unit for all the different kind of surveys while the situation changed after the split-offs.

The examples show as the Service Sector Statistics may play a crucial role in expanding the contents of the reports. The contribution may concern the analyses of additional variables needed to calculate indices (not only for employment and turnover) or to identify different units able to answer for the different surveys. They may also have a role in helping the LCU in defining the Groups in the target area (mainly based currently on top-Groups by turnover and employment), for example, by highlighting economic activities with high levels of growth or where the top groups are less active.

7. Future perspective

Enlarging the network of experts and the variables under analyses especially from a STS perspective is one of the main task for the LCU in the short period. The benefits will be twofold: LCU will handle more internal signal and survey's responsible can benefit from the LCU by receiving news according to a different perspective. In fact, reports and other tools of the LCU concern always the Group level and not only the single enterprises (or LeUs). In that way it will be possible to distinguish the simple changes over the years in one or more variables for a unit, from the more complex restructuring events that involve more units in a Group and sometimes more business Groups.

In addition, LCU members will continue to expand their knowledge concerning fiscal and accounting aspects (BEPS project ; annual and consolidated accounts; IFRS) and to cooperate with the Directorate for Data Collection to establish good contacts with the Groups in order to achieve greater efficiency in the data collection.

Finally, cooperation with the Directorate for National Accounts will add specific aspects – for example, Contract manufacturing, Merchanting, Global production and Factory less good producer, Offshoring/reshoring – to the Reports.

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