

# Meeting of the Technical Subgroup on the Classification of Business Functions

## Virtual Meeting, 4 - 5 November 2020

### Conclusions

#### **I. Introduction**

1. The TSG-CBF is a technical subgroup of the Expert Group on International Statistical Classifications (EGISC) with the mandate to review the classification of business functions that was developed by Eurostat, and with the goal to finalize it as an international statistical classification in accordance with the established criteria and approval process as defined by the EGISC. To this end, the TSG-CBF held a virtual meeting on 4 – 5 November 2020 to review the draft classification of business functions, share country experiences in its use, discuss related issues, and formulate a way forward. This report contains a short summary of the discussion and the main conclusions of the meeting. Annex 1 and 2 contain the agenda and the list of participants respectively. Annex 3 contains the draft terms of reference of the TSG-CBF prepared in 2012, with a revised timeline. Documents and presentations are available at <https://unstats.un.org/unsd/classifications/ExpertGroup/TSG-CBF2020/>

#### **II. Setting the stage**

2. During the session “Setting the stage”, the TSG-CBF reviewed the requirements from the Expert Group on International Statistical Classifications to develop an international statistical classification, as well as various country experiences in using the classification of business functions to measure outsourcing. In this regard, the TSG-CBF acknowledged the importance of ensuring the relevance of the classification for all countries, including both developed and developing countries, that have a policy need to measure the impact of domestic and international outsourcing in their national economies. The TSG-CBF also recognized the applicability of the classification of business functions in measuring business sourcing in general, although policy needs are largely focused on international sourcing rather than domestic sourcing.

3. The TSG-CBF also discussed the need for an international classification of business functions from the policy and analytical perspective. The TSG-CBF acknowledged the importance of developing an international classification of business functions to understand how enterprises organize their production processes to have better understanding of Globalization and global value chains; and ensure global comparability of statistics on outsourcing and global value chain statistics.

#### **III. Classification of Business Functions**

4. Eurostat provided an introduction of the classification of business functions and its use in international sourcing surveys during 2007 - 2018 and micro-data linking exercises. The primary use of the classification of business functions was to measure outsourcing and offshoring in the area of business statistics. Based on Eurostat’s experience with the international sourcing surveys, particularly since 2018, Eurostat developed the draft business functions manual, which included an analysis of the available business functions literature and a draft classification to be used by the statisticians. The draft business functions manual had been discussed in several task forces and working groups and received positive feedback. The classification of business functions will be used in the 2021 European GVC survey (renamed from the International Sourcing Survey).

5. Denmark presented some results of the European Surveys on international organization and sourcing of business functions, which will be mandatory starting in 2024. A number of indicators were used

to analyze the outsourcing of business functions and also the distribution of employment across the business functions. Data on employment changes from international sourcing surveys were also compared with business employment data in the business registers through micro-data linking exercises in Denmark and other countries in Europe. In order to track the impact of sourcing on employment continuously, experimental data collection on foreign affiliates was also conducted, although the exercise was deemed burdensome by respondents.

6. India presented to the TSG-CBF on its experience of classification of ICT-enabled services in India's mandatory annual national survey for the 2017 'financial year' (April 2017 – March 2018) and published in June 2018. The classification of exported ICT-enabled services used in the survey was adapted from the original version developed by UNCTAD in 2015, which closely resembles the categories related to "Provision of services" in the classification of business functions in structure and description, such as "2.1 Management and administration", "2.2. Engineering and research and development (R&D)", "2.3 Information technology", "2.4 Marketing, sales, and after-sales service", etc.

7. The TSG-CBF agreed that the classification of business functions should be seen as an important tool in the broader international statistics toolbox to measure globalization and global value chains together with other international efforts in developing and maintaining global registers for multinationals, e.g., Euro Group register, Analytical Database on Individual Multinationals and Affiliates (ADIMA), and the Global Group Register (GGR), and the development of macro accounting framework such as the extended supply and use tables to estimate trade-in-value added, and accounting for Global Value Chains.

#### **IV. Issues in the implementation of the Classification of Business Functions**

8. Eurostat presented some issues in the implementation of the Classification of Business Functions in Europe based on the experience of the Eurostat international sourcing survey, such as the identification of the contact person for the survey, the choice of the statistical unit, and the distinction between core and support business functions. The identification of the contact in the enterprise affected the ability to respond to the survey. In particular, accounting, management and human resource departments had unique reporting capabilities. The majority of respondents came from accounting, who might have knowledge on the functions that their business was outsourcing, but might not be fully aware of the motivational factors for outsourcing or back-sourcing (moving business functions from overseas back to home country). As a result, in the future EU GVC surveys, Eurostat proposed to select respondents from strategic management staff of an enterprise.

9. The choice of the statistical unit is also another important factor in the survey. In the Eurostat international sourcing survey, the statistical unit is the enterprise as it is the unit with a certain degree of autonomy in decision making. However, in most cases, the observation unit is the enterprise legal unit. The TSG-CBF agreed on the recommendation of the enterprise as statistical unit in the classification of business functions, taking into consideration the enterprise-centered approach in business statistics adopted by the United Nations Committee of Experts on Business and Trade Statistics.

10. In creating the sampling frame of the international sourcing survey, a threshold on enterprise size was found to be necessary, since micro and small enterprises often do not assign discrete business functions to different employees. Sometimes one or two employees can assume multiple business functions, which makes it difficult to evaluate the impact of outsourcing each individual business function. Consequently, the TSG-CBF noted that countries planning to carry out the sourcing survey for the first time could limit the survey population to only larger enterprises, e.g. more than 500 employees.

11. During earlier surveys, some respondents, especially those from smaller enterprises, admittedly had difficulties understanding the conceptual distinction between core and support functions. In addition,

the respondents were not sure if an enterprise could have one core function, or multiple core functions. Many respondents from the industries such as service providers also had difficulty differentiating between their core and support business functions. The latest draft classification of business functions does not require survey respondents to identify the core function. Instead, it is recommended to derive the distinction at a later stage of the survey, e.g. using statistical analysis in a way comparable to the ISIC or NACE main industry code/activity designation.

12. In order to facilitate the distinction of core and support functions, Eurostat produced a systematic approach to help identify the core/support functions, which included a set of criteria and a flowchart. The approach was already included in the draft classification of business functions. However, there are still difficult cases in applying this approach, such as when the data on turnover or share of employment is unavailable, if the same business function is possibly both core and support, or how to define if a function generates turnover.

13. According to feedbacks that Eurostat received during the international survey, long disaggregation (hierarchical structure of the classification of business functions with more detailed categories at the lower levels) was difficult to understand and led to less cases per business function, which might cause confidentiality issues in smaller economies. Also, the economic phenomenon of job sharing could make it difficult to assess the number of jobs per business function accurately.

14. In the European international sourcing and GVC surveys, questions about sourcing practices were bounded within a specific time period (changes to sourcing within several recent years). Although this practice was useful for identifying new outsourcing and offshoring, the current picture of domestic and international sourcing cannot be assessed when prior changes to sourcing are missing from the data (although they can be derived from regular survey cycles. Some European countries, for example, have stock data up until 2018 due to participation in the previous surveys).

15. The TSG-CBF noted that correspondence tables (concordances) to other classifications, such as ISIC and CPC, would improve the usefulness of the classification on business functions. With linkage of business functions to business activities and products, the classification of business functions can be used not only in international sourcing surveys, but also in other types of business surveys. In addition, it was suggested that the classification of business functions should include some description linking it to concepts in other areas of economics, such as environment and occupations.

16. Concerns were raised that the current analysis framework for the international sourcing surveys as described in the draft classification of business functions was designed from the perspective of the source country and might not be suitable to the policy needs of all economies. The analysis on the motivations for businesses to resort to outsourcing was based on the assumption that the outsourcing enterprise (usually headquartered in developed economies) makes the decision on whether to outsource or not independently, and wields more negotiating power in the purchase of outsourced products and services (which are usually provided by enterprises located in developing economies).

17. The TSG-CBF also discussed the quantification of business function data. The number of employees by business function was collected in both Europe and the U.S., whereas data on sourcing costs and wages was successfully collected only in the U.S. via a small voluntary survey<sup>12</sup> and has proved difficult

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<sup>1</sup> Clair Brown, Timothy Sturgeon, and Connor Cole, “The 2010 National Organizations Survey: Examining the Relationships Between Job Quality and the Domestic and International Sourcing of Business Functions by United States Organizations”, MIT Industrial Performance Center Working Paper Series WP 14-001, (Cambridge, MA, 2014).

<sup>2</sup> This survey was discontinued by the Bureau of Labor Statistics in 2013 due to budget issues.

or impossible to collect in Europe. However, asking only if a function is outsourced or not (binary choice) runs the risk of over-representing small levels of international sourcing in the data. It was recommended that questions that collect quantitative information (i.e., the cost of goods or services sold) on the four sourcing options should be further tested, refined, and offered as an option for compilers seeking quantitative information on business function sourcing.

18. The TSG-CBF noted that while a number of the issues raised, such as finding the contact person, establishing enterprise size threshold, etc., were implementation issues, i.e., how the classification of business functions should be used in actual business surveys, the focus of the TSG-CBF is at the moment the coherence of and the need for the classification.

## **V. The way forward**

19. The TSG-CBF agreed that there is a need to elevate the classification of business functions at the level of an international statistical classification in order to harmonize efforts in measuring sourcing. The current draft classification was considered at a good stage of development and therefore the TSG-CBF agreed to continue the work towards its approval by the EGISC, namely a global consultation, subject to the incorporation of the comments from the TSG-CBF.

20. Some specific comments the TSG-CBF provided on the classification of business functions include the following:

- The coverage of the existing categories in the classification, including category definitions, could be further elaborated, especially in the service categories so that, for example, education and training services, human health services, insurance activities, telecommunication services can be clearly identified within the categories. In this regard the development of the correspondence with ISIC would be particularly helpful.
- Specific recommendations should be included to deal with the issue of job-sharing across different business functions.
- The distinction between core and support functions should be retained in the analysis phase, however more clarification was needed on the related concepts and methodology.
- The link between the classification of business functions and the International Standard Classification of Occupations (ISCO-08) would be useful to develop.
- The draft Manual could include a reference to the legal and regulatory framework that motivates enterprises to resort to outsourcing.

21. The TSG-CBF recommended further research on the applicability of the classification of business functions for capturing the four types of sourcing, namely domestic and international outsourcing as well as domestic and international insourcing. This will be important as it will address the issue of the applicability and relevance of the classification for all countries.

22. The TSG-CBF also recommended the development of a compilation guide on the classification of business functions. This will also serve as a tool to sensitize the international community on the importance of a classification of business functions. The TSG-CBF however, suggested to develop such a document after the finalization of the classification.

23. The TSG-CBF emphasized the importance of correspondence tables between the classification on business functions and other existing international statistical classifications, such as CPC, ISIC. The correspondence tables will facilitate linkage between business functions to economic activities and to the

products that an enterprise produces. Correspondences with regional classifications, such as NAICS, CPA and NACE, will also be beneficial. The TSG-CBF took note of Eurostat's plan to create the correlation tables to ISIC and CPC, and to include them as annexes to the finalized classification on business functions.

24. The TSG-CBF members were asked to provide additional comments on the draft Statistical Manual of Business Functions Classification (available online at [https://unstats.un.org/unsd/classifications/ExpertGroup/TSG-CBF2020/Statistical\\_Manual\\_on\\_Business\\_Functions\\_v1.4.pdf](https://unstats.un.org/unsd/classifications/ExpertGroup/TSG-CBF2020/Statistical_Manual_on_Business_Functions_v1.4.pdf)) by email to Eurostat and UNSD by 5 March 2021.

25. Based on the feedback from the TSG-CBF members, Eurostat will prepare a revised draft for global consultation that on approval of the TSG-CBF will be circulated to countries for global consultation tentatively scheduled for mid-2021.

## **Annex 1    Agenda**

### **Meeting of the Technical Subgroup on the Classification of Business Functions**

Virtual meeting, 4-5 November 2020

#### **Day 1 - 4 November 2020**

##### **1. Introduction (7am-7:30am)**

- Opening statements  
Ivo Havinga (UNSD) and Nikola Sunjka (Eurostat)
- Adoption of the agenda, objectives of the meeting– Ilaria Di Matteo, UNSD

##### **2. Setting the stage (7:30am-8:15am)**

- Process and guidelines for developing international statistical classification - Andrew Hancock, Chair of the Expert group on International Statistical Classifications, and Principal Analyst, Data Standards and Design, Statistics New Zealand (20 min)
- Need for an international business function classification - Timothy Sturgeon, Senior Researcher, MIT Industrial Performance Center (20 min)
- Discussion

##### **3. Classification of Business Functions (8:15am-10am)**

- Introduction to the Classification of Business Functions: motivation, structure and manual - Nikola Sunjka, Eurostat (20 min)
- Use of the classification of business functions in Eurostat's International sourcing survey, Peter Nielsen, Statistics Denmark (20 min)
- Uses of the classification of business functions in India - Amitava Saha Deputy Director General, India (20 min)
- Discussion

#### **Day 2 - 5 November 2020**

##### **4. Issues in the implementation of the Classification of Business Functions (7am-9:30am)**

- Issues in the implementation of business functions in EU - Nikola Sunjka, Eurostat (20 min)
- Issues in the implementation – Tim Sturgeon, Senior Researcher, MIT Industrial Performance Center (20 min)
- Discussion

##### **5. The way forward (9:30am-10am)**

- Summary of the conclusions of the discussion (10 min)
- Process and timeline for the approval of the Classification of Business Functions (Eurostat and UNSD) (15 min)
- Discussion

##### **6. Conclusions**

## **Annex 2 List of Participants**

Mr. Franklin Assoumou Ndong, Statistics Canada, Canada  
Mr. Peter Bøegh Nielsen, Statistics Denmark, Denmark  
Mr. Amitava Saha, Ministry of Commerce and Industry, India  
Mr. Stefano Menghinello, ISTAT, Italy  
Mr. Fred Demollin, CBS Netherlands, the Netherlands  
Mr. Bart Loog, CBS Netherlands, the Netherlands  
Mr. Andrew Hancock, Statistics New Zealand, New Zealand  
Ms. Paula Bordelo, Statistics Portugal, Portugal  
Ms. Fay Dorsett, U.S. Census Bureau, US  
Ms. Sharon P. Brown, US BLS (retired), US  
Mr. Tim Sturgeon, MIT, Industrial Performance Center, US  
Mr. Celestino Giron, ECB  
Mr. Nikola Sunjka, Eurostat  
Mr. Georgios Papadopoulos, Eurostat  
Mr. Nadim Ahmad, OECD  
Ms. Ying Yan, WTO  
Mr. Ivo Havinga, UNSD  
Mr. Markie Muryawan, UNSD  
Ms. Ilaria di Matteo, UNSD  
Ms. Nancy Snyder, UNSD  
Ms. Shirley Ang, UNSD  
Mr. Htu Aung, UNSD  
Ms. Maki Arakaki, UNSD  
Mr. Zhiyuan Qian, UNSD

## **Annex 3: Terms of reference Technical Sub-group on the Classification of Business Functions**

*with updated timeline*

### **Background**

The UN Expert Group on International Statistical Classifications decided at its meeting in May 2011 in New York that guidance for the identification of core business functions and support functions (not necessarily a classification) in relation to their international outsourcing should be developed. However, it is not clear how to determine what the core functions within each sector are. Global sourcing has a high policy relevance and creates many measurement problems for statisticians. It would therefore be very useful to study this under some common guidelines. The Expert Group suggested that a subgroup should be created to discuss how to approach this.

In order to be able to internationally replicate and compare the results of such studies, there is a need for a standardized classification of business functions. Such classification would go beyond the traditional product or activity breakdown (CPC or ISIC) and provide categories that are more relevant for the way in which companies structure their operations. Such classification would be very important in the measurement of outsourcing and the distribution of work in Global Value Chains (GVCs) as well as relating business functions to international trade flows.

The Statistical Commission at its 43rd session in February 2012 concurred with the decisions of the expert group by taking note of the report.

Since then a Technical subgroup on the Classification of Business Functions (TSG-CBF) was created in 2012 and experimental work was carried out in Europe, Canada, and the United States to develop and test a Classification of Business Functions. Eurostat took the lead in building and testing the Classification of Business Functions in EU countries through the International Sourcing/Global Value Chains Survey. Based on the experience of Eurostat a draft Classification of Business Functions was developed. The terms of reference of the TSG-CBF are updated in light of the work carried out since 2012.

### **Scope of the work**

The Technical Subgroup on the Classification of Business Functions is expected to finalize and submit to the Expert Group on International Statistical Classifications an international Classification of Business Functions, the correspondence to CPC and ISIC, and the guidelines for its implementation.

### **Composition of the TSG**

The composition of the TSG-CBF is as follows:

- Mr. Franklin Assoumou Ndong, Statistics Canada
- Mr. Amitava Saha, Ministry of Commerce and Industry, India
- Mr. Andrew Hancock, Statistics New Zealand
- Ms. Severa Belista De Costo, National Statistical Coordination Board, Philippines
- Mr. John Murphy, US Census Bureau, USA
- Mr. Peter Bøegh Nielsen, Head of division for Structural Business Statistics, Denmark
- Mr. Fred Demollin, CBS Netherlands
- Mr. Stefano Menghinello, ISTAT, Italy
- Mr. Wolfhard Kaus, Destatis, Germany
- Mr. Tim Sturgeon, MIT (Academia)



- Mr. Celestino Giron, ECB
- Mr. Nadim Ahmad, Head of the Trade and Competitiveness Statistics Division, OECD
- Ms. Barbara D'Andrea, WTO
- Mr. Nikola Sunjka, Eurostat
- UNSD

The chair of the TSG-CBF is Eurostat. UNSD serves as a secretariat of the TSG-CBF.

### **Organization of work**

The TSG-CBF will communicate primarily through email and the use of conference calls.

A physical meeting is proposed for March/April 2020 to discuss and finalize the classification of business functions before the Global Consultation with countries and relevant organizations.

### **Timeline**

- November 2020 – Meeting of the Technical Subgroup on the Classification of Business Functions
- Comments to Eurostat and UNSD on the draft manual by 5 March 2021
- Revision of the document by mid-April for consultation with the TSG-CBF
- Consultation with the TSG-CBF end of May
- Mid 2021 Global Consultation on the Classification of Business Functions
- Q3 2021 – Virtual meeting of the TSG-CBF to finalize the classification
- October 2021 – Submission of the classification to the Expert Group on International Statistical Classifications