CHAPTER 7

“Conceptual issues of the Global enterprise perspective”

UN Experts Group on International Trade and Economic Globalization Statistics
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Context

- The Global Enterprise Perspective: Motivations and Interaction with the Other Chapters of the Handbook
- The Basic Ideas Introduced in The Chapter
- The Structure of the Chapter
- Proposals to Improve the Scope and Readability of the Chapter
The Global Enterprise perspective: motivations and interaction with the other chapters of the handbook

Why shell we care about Global enterprises?
- They have limited influence in large countries
- They tend to be sector specific
- They are similar to other companies, they are just bigger

.....but when something strange happens about the data.....they are always there
Few companies are responsible for:
- Large asymmetries in international trade
- Poor classification of international flows by country
- Instability in short terms statistics
- Inconsistency across different domains
- Problems about resident non resident economic unit

This is not just because they are big, they behave in a radical different way as compared to domestic companies

......more knowledge is essential to correctly classify and measure them
Chapter 7 essentially focuses upon the nature and amount of knowledge needed by official statisticians to properly address globalisation related issues. Key basic issues:

- Specialised knowledge versus broader knowledge on Global Enterprise organisation and behaviour
- Theoretical knowledge only or knowledge that can be also tested against real business cases
- Knowledge concentrated in few people or knowledge that is spread across different domains inside NSI

«Hearts in Atlantis»
Stephan King
A: What do you want?
B: Knowledge
A: How much can you pay for that? What’s about less survey questionnaires?
B: We don’t know
A: Do you think there is knowledge there?
B: We don’t know

Study visit at Pfizer Italy

• Global enterprises have the knowledge to explain what they do, why and how. They trust NSI to keep information confidential.
• NSI have problems to interact with them: fragmentation of statistical processes, use of a different language, limited background information about the company.

Legal entity?
Economic activity?
Business lines?
Business functions?
Hard lessons from the data

...as a result, individual signal from outside can be interpreted and processed in a different way inside NSI....

- National accounts
- Structural business data
- Short terms business indicators
- Register based indicators
The Global Enterprise perspective: motivations and interaction with the other chapters of the handbook

Chapter 9
Classification taxonomy for GVC

Chapter 7
Integrated business approach

Chapter 11
Better understanding of Global enterprise behaviour

Chapter -12

Chapter 12
Better understanding of Global enterprise behaviour
Toward an integrated approach: the Global Enterprise Centered perspective

Chek list:

- To identify the UBO and the global perimeter of control
- To understand MNE decision processes
- To develop relevant classifications to understand the organisation of business
- To develop routines to manage high frequency business cases (monitoring top companies across domains)
The Basic ideas introduced in the chapter

- Global enterprises are not just multinational enterprises: the role of independent suppliers in line with GCV theory

- The GE behaviour is based on a complex decision process with different motivations and time for implementation: industrial strategy (slow) and tax-financial strategies (fast). They often interact

- The legal structure is not the essential framework to understand GE organisation: business lines and business process are more important (business process)

- A deeper understanding of International accounting/internal reporting is essential to properly address GE measurement problems

- A conceptual framework can be used to classify all possible GE operations and restructuring processes
Global enterprises are not just multinational enterprises: the role of independent suppliers in line with GCV theory

1. A Global Enterprise (GE hereafter) can be defined as a company that designs and operates its business activities by establishing abroad a foreign affiliate and/or by interacting with independent companies that are resident abroad. Business relevant activities include a large portfolio of elements that are indicated in bullets in table 1.

Table 1: Business activities carried out abroad by a Global Enterprise

- Production lines or tasks of the core business activity
- Business functions supporting core business activity
- Exchange of technology and use of international platform
- Access to global finance and global tax planning
The Basic ideas introduced in the chapter

The GE behaviour is based on a complex decision process with different motivations and time for implementation: industrial strategy (slow) and tax-financial strategies (fast). They often interact.

Table 2: The basic choices of GE behavior

- **Industrial strategy**
  - Where to locate core business activities and how to make them interact
  - Where to locate related business functions and how to make them interact
  - How to manage technology and other immaterial assets

- **Financial and tax planning**
  - Where to locate financial activities and how to coordinate them internationally
  - Where to locate tax revenues and how to coordinate them internationally
✓ The legal structure is not the essential framework to understand GE organisation: business lines and business process are more important (business process)

- **Business line one:** Electronic controls for engines
  - Legal entity A
  - Legal entity A

- **Business line two:** Medical equipments
  - Legal entity B
  - Legal entity A

- **R&D**
  - Legal entity C
  - Legal entity C

Legal entity A
The Basic ideas introduced in the chapter

- The legal structure is not the essential framework to understand GE organisation: business lines and business process are more important (business process)

  - The divisional model
  - The functional model
  - The matrix complex model
THE SCOPE OF A GLOBAL ENTERPRISE-CENTRED (GEC) PERSPECTIVE

The basic structure of a Global Enterprise

- Business functions (BF)
- Business lines (BL)
- Location/make or or buy 4 options
The Basic ideas introduced in the chapter

✔️ The legal structure is not the essential framework to understand GE organisation: business lines and business process are more important (business process)

The **business line** consists in the production of a specific group of goods or services that the GE considers a relevant area for its business. According to the principles of IAS/IFRS, a business line is also characterized by a well-defined information system of costs and revenues, and usually its manager reports directly to the board.

A set of business supporting functions is attached to each business line. They whole together define a **business process**. Different business lines can exploit business supporting functions in a different way, but for classification purposes, a business process is described by potentially including all supporting business functions.

The possibility that each component of a business process can be carried out internally or externally by the GE, indeed by an affiliate or by an independent supplier, introduces a new dimension in our classification scheme.

The possibility that each component of a business process can be carried out in the country of residence of the GE parent company (ultimate controlling institutional unit/ headquarter) or abroad, either internally and/or externally with respect to GE perimeter of control, adds a further dimension in our classification scheme.
A conceptual Framework that can be used to classify all possible GE operations and restructuring processes.

### Table 3: The proposed classification and analytical framework

#### Breakdown of GE activities as a step by step decomposition process

- **Business line**

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- The business line and its business supporting activities defines a business process

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- Each business process can be carried out internally (I) or externally (E) the GE

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- Each business process can be located in the resident country (R) or abroad (F)

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- This process can be reiterated for each business process (BP) independently from each other

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Why the conceptual model is important:

- It is rooted into the GE «industrial strategy» this means is linked to motivations

- It is backed up by international accounting data: the GE usually have good data to describe it

- It covers all possibilities (most surveys and other classification schemes only cover some)

- It can be considered by in a static and dynamic way: re-offshoring etc....

- It uses the same language that GE adopt
A little example

From the Website of Pfizer Italy

Some interesting information from the website:

Pfizer operates in Italy since 1955, with a turnover of approximately 1 billion 2015 and 3000 employees. Its headquarters are in Rome, where, in addition to government offices, a business unit at European level. International offices are in Milan of pharmacovigilance and regulatory strategy, a research group in Oncology clinical development at the global level; Besides the Consumer Healthcare Divisior In these structures, we have four production facilities in Liscate (Milan), Ascoli Piceno, Aprilia (Latina) and Catania, with significant export volumes worldwide.
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