

Handbook on Accounting for Global Value Chains
Meeting of the Expert Group on international trade and economic globalization statistics

Large Case Unit and the measurement of MNE engaged in GVCs

Simone Ambroselli
Head of Large Case Unit
Directorate for Economic Statistics - Istat, Italy

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MNEs and GVC

MNEs are deeply engaged in GVC:

- most international transactions in goods and services along a GVC are intra-Group (intra-firm trade);
- MNEs operate in a high value added segment of a GVC with a strong market power with respect to independent suppliers;
- structural changes in MNEs organisation may affect (even deeply) the shape and evolution of the GVC.

Evolution of an MNE

How to map the structure and evolution of a MNE operating in a GVC?

- An organisational solution:
 - establishment of a Large Cases Unit;
 - connection to global networks (Early Warning System).
- A conceptual solution:
 - the adoption of a Global Enterprise (GE) approach as illustrated in the Handbook.

Basic assumption of the GE approach

The structure and evolution of a GE along a GVC can be mapped using a

Business Lines - Business functions approach

which also includes

- Location and
- internal or external relationship

as key dimensions

With respect to the traditional classifications schemes, this approach:

- is more business relevant
- is more resilient to changes in the legal entity structure of a GE.

Example 1: Nuovo Pignone

Nuovo Pignone, the largest Italian affiliate of General Electric MNE, changes the structure of its legal units over time but remains focused on the same business line.

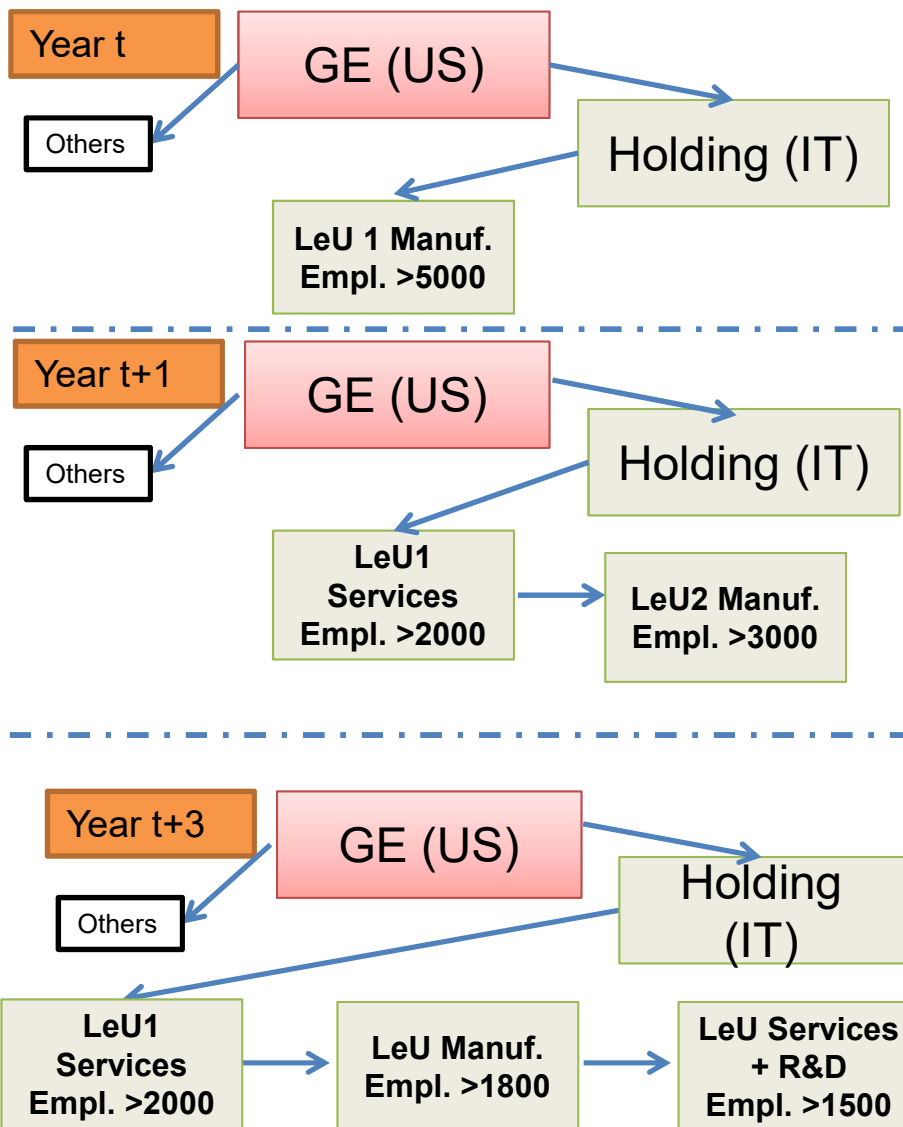
Nuovo Pignone is in GE (US) since 1994.

Two businesses for the Oil&gas division:

Turbomachinery Solutions (TM); Downstream Technology Solutions (DS).

Today, Nuovo Pignone is the global headquarter for Turbomachinery Solutions.

Ex 1 Nuovo Pignone: the largest Italian affiliate of GE



| L | M | BL | BF1(HO) | BF2(Global HQ) | BF3(R&D) | BF4 | BF5 |
|-------|---|----|---------|----------------|----------|-----|-----|
| US | | TM | | | | | |
| IT(2) | I | TM | X | X | X | X | X |
| US | | DS | | X | | | |
| IT(2) | I | DS | X | | X | X | X |

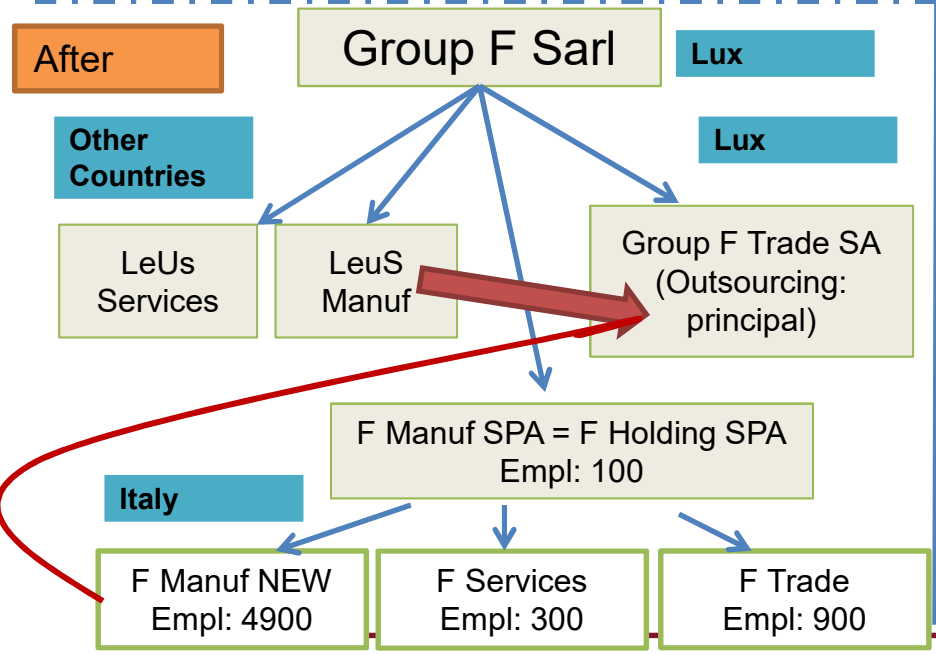
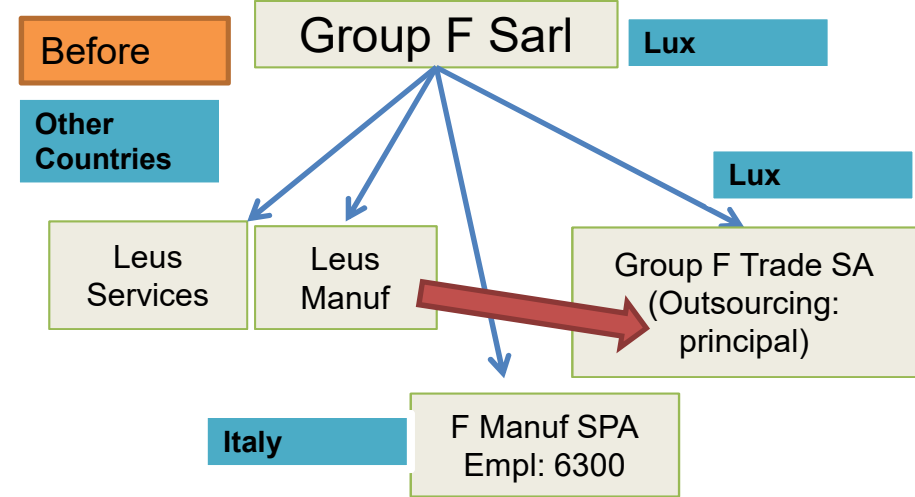
| L | M | BL | BF1(HO) | BF2(Global HQ) | BF3(R&D) | BF4 | BF5 |
|-------|---|----|---------|----------------|----------|-----|-----|
| US | | TM | | | | | |
| IT(3) | I | TM | X | X | X | X | X |
| US | | DS | | X | | | |
| IT(3) | I | DS | X | | X | X | X |

| L | M | BL | BF1(HO) | BF2(Global HQ) | BF3(R&D) | BF4 | BF5 |
|-------|---|----|---------|----------------|----------|-----|-----|
| US | | TM | | | | | |
| IT(4) | I | TM | X | X | X | X | X |
| US | | DS | | X | | | |
| IT(4) | I | DS | X | | X | X | X |

Example 2: Ferrero Group

Ferrero, one of the largest Italian food manufacturer MNEs, first established a financial holding in Lux and then moved in Lux most of its global operations.

Ex 2 Ferrero Group



| L | M | BL | BF1 HO | BF2(Trade) | BF3(HQ) | BF4 (services) |
|-------|---|------|--------|------------|---------|----------------|
| LUX | | Food | X | X | | X |
| IT(2) | I | Food | | X | X | X |
| ... | | Food | | | | X |
| ... | I | Food | | | | |

| L | M | BL | BF1 HO | BF2(Trade) | BF3(HQ) | BF4 (services) |
|-------|---|------|--------|------------|---------|----------------|
| LUX | | Food | X | X | | X |
| IT(4) | I | Food | | X | X | X |
| ... | | Food | | | | X |
| ... | I | Food | | | | |

Global Value Chain



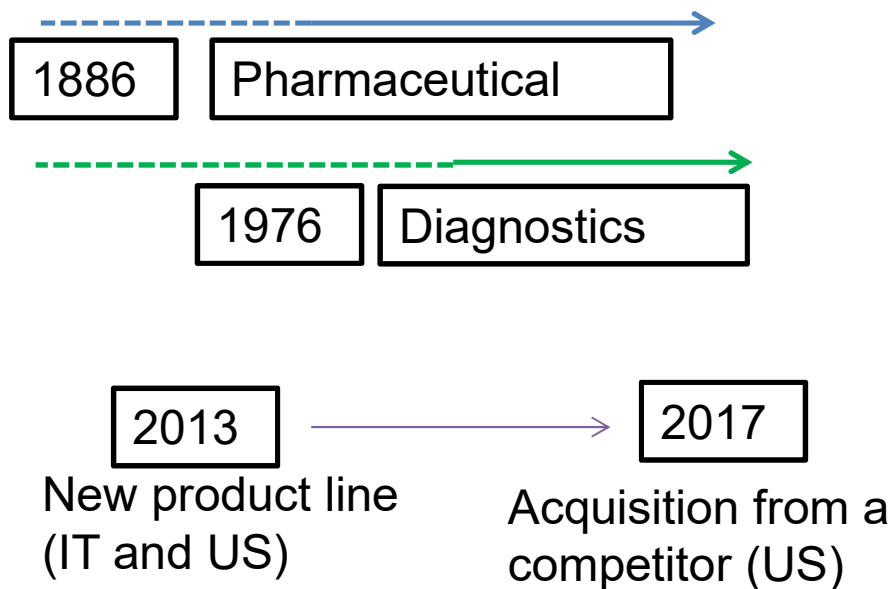
OECD: MAPPING GLOBAL VALUE CHAINS (2012)

Examples 3a and 3b: following new activities

Menarini and Luxottica groups get global also diversifying their business lines and business functions

Ex 3a Following new activities for the GEs: new BL?

Menarini Group



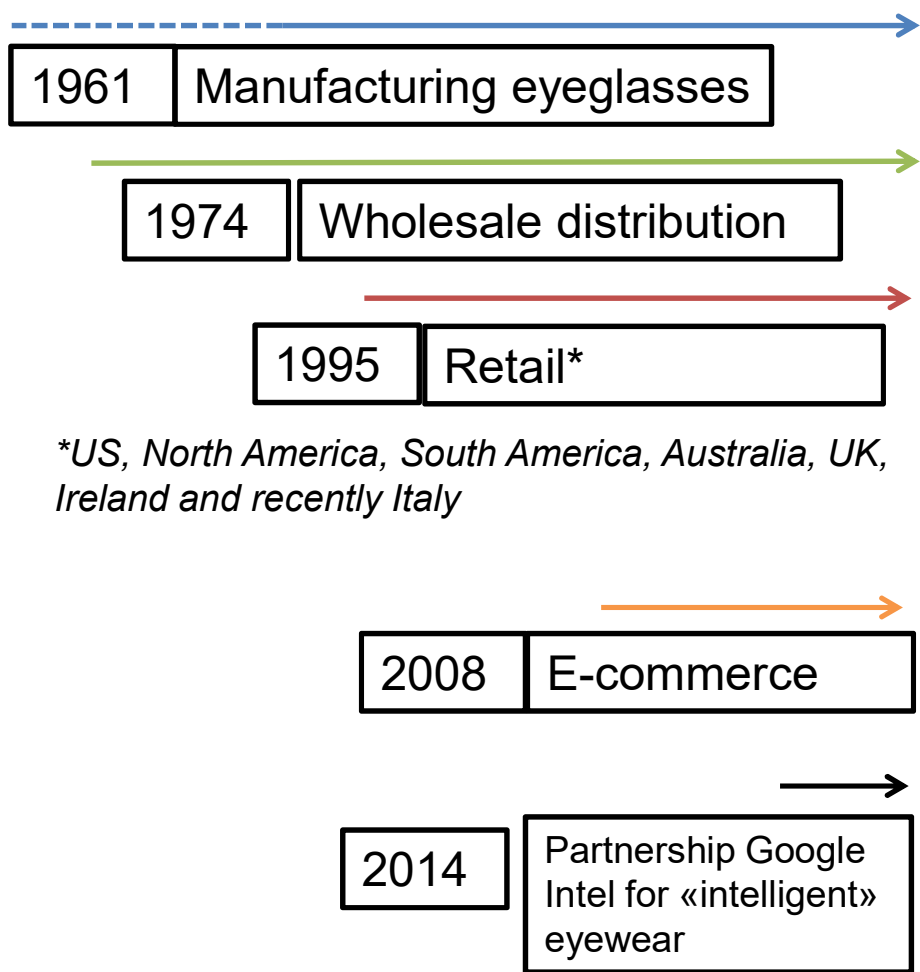
Technologies and products that help to understand the biological complexity of disease through the study of single cells

Consolidated accounts 2016 labelled the units of the «new product line» differently from the past (new Technologies for life sciences)

| L | M | BL | BF1(HO) | BF2(Global HQ) | BF3(R&D) | BF4 Trade |
|-----|---|----|---------|----------------|----------|-----------|
| US | I | PH | | | | |
| IT | I | PH | X | X | X | |
| CH | I | PH | | | | |
| SGP | I | PH | X | | | X |
| US | I | DI | | | | |
| IT | I | DI | X | X | X | |
| ES | I | PH | | | X | |
| ES | I | DI | | | X | |
| DE | I | PH | | | X | |
| DE | I | DI | | | X | |

| L | M | BL | BF1(HO) | BF2(Global HQ) | BF3(R&D) | BF4 Trade |
|----|---|----|---------|----------------|----------|-----------|
| US | I | GE | | | X | |
| IT | I | GE | | X | X | |

Ex 3b Following new activities for the MNEs: new opportunities?



| L | M | BL | BF1(HQ) | BF2 (Logistic) | BF3 (Retail) | BF4 (R&D) |
|-----|---|--------|---------|----------------|--------------|-----------|
| IT | I | M&W | X | X | | X |
| CH | I | M&W | | X | | |
| IN | I | M&W | | | | |
| US | I | M&W | | X | | |
| BR | I | M&W | X | X | | |
| ... | I | M&W | | X | | |
| US | I | Retail | | X | | |
| CA | I | Retail | | | | |
| MX | I | Retail | | | | |
| ... | I | Retail | | | | |
| IT | I | Retail | | X | | |

Just a sale channel

An external supplier (M=E) for Google and/or Intel for their «future» BLs?

Conclusions

The proposed approach in the Handbook is very promising.

It allows the researchers to obtain a framework

- flexible across different GE business models;
- more independent and more stable from the structure of the legal entities of the MNEs.

There are some limitations:

- MNEs may define their business lines differently even if they act in the same businesses;
- mapping may be not easy.

But it could be very useful for classifying and better understanding intra and/or extra group international flows in goods, services and immaterial assets.



THANKS FOR YOUR ATTENTION!