J.4. Profitability: gross operating surplus as a share of turnover

The share of gross operating surplus (profit) in the turnover of foreign-controlled affiliates could be used as one indicator of the profitability of foreign-owned investments in host countries. However, comparisons of the profitability of foreign affiliates should be interpreted with care, given differences in regulatory environments, tax rules, etc., in different countries. Previous research has shown the importance of transfer pricing in the observed profitability of affiliates of multinational companies in different countries.

In some countries, foreign affiliates are more "profitable" than firms under national control, but this observation is not valid for all countries.

Investments in Slovenia, Hungary and the Czech Republic yield profits that are higher in relation to turnover than investments in other countries. This outcome may suggest that offshoring in central Europe is motivated not only by low labour costs, but by expectations of high profitability as well. However, interpretations of differences based on this rather simple indicator should be drawn carefully.

Source

- OECD, *AFA Database*, January 2010.

For further reading

- OECD (1994), *The Performance of Foreign Affiliates in OECD Countries*, OECD, Paris.
- OECD (2005), *Measuring Globalisation: OECD Handbook on Economic Globalisation Indicators*, OECD, Paris, *www.oecd.org/sti/measuring-globalisation*.

Gross operating surplus

Gross operating surplus (GOS) is defined as:

– gross value added (VA);

- *minus* compensation payable to employees (W);
- *minus* taxes on production payable (T);
- *plus* subsidies receivable (S) (SNA 1993, §7.80).

Value added corresponds to the value of the output that a firm produces for itself, reduced by the value of intermediate consumption. Employee compensation encompasses wages and salaries plus social security contributions payable by employers. Taxes on production include taxes payable by foreign affiliates in the affiliates' host countries but not those paid by the parent company in the country of origin in respect of income received or distributed by the affiliate. Subsidies are payments without consideration that general government makes to business enterprises on the basis of the level of their production activities.

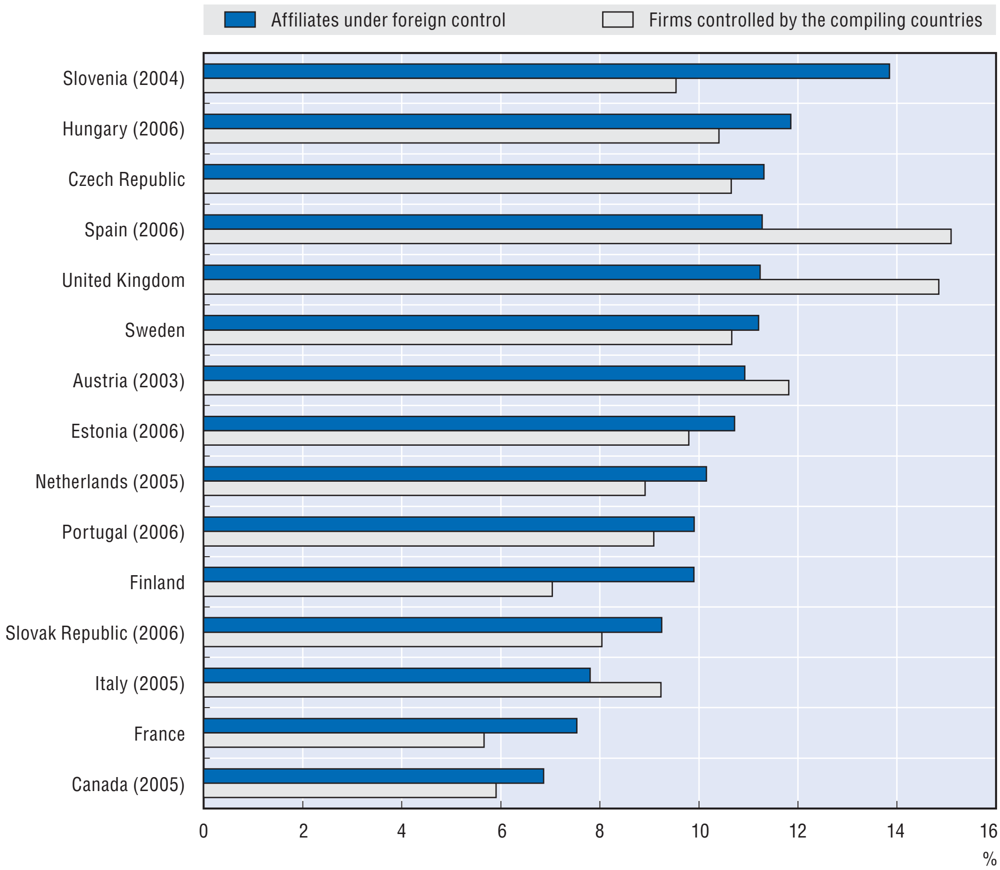
Thus, $GOS = VA - W - T + S$.

Gross operating surplus can take on negative values if $VA < W + T - S$.

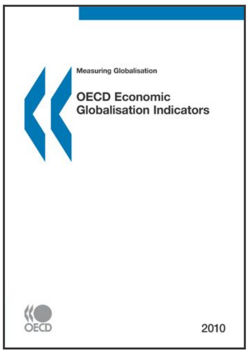
In addition, the ratio $(GOS + W + T - S) / VA = 1$.

J.4. Profitability: gross operating surplus as a share of turnover

Figure J.4.1. **Gross operating surplus as a share of turnover of foreign affiliates and national firms in manufacturing, 2007**



StatLink http://dx.doi.org/10.1787/844765218547



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