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Profiling in the Netherlands: Practices

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Introduction

Statistics Netherlands (CBS) is using two ways to collect the data: primary and secondary data collection. The secondary data collection applies mostly to all kind of financial and governmental institution and/or enterprises. In the last years the secondary data collection has started for small business enterprises (enterprise groups).

Primary *data collection* is especially important for big business enterprise groups in the Netherlands. So the 350 biggest and statistically most relevant enterprise groups are treated in a special way. Business profiling plays a key role in this. Within the business profiling the match is made between the reporting ability of the enterprise group with the statistical requirements. Further there are all kinds of confrontations to check the plausibility and to estimate the influence of the data on the statistical output.

The group within Statistics Netherlands called “concern coordination” carry out all the activities mentioned above.

Concern coordination consists of five concern coordinators that are assisted by five concern profilers.

In this paper we will briefly consider the activities that are performed within the framework of concern coordination, the pragmatic side of the matter, and some practical examples.

Business register

Statistics Netherlands has one business register containing all Dutch legal entities. Each of these entities is a part of an enterprise group.

Legal structure(s)

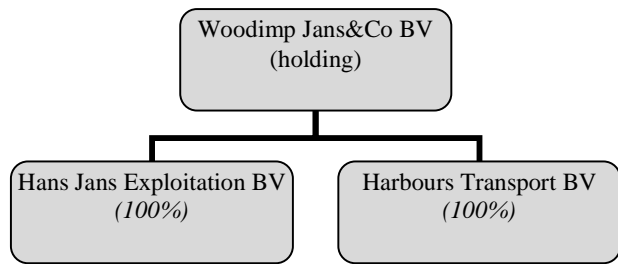
The business register of Statistics Netherlands is fed by three external sources: the Chambers of Commerce register, Basic Enterprise group / Company register and the Tax register.

Based on these three sources, the most plausible *power of control* structure of the enterprise group is put together automatically.

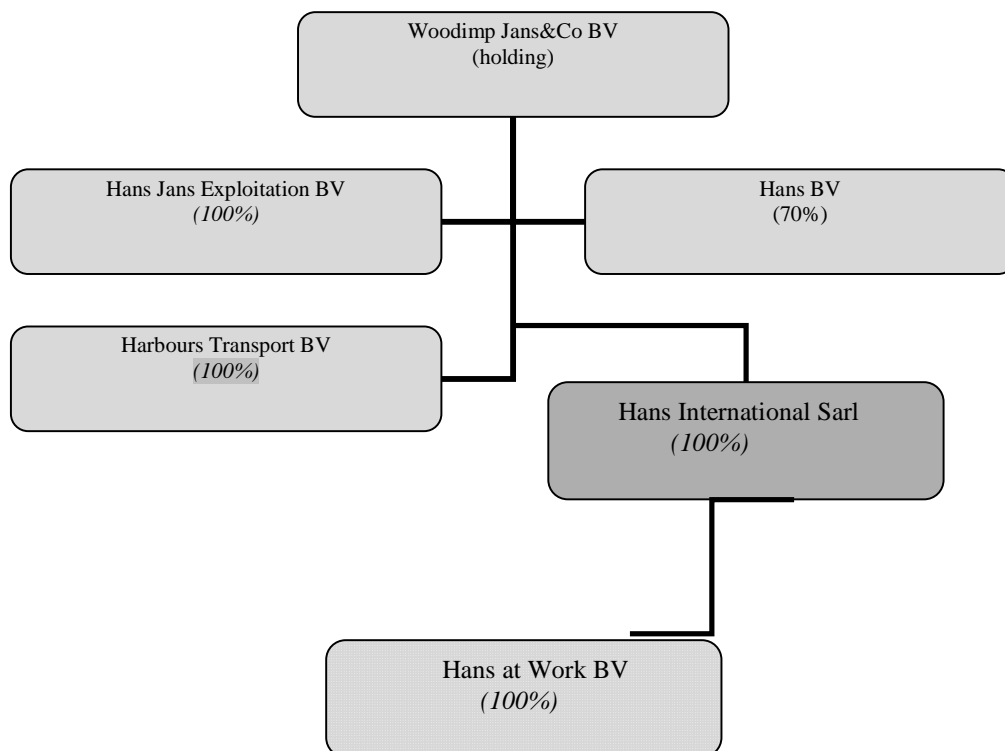
This power of control is a base for the further work. The consultation with the reporting enterprise group about the special legal and other structures, leads via a tailor-made process to the final *power of control cluster*. It should be stressed that in reality the legal structure of the enterprise group changes quite regularly.

The legal structure as such cannot be used to gather statistical information without the necessary caution. There is too much emphasis on tax issues and inter-company processes (on paper). This is the reason why a special *statistical structure* for data collection is set up.

One more issue should be stressed out here: foreign mother, sister or daughter companies. It is important that the links to the parental foreign entity as well as sister and/or daughter companies are determined. Unfortunately all those information can not be saved in the business register, it is thought known.



Picture 1: Structure of enterprise Woodimp Jans&Co BV determined automatically (business register).



Picture 2: Structure of enterprise Woodimp Jans&Co BV after corrections by concern coordination

Statistical structure

The *statistical structure* recognizes two important levels: OND (Dutch abbreviation of enterprise group) and KAU (kind of activity unit). Data is also collected by VAT number, license plate number, etc. But the latter types of data collection are not discussed in this paper.

The OND consists of all active legal entities where *power of control* is exercised. This statistical entity is mainly important in the *collection* of balance data (statistic finance of non financial enterprise groups=SFO), where all internal flows are eliminated through consolidation.

The KAU (kind of activity unit), is the entity where homogeneous market-oriented activities are performed. This entity consists of one or more entire or partial legal entities. In the data collection at the KAU level the focus is on the activities as presented in NACE as the statistical output is by the activity code (NACE).

All kind of basic source statistics are using KAU as statistical entity.

The determination of the *statistical structure* of the 350 large enterprise groups mentioned above is a tailor-made process. That will say that as well OND ad KAU units are not being determined automatically.

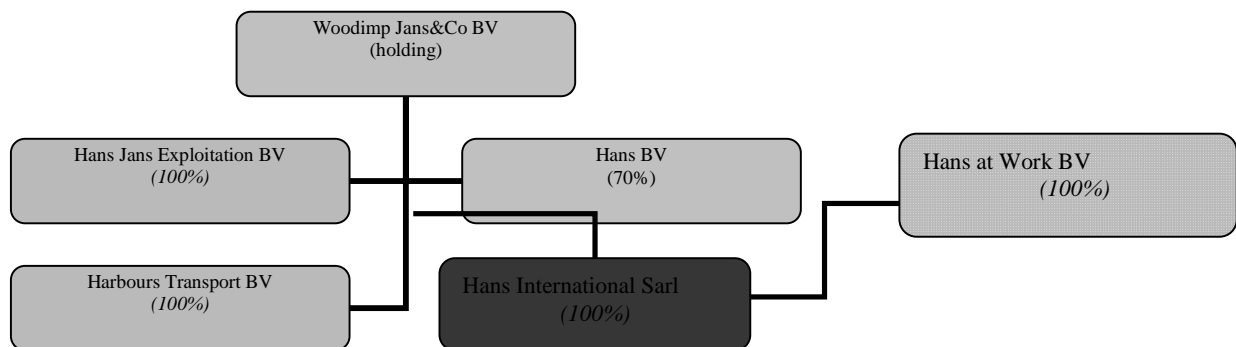
This requires contact with the respondent (controller of the OND or KAU).

The following aspects are *included* in this consultation:

- a.) Link to the financial systems of the enterprise group
- b.) Elimination of the non-market related activities
- c.) SFI's and this type of entities
- d.) Reducing any unnecessary response burden
- e.) Assigning employees to the correct KAU

The statistical output is acting as a guide in all those aspects. The output should provide an accurate picture of the economic activities within a specific branch.

The result of this activity of concern coordination: statistical structure should be an almost perfect match between the reporting abilities of the enterprise group with the statistical requirements (data quality, timeliness, homogeneity of the output).



Picture 3: Statistical structure of Woodimp Jans&Co BV after business profiling:
 Green: KAU including units with main activity: production of wooden shelves
 Yellow/orange: KAU including units with holding activities
 Red: foreign unit

It must be stressed out that if it comes to the financial enterprises and SFI's (special financial institution) within an enterprise group the statistical and legal structure is matched with the structures known at De Nederlandsche Bank (DNB: Dutch National Bank) to avoid double-counting of entries (double entries) or wrong balance data.

Statistics Netherlands and DNB are having different scopes of balance data collection. In general DNB scope is: financial enterprises and in general financial streams; although the financial data that is collected by DNB may also concern business enterprises. The scope of Statistics Netherlands is business enterprises and individuals.

If it comes to financial enterprises and all kind of financial institution (SPV, SFI etc) the scopes of DNB and Statistics Netherlands are thus complementary. Both institutions are exchanging the data for an optimal description of the Dutch economy.

The data of SFI's that are registered in Dutch Chambers of Commerce (thus are Dutch legal entities) is excluded from the CBS statistic finance of non financial enterprises because the financial transactions that are taking place in these units are meant to channel money from on foreign entity to other foreign entity.

Those issues are further not discussed in this paper.

Combining all sources: old and new ways of concern coordination

Statistics Netherlands has always been convinced that large businesses require special attention, since their importance for the statistical output is huge. An intensive and more labour intensive approach pays off in terms of quality and coherence of output, and it is necessary because of the often complex situations. The ongoing globalization of economic activities makes it more important and more difficult to handle large enterprise groups properly and to maintain and assure the concepts of 'National Accounts'.

All the past years the activities of concern coordination has been exercised although the tool for the comparisons of the data on the enterprise level was missing.

At the end of 2005 Statistics Netherlands started the development of project CONGO.

CONGO Dutch abbreviation of: **CON**sistente Gegevens **G**rote **O**ndernemingen

In English: Consistent Data sets for Large Enterprise groups

For the statistical years 2005, 2006 and 2007 CONGO is monitoring and investigating the coherence of micro datasets of large enterprise groups. The datasets are composed from the most important source statistics and also from external (tax) sources¹. The data are gathered at the consolidated level of the enterprise group or at the level of the underlying KAUs. The project now deals with 350 large enterprise groups and their corresponding KAUs. Our aim is to detect, investigate, explain and solve all inconsistencies and gaps in the datasets. In other words CONGO deals with all distortions, whatever the origin may be.

Some features:

- Some 15 statistical key variables have been defined (such as: Total revenue; net sales, wages, investments, operating result, labour);
- Currently 8 source statistics and 3 tax sources are used;

¹ Statistics describing the Finances of non financial enterprise groups, production, international trade and investments etc.

- KAU data is aggregated to the level of the enterprise group, so we can also combine and confront consolidated company accounts with KAU statistics (such as production statistics);
- There are always at least two sources for every key variable, so it is possible to confront data.

The statistical variables come from several source statistics like:

- Statistics Finance of non financial enterprise groups (statistic on OND level, where principally all Dutch legal entities are consolidated)
- International trade in goods and International trade in services (the first one is per VAT number the second one on the OND or KAU level)
- Yearly statistic based on P&L data (KAU level, different forms per branch/activity)
- Employment and wage survey's
- Investments in tangible fixed asset

The main goal of CONGO is not so much to check coherence and make corrections afterwards, but to **prevent** inconsistencies amongst units and sources and to publish coherent and reliable source statistics from the earliest possible moment. Thus CONGO is developing a new approach, especially for big enterprise groups. Part of that approach is, if necessary, to redesign the surveying process of large businesses. Testing and developing ways to achieve this is ongoing.

Summarizing:

- The CONGO project will have a growing impact on the organization and the results of the statistical process concerning large businesses.

Practical examples

In everyday practice, the concern coordination group is often confronted with “illogical” or “undesirable” data in the regular survey response. These data lead to the adjustments of the *statistical structure* (post active).

Naturally we try to anticipate changes in the (legal) structure and in the activities of the top 350 enterprises. As a result we can often adjust the *statistical structure* as soon as the changes take place (pro active).

It must be said that all the changes in statistical structures are always feedback to all groups concerned. The change in statistical structure (especially after the survey sample is determined) has impact on the methods that are used in the analysis of the data. Without good communication better statistical structure can still lead to incorrect statistical output.

Three examples of both cases:

Example 1: Oil BV (post active)

Oil BV is a small company (2 fte's) with activity code: extracting crude oil. This KAU was drawn in the survey sample of 2006 and it has responded for the production statistic (P&L yearly).

According to the information provided, the net turnover of this company was €1.1 billion. Considering the size of Oil BV the data provided didn't seem plausible, so a plausibility check was made. In consultation with the respondent it turned out that they had the wrong NACE code. The company is a stakeholder in a number of Dutch and foreign companies and mainly carries out holding activities. It manages the foreign branch in Africa, where oil is extracted. The oil is sold by and via Netherlands – 'invoice' turnover – and that was also why the net turnover was filled in. So in principle we cannot say that the activity of Oil BV in the Netherlands is oil extraction.

Based on this conclusion Oil BV was removed from this survey sample (survey frame error) and got a proper NACE code.

Results of this adjustment:

- Better survey sample for oil exploration and extraction in the following year(s)
- Quality of the output will be better: no contamination

(Incorrect interpretation of the statistical data was prevented: maintaining of this KAU in NACE 1120 could lead to the conclusion that there is more oil extracted in NL without any new oil sources being found)

The adjustments are relevant to:

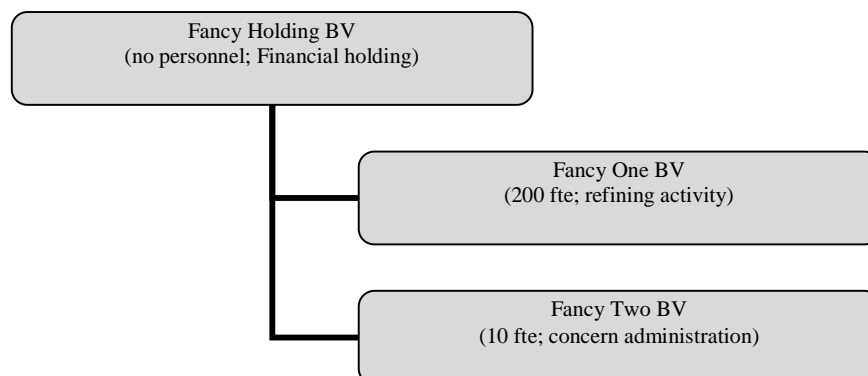
- The production structure of the Dutch economy
- GDP (value added) per sector

Example 2: Enterprise group Fancy (post active)

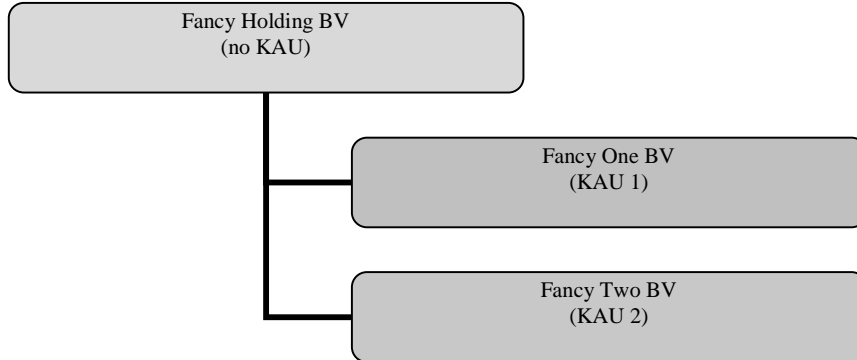
The investments of enterprise group Fancy were analyzed within the framework of the CONGO project.

The legal structure and the statistical structure of this enterprise group were determined as follows:

Legal structure (only span of control units):



Statistical structure:



Fancy enterprise group is active in refining business.

The investments that were reported for the statistics on finance of non enterprise groups (SFO; report at the OND level) were compared with the sum of investments that were reported for the statistics on “Investments in the tangible fixed assets and lease” (survey at the KAU level).

Although there is a slight difference in the definition of investments between the two surveys, the data supplied is comparable.

A significant difference was found in the data of Fancy between the two (SFO versus Investments) of € 80 million and € 50 million respectively. Consultation with the respondent led to the conclusion that this difference is caused by entities that are not included in the investment survey. Specifically, one legal entity that was characterized as a financial holding company (NACE 65234). Such entities are not considered into KAUs, because they have no market-related activities and no employees. However, a joint-venture with a refinery required significant investments. Those investments were set up as assets for the stakeholders– consequently set up as assets at entity with NACE code 65234. Hence the difference in the investments data of those two statistics.

Value of investments in tangible fixed assets

Name\type survey	SFO	Investments survey
Enterprise group Fancy	80.000 euro	---
KAU 1	---	40.000 euro
KAU 2	---	10.000 euro

Based on those findings the legal entity became a KAU with activity code refinery. The KAU was added to the output data (once only in 2006), furthermore this KAU was added to the survey sample (redesign survey).

Results of this adjustment:

- Better survey sample, redesign
- Better quality output

The adjustments relevant to:

- Inconsistencies between statistics (SFO versus Investments)
- Level of investments in the Netherlands

Example 3: Tolling (post active)

A multinational, 'Tolling', with headquarters in the Netherlands, owns a manufacturing unit in the Netherlands which produces chemicals, polymers etc. for a wide range of industries. The manufacturing unit was unable to provide specified data on output and raw materials.

In the survey for the Production Statistics, the Dutch manufacturing unit is unable to provide specified data on output and raw materials. Specifications of *industrial services* and related inputs (energy and other expenses) are provided instead. The Dutch manufacturing unit considers the production of industrial services as its main activity. In this case the ownership of the goods and management of the production process are in hands of the parent company. It provides the manufacturing unit with raw materials and is responsible for the sales of the final products. The parent company controls all activities in Europe and owns manufacturing units in other European countries as well. According to this form of organization, the parent company considers itself a converter. The converter (unit) contracts the production process out to a producer of specialized industrial services. However, the converter and the producer of industrial services can not be part of the same company (reference: definitions used in ESA 3.133 and in international trade, where deliveries between affiliates are instances of imports and exports without the transfer of legal ownership). This is incompatible with the net registration of industrial services in the balance of payments. Criteria such as *managing the production process* or *the legal ownership of the inputs and the finished product* are not relevant in the distinction between producers of industrial services and the production units of multinationals.

It is possible to come to a desirable solution in gathering information for estimating gross value added. The preferred recording has to be reconstructed based on incomplete information from the manufacturer. This information consists of the wage sum and the number of employees. The gross value added of the manufacturer can be estimated using these indicators.

If the manufacturing unit had information on imports and exports, these data could have been used to estimate output. However, the manufacturer is not engaged in foreign trade since the parent company is located in the Netherlands. In addition, the parent company established a wholesale unit in the Netherlands that operates separately from the manufacturing unit. This wholesale unit submits data to the survey for International Trade Statistics.

The wholesale unit operates in the European market. The parent company sells final products to this unit whenever there are customers for the final products. The problem of internal transfer pricing at non-market prices (cost prices) might occur in this case. The conclusion is that part of the exports is produced in the Netherlands. It should be possible to link this with the data of the manufacturing unit.

Statistics Netherlands found out that it makes sense to ask Tolling Europe for data on the manufacturing unit. In the Business Register the parent company is considered a small

unit because it employs few people. Usually, small companies are required to submit data on a sample basis. The wholesale unit and the manufacturing unit are required to submit data.

In cooperation with the parent company (Tolling Europe) Statistics Netherlands managed to obtain data on raw materials and output of the manufacturing unit at market prices. Since the parent company owns manufacturing units in other countries as well, the problem of the demarcation of foreign units arises. This problem was discussed with the parent company, which can provide the necessary data. Information on the Dutch activities can be provided by the respondent by deconsolidating the foreign affiliates from the books. The problem with internal transfer pricing between the parent company and the wholesale unit does not occur. The data from the wholesale unit (Tolling Sales Europe) show a normal trade margin. The unit does not produce a high gross value added and does not have a high operating surplus. Based on additional information, Statistics Netherlands was able to adjust the figures of the manufacturing unit in the National Accounts.

Results of this adjustment:

- Quality of the output will be better: no gaps or illogical information supplied

The adjustments are relevant to:

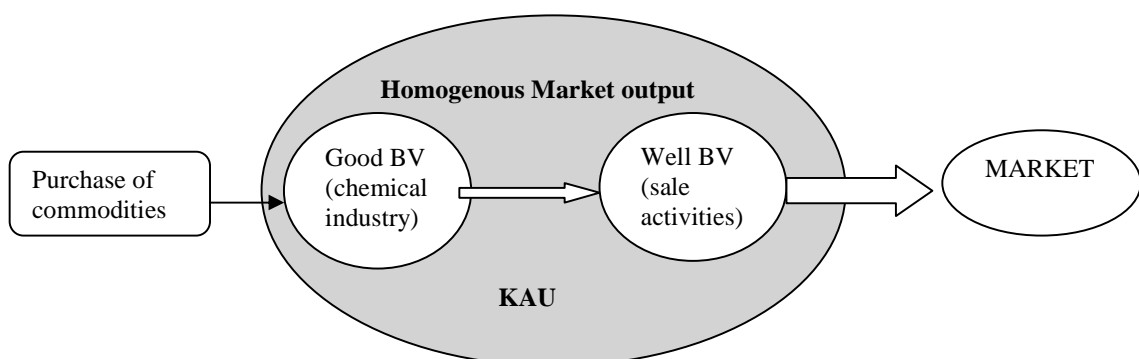
- The production structure of the Dutch economy
- Inconsistencies between statistics: Production and International Trade Statistics

Example 4: Goodwill (pro active)

After the automatic profiling of the enterprise group “Goodwell” there are two recognizable active entities: “Good” with NACE code production of chemicals and “Well” with NACE code wholesale dealer of chemical products. At first sight those two entities could easily become one KAU each. However, since we know this enterprise well, we had our doubts whether those entities should each become KAUs.

We contacted the respondent and found out that the entities are in fact one KAU. The products made by entity “Good” are sold at cost price to the entity “Well”, which subsequently sells the chemicals to the third party at market prices.

Considering that a KAU is an entity with homogeneous market-related activities, and that we didn’t want to record the two entities separately, we opted to combine those two entities “Good” and “Well” in one KAU with NACE code production of chemicals, as this is market output of the KAU.



If we didn't combine them into one KAU we would have contaminated the output data of the production of chemical industry with data from a company that never makes a profit or a loss. Moreover we would include a company in the output of the trade statistics that has a relatively high profit compared with other traders.

Furthermore, part of the value added is transferred from production to trade while the total of the value added is unchanged.

Results of this adjustment:

- Better survey sample (generally)
- Quality of the output will be better: no contamination

The adjustments are relevant to:

- The production structure of the Dutch economy
- GDP (value added)

Example 5: Supermarkets (pro active)

A big enterprise group is going to reorganize and as a result they will sell the supermarket chain "Koala". In the first instance two other enterprise groups (Jos and Klos) will purchase this chain. They set up a joint-venture "Witje" that will act as the purchaser on behalf of the two enterprise groups. The owners determine that Witje will cease to exist after 18 months. During this time the supermarkets will either be incorporated in Jos or Klos or sold. This transition started in the course of 2006 and took place gradually, with weekly changes.

Thanks to the excellent contacts built over the years with all parties (sellers and buyers) we received information about these plans before they actually took place. Part-owner Jos took care of the financial administration of "Witje" and in consultation with this enterprise group we received the financial data of "Witje" on the regular basis as well as information about all the movements in the data file of the supermarkets: the sale of the supermarkets to shareholders or a third party.

This information was essential in particular for the short term statistics (monthly index) and thanks to this way of operating, we could prevent the inconsistencies in the observation and secure the continuity of the data.

Results of this adjustment:

- Quality and quantity of the data output is guaranteed
- The turnover increase at Jos and Klos and the turnover decrease at Koala is explained

The adjustments are relevant to:

- The production structure of the Dutch economy
- Solving inconsistencies between statistics: annual statistics versus short term statistics

Example 6: Enterprise group DIY (pro active)

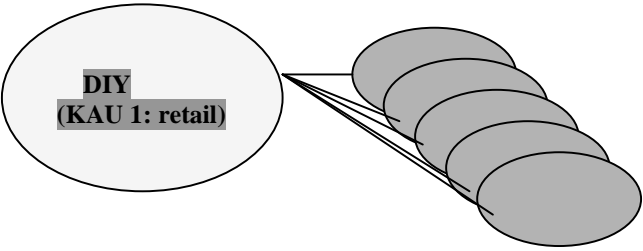
Enterprise group DIY operates a great number of 'do it yourself' businesses and that's why the data from this enterprise group is collected under the NACE code of retail trade.

In the regular meeting with the respondent it came up that the first franchise will be opened shortly and that a rapid increase in the number of franchises is expected over time.

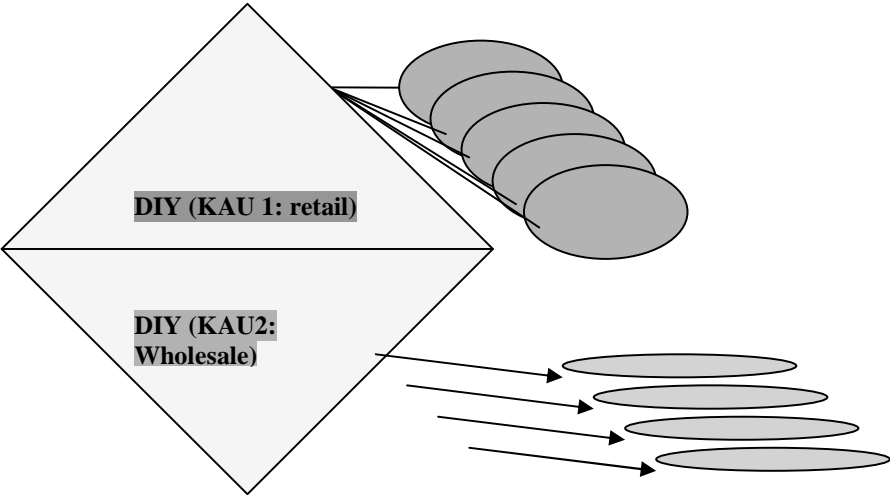
Given that a franchise holder is an independent entrepreneur, the DIY will ever more behave as a wholesaler. To prevent the data of the retail trade statistics from being contaminated, a new KAU is created for the wholesale activities. In the beginning, when the number of the franchises is still limited, there will be transparent agreements on operating margins so that the real development will be shown in the wholesale and retail trade.

We know from experience that the ratio between franchisee and own branch stores will reverse as the franchise chain grows, and that the respondents often legally separate the wholesale activities. In this case the wholesale was not legally separated, only the financial administration was divided in the administration of retail activities and administration of wholesale activities. For the statistical purposes it is important to separate retail from wholesale activities, that's why the new KAU was created even though we were still speaking about one legal entity.

Original situation: DIY and its own 'do it yourself' businesses; legal entity is KAU



New situation: DIY, its own 'do it yourself' businesses and franchise businesses; legal entity is divided in two KAUs



Results of this adjustment:

- The sales of the franchises do not end up in the retail trade data
- The trading account shows the correct course of affairs within the 'do it yourself' branch

The adjustments are relevant to:

- The production structure of the Dutch economy
- GDP (value added) per branch

Conclusions

Concern coordinator is intermediating between the (group) enterprises and statistical wishes as defined in the statistical output.

Whatever the companies are creating in the meaning of legal structure, legal property of goods, pay services etc concern coordinator must always be able to set it properly in the legal and statistical structure of the enterprise. This statistical structure must be meeting the requirements of all sorts of statistical surveys and must be equal (business enterprises) or complementary to DNB structures.

For such a match is needed on the one side a deep knowledge of the enterprise legal and reporting structures, on the other side knowledge and understanding of the statistical output and the effects of the certain variables on the 'picture of Dutch economy'.

The activities of the concern coordination in practice lead to the following results:

- a) Better link and connection between the information requirements from Statistics Netherlands and the business administration;
- b) Match of legal and statistical structures with DNB;
- c) Reducing the response burden;
- d) More reliable output;
- e) Good contacts with the respondents.

Costs and benefits of concern coordination

It is almost impossible to make a cost/benefit analysis of the activities that are leading to an optimal *statistical structure*. The necessity of this work is nevertheless obvious as TOP 350 entities cover 80-95% of the crucial KAUs for most of the basic source statistics and SFO. Without business profiling the legal structure will be accepted as a *statistical structure*, which will lead to nonsense information in most cases. The users of the statistical output run the risk of drawing false conclusions based on such information.

So the benefits can be defined as proper a *statistical structure* that can be used for most of the statistics. The costs are difficult to define, but in the case of Statistics Netherlands they are related to the cost of the staff of the concern coordination group.