

Constructing an Enterprise Frame for the 2011 Survey of Enterprises in the Philippines

Carmelita N. ERICTA
Administrator, Philippines National Statistics Office

1. Background and Rationale

The United Nations Statistics Division recommends that countries adopt the 2008 System of National Accounts (SNA) for international comparability. In 2010, the Philippines adopted this recommendation by revising the Philippine System of National Accounts (PSNA) from the 1968 SNA to the 1993 SNA and to some extent the 2008 SNA. The base year was also rebased from 1985 to 2000. The switch to the 1993 and 2008 SNA require new kinds of source data that can be obtained either from surveys or from administrative data sources. It further puts pressure on the program of business surveys of the National Statistics Office (NSO) to generate the required statistics.

To address the PSNA requirement, the NSO received financial assistance from the World Bank Country Assistance Strategy (WB-CAS), a grant under the Trust Fund for Statistical Capacity Building (TFSCB): Improving the Quality and Usefulness of the Philippine System of National Accounts (TF093517) in mid-2009; and the Australian Grant for Improving Data Coverage and Quality of Surveys in Support of the PSNA - Phase II (TF098613) in early 2011.

Phase II of the World Bank Project supported the NSO in the conduct of the 2010 Pilot Survey of Enterprises in the Philippines (PSEP) in November 2011 until January 2012. The PSEP results indicated that an enterprise survey can address coverage and content issues more adequately and appropriately than the usual establishment surveys.

Firstly, the PSEP provided information on parent companies, subsidiaries as well as branches which brought out opportunities of improving the coverage of the List of Establishments (LE) being maintained by the NSO. Secondly, with a small number of samples by activity, the PSEP respondents accounted for significant portions of economic activity in their own sectors. Variables which were identified as problematic in the 1993/2008 SNA compilations such as revenue, cost and fixed assets were observed to be greater than those captured in the Annual Survey of the Philippine Business and Industry (ASPBI). Together with better coverage, improved estimates of economic and financial variables (employment, income, subsidies, expenses, assets and inventories) can be estimated.

The 2011 Survey of Enterprises in the Philippines (SEP) was conceptualized based on the design of the PSEP. Data at the enterprise level may provide a better understanding of the behaviour and new ways in which businesses are organizing and operating in the global economy. The enterprise survey approach is also expected to address the collection problems of the NSO such as the:

- increasing number of referrals to a unit capable of providing the requested information;
- increasing number of consolidated reporting; and
- growing reluctance among respondents to provide data through the many separate survey requests sent to them monthly, quarterly and annually.

2. The Enterprise- Definition, Structure and Taxonomy

The 2008 International Recommendations for Industrial Statistics (IRIS 2008) defined enterprise as the smallest legal unit, that is, an organizational unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. An enterprise may be a corporation (or quasi-corporation), a non-profit institution, or an unincorporated enterprise. An enterprise may be engaged in one or more economic activities.

For the purposes of the 2011 SEP, the operational definition of an enterprise is as follows:

Enterprise is the smallest legal unit producing goods or services, which benefits from a certain degree of autonomy in decision-making, especially for the allocation of its current resources. It carries out one or more activities at one or more locations. It maintains all records relating to its production activities and transactions including financial and balance sheet accounts from which international transactions, international investment position (when applicable), consolidated financial position, and net worth can be derived.

Further, an enterprise may be **simple** or **complex**. A **simple enterprise** is an organizational unit comprising of an establishment (single unit) or multiple establishments (units) engaged in a single industry, regardless of location; while a **complex enterprise** consists of multiple establishments (units) operating in multiple industries regardless of location.

The definition was made possible through the World Bank Country Assistance Strategy (WB-CAS), with a grant under the Trust Fund for Statistical Capacity Building (TFSCB): Improving the Quality and Usefulness of the Philippine System of National Accounts (TF0935I7).

A standard set of categories of enterprises reflective of the varied structure and complexity in Philippine setting was likewise defined. An enterprise register which will contain the active (in operation) enterprises and the link with all constituent establishments started to be created. The profiling task on the List of Establishments (LE) greatly contributed to adequately identify and delineate the statistical units in the survey frame to ensure the most efficient structure for collection of statistical data from the 2011 SEP. The statistical structure was constructed to be, as nearly, the same as the existing legal structure of businesses capable of providing the required information for the SEP.

Adapted in the 2011 SEP is the preliminary business structure (see Figure 1) based on the result of the initial profiling done on the 2010 edition of the SEC Top 25000 Corporations (as linked with the LE) for the 2010 Pilot Survey of Enterprises in the Philippines (PSEP).

These are as follows:

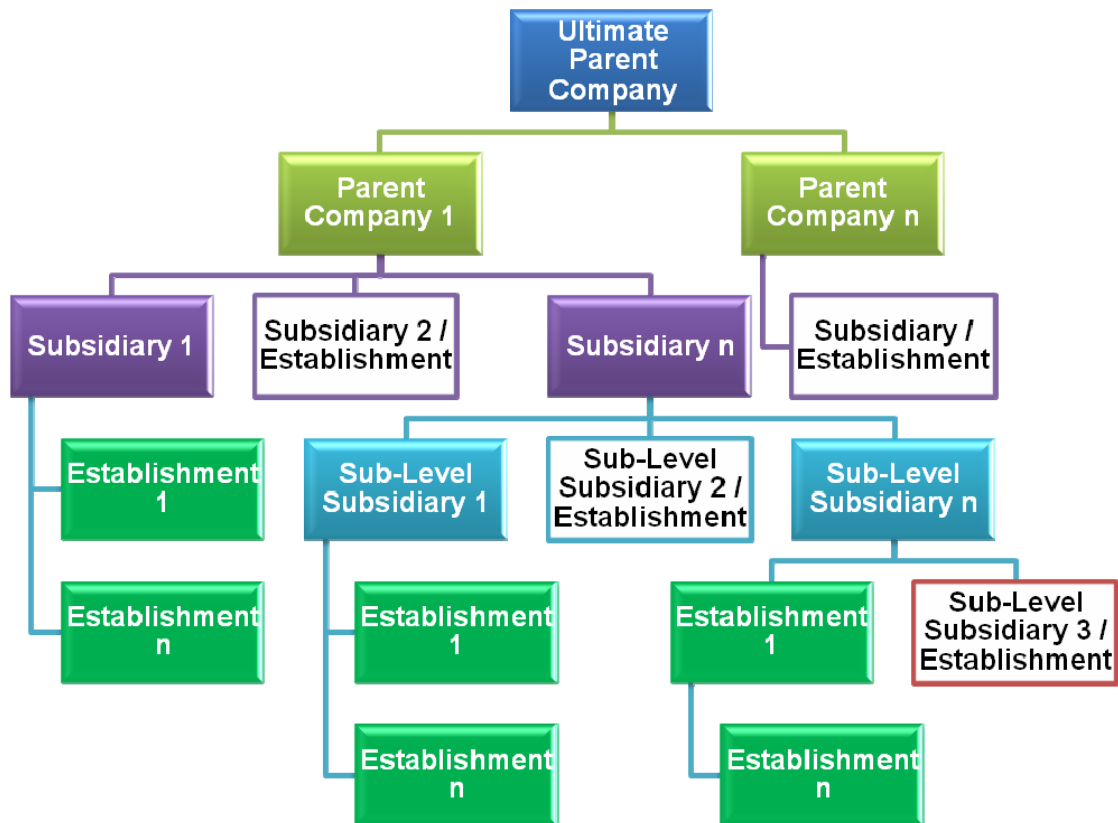
Parent Company is an entity with one or more subsidiaries. It may have establishments, plants, divisions, branches, under its control.

Subsidiary is an entity that is controlled by a separate higher entity called the **parent company**. The controlled entity maybe a corporation or limited liability company and in

some cases can be government-owned or controlled corporation. It may have one or more establishments, plants, divisions, and/or branches.

Establishment is an entity with the most homogeneous level in terms of production. It can provide information on total production output, cost of materials, services and wages and salaries. An establishment is an economic unit under a single ownership or control, i.e., under a single legal entity, engaged in one or predominantly one kind of economic activity at a single fixed location.

Figure 1. Hierarchical Structure of an Enterprise



To facilitate delineation of an enterprise or enterprise group and its position in the organization, the business hierarchical structure of complex and simple enterprises was further differentiated according to the following criteria: number of economic units, type of economic activity and location of the economic unit/s. (See Table 1). These criteria will be used to define the Enterprise Unit Composition (EUC) (Refer to 3.3) Indicator which describes the enterprise and identifies its position in the business hierarchical structure.

In operational terms, the simple and complex enterprises are defined as:

Complex enterprises consist of multiple unit enterprises (establishments) engaged in multiple economic activities, regardless of location. Conversely, **simple enterprises** are those with a single unit enterprise (establishment) or with multiple unit enterprises (establishments) engaged in the same single economic activity, regardless of location.

Table 1. Types of Enterprise and Their Criteria

Type of Enterprise	Criteria		
	Number of Economic Units	Type of Economic Activity	Location
SIMPLE	Single unit	Single economic activity	Single location
	Multiple units	Same Single economic activity	Single location
	Multiple units	Same Single economic activity	Multiple locations
COMPLEX	Multiple units	Multiple economic activities	Single location
	Multiple units	Multiple economic activities	Multiple locations

Enterprises are likewise classified according to their Legal Organization (LO), industry and employment size. The LO refers to the legal form of the economic entity that owns the enterprise. This provides the legal basis for ownership. The following are the types of LO:

- **Single Proprietorship** refers to a business enterprise organized, owned and managed by one person, who alone assumes the risk of the business enterprise. A sole proprietorship must apply for a business name and be registered with the Department of Trade and Industry (DTI).
- **Partnership** refers to an association of two or more individuals for the conduct of a business enterprise based upon an agreement or contract between or among them to contribute money, property or industry into a common fund with the intention of dividing profits among themselves.
- **Government Corporation** also called *Government-Owned and Controlled Corporation (GOCC)* refers to a corporation organized for private aim, benefit or purpose with the government as the majority stockholder, regardless of whether they are stock or non-stock corporations.

- **Stock Corporation** refers to an ordinary business corporation organized by private persons, created and operated for the purpose of making a profit which may be distributed in the form of dividends to stockholders on the basis of their invested capital.
- **Non Stock, Non-Profit Corporation** refers to a business corporation which does not issue stock to its members and are created not to profit but for the public good and welfare. Of this character are most of the religious, social, charitable, educational, literary, scientific, civic and political organizations and societies.
- **Cooperative** refers to an organization composed primarily of small producers and/or consumers who voluntarily join together to form a business enterprise which they themselves own, control and patronize.
- **Others** refers to an organization not classified in any of the above classification. It includes private associations, Non-Governmental Organizations, or other forms of legal organizations.

The industrial classification of an economic unit is determined by the activity from which it derives its major income or revenue and with the top-down method as guide in determining the main activity. The Philippine Standard Industrial Classification (PSIC) is a detailed classification of industries prevailing in the country according to the kind of productive activities undertaken by the unit. The **2009 PSIC** is presently utilized to classify economic units according to their economic activities.

The size of an enterprise is determined by its total employment (TE). The following are the employment size classification used:

TE Code	Total Employment	TE Code	Total Employment
0	1 – 4	5	100 – 199
1	5 – 9	6	200 – 499
2	10 – 19	7	500 – 999
3	20 – 49	8	1000 – 1999
4	50 – 99	9	2000 and over

3. Constructing the 2011 Enterprise Frame

The enterprise frame was constructed from the 2011 List of Establishments (LE). The 2011 LE was the combined result of the complete enumeration in priority barangays and field verification of establishments from different sources not on the 2010 LE data base. The major sources of updates are the Securities and Exchange Commission (SEC) 2010 edition of Top 25000 corporations, the Philippine Economic Zone Authority (PEZA) list of registered enterprises as of December 31, 2010, Department of Labor and Employment (DOLE), member establishments of industry associations and survey feedbacks.

Translating the operational definition of an enterprise in the LE, the enterprise is composed of the main office and the branches and ancillary units under it. Thus, the enterprise is:

- a single establishment, or those classified with Economic Organization (EO) Code =1 ,
- establishment and main office located in the same address and with branches elsewhere (EO=3) together with its branches (EO=2), and
- main office (EO=4) together with its branches in the LE

A crucial step in the construction of the enterprise frame is the validation of the reported EO in the LE to get the characteristics of the enterprise. First, it must be linked to the units under it through the Tax Identification Number (TIN). The following activities were undertaken:

- Extract units in the 2011 LE belonging to the formal sector. These are the units except those with EO=1, LO=1, and TE less than 10, and with Current Status (CS) = 1 (in operation).
- Attach the TIN to those with no/blank TIN.
- Validate the TIN of those establishments with number of digits not equal to 12. Search for the TIN of the units in the BIR list of tax filers as of August 2011.
- Edit the TIN format, i.e. the TIN is composed of 12 digits, with no hyphen/dash. The last three digits of the TIN refer to the branch code. For establishments in the LE, with undetermined branch code, assign 999 as branch code.
- Upload the valid TIN in the Maintenance of the List of Establishments (MLE) system.
- Sort the establishments by TIN.

Each enterprise has a unique TIN. Units with the same first nine-digit of the TIN belong to the same enterprise.

Units in the LE which are listed as branches/ancillary units but their main offices are not on the LE data base were also considered as enterprises. These enterprises were classified as multi-unit enterprises.

Supply of TIN to the establishments belonging to the informal sector was not a priority. However, some of the units in the LE belonging to the informal sector have TIN. These TINs were also sorted. Two or more units under the same TIN shall be re-classified under the formal sector. These, however, did not form part of the final enterprise frame used in the SEP.

- Review preliminary list of enterprises.
 - a. Determine the employment size of the enterprise by simply (adding the employment of the units (main office, branches, ancillary units).under the enterprise.
 - b. Verify the industry (PSIC) code of branches and determine the industry code of the enterprise using the top-down approach with employment as the basis for determining predominant activity.
 - c. Determine the correct address of the enterprise. Generally, the address of the enterprise is the address corresponding to the single establishment, establishment and main office at the same address, or main office only. Exception is when the

establishment has a reporting unit. In this case, the address should be that of the reporting unit.

- d. Assign an **enterprise unit composition (EUC)** indicator to the enterprise. The EUC is a three-digit code which describes the type of enterprise and identifies its position in the business hierarchical structure. This is based on the number of economic units, the type of economic activity and location of the economic unit/s of the enterprise as shown in Table 1.

Example : 2-1-2
 1-1-1

The first digit refers to the number of economic unit/s:

- 1, for single unit, and
- 2, for multi-unit enterprises (i.e. with branches and/or ancillary units)

The second digit refers to the type of economic activity:

- 1, for same single economic activity and
- 2, for multi-activity (i. e different economic activity for each economic unit) .

The third digit refers to the location of the economic unit/s

- 1, for single location, and
- 2, for multiple locations (i.e. with branches and/or ancillary units)

- e. Ensure that the business name and registered name are written properly.

- Generate final list and distribution of enterprises.

Before going through the process enumerated in section 3.3, there were 820,268 establishments on the 2011 LE data base, 86 percent of which are in the informal sector and 14 percent (about 150,000 establishments) in the formal sector. In the formal sector, about 86,000 are single establishments, and 25,000 are multi-unit establishments. These numbers were further refined after the completion of the linking activities.

After the initial processing, that is, cleaning the establishments with invalid TIN, the number of enterprises in 2011 is 114,539 (covering 195,000 establishments). This comprised the frame of the 2011 SEP. Distribution of establishments in the 2011 LE, however revealed that about 92 percent were classified as the simple and the remaining 8 percent, or 8,784 enterprises were considered as complex enterprises.

The enterprise frame contains the list of active enterprises engaged in the production of goods and services in all sectors of the Philippine economy. It includes identification, location, contact information, organization, industrial classification (PSIC), employment and total assets.

4. Issues

The construction of the 2011 enterprise frame was not problem-free, much more since it was the first attempt to create such a frame. Coverage is a major concern. Due to time constraint, attaching of TIN was not done to the units belonging to the informal sector. There were cases where establishments originally classified as informal were classified to formal because of presence of several units under one TIN. These units were classified as single

establishment and not as branch on the LE data base and were thus considered single enterprises.

Linking of establishments from the LE data base found no match with those on the BIR list of tax filers (secondary source). Possible explanation:

- TIN in the LE is not the TIN of the establishment
- The establishment in the LE opened after August 2011. The BIR list is as of August 2011.

Presence of duplicates.

- Possibility of main offices reported on the LE that do not correspond to the main office as reported on the BIR list
- Listing of business name and registered name on the LE and BIR list are presented in different formats which could both result to duplication.

5. Plans and Strategies for Updating the 2011 Enterprise frame

The construction of the first enterprise frame leaves much for improvement. The NSO conducted the comprehensive 2012 Updating of the List of Establishments (ULE) and the 2012 Survey of Enterprises in the Philippines (SEP) in 2012. These will be the major sources of updates to the present frame.

The profiling of enterprises which started in 2011 provided major learning to the NSO technical staff on the structure and reporting of financial statements of enterprises in the country. Enterprises and corresponding establishments not in the present register were identified. Some of the characteristics needed for the register were recorded but these were not yet reflected in the MLE (Maintenance of the List of Establishments) System. Further probing on the characteristics has to be done. These shall be undertaken in 2013.

The SEC is willing to lend the financial statements of enterprises for 2010. These documents provide important information for profiling. These can be updated using the SEC-iView where the public is given the convenience of getting copies of the financial statements and general information sheet from their own internet-enabled PCs.

Continue securing updated list of tax filers from the Bureau of Internal Revenue (BIR). More importantly, work for a memorandum of Agreement with the BIR on access to the TIN data base.

Re-design the current MLE system to consider additional fields such as total employment, total assets, total revenue, and to have modules for adding units with complete information.