

<b>28th Meeting of the Wiesbaden Group on Business Registers</b>
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Profiling complex Statistical Units (SUs) Profiling and Large Cases Units
<b>Profiling in Germany – A practical insight from Lower Saxony</b>

## **Abstract**

Germany started with the implementation of “Profiling” in 2017. According to the national statistical system of Germany, the “Statistisches Bundesamt” is responsible for the methodology and the statistical offices of the federal states (“Länder”) are responsible for the practical part of profiling.

The profiling process in Germany includes several parts. First of all: The year-round profiling process usually starts with choosing the “right” enterprise groups for profiling. The question is: which enterprise group should be profiled? The large ones, the complex ones, those who often reorganize?

After choosing an enterprise group for profiling, the profiling process starts with finding the correct group structure. Germany has to buy market data for group structures due to the lack of administrative data. Which data and information the profilers use to find the correct group structures will be part of the presentation.

When the profilers are sure about the enterprise groups the real profiling starts. With the help of the financial statements, websites, press articles and so on the profilers determine the enterprises within the groups. The determination is taken according to the well-known methodology on the main aspects of “autonomy”.

When the information is clear the profiling can be finished after checking all information and data from the “desktop” view. If the enterprises cannot be determined a personal contact with the enterprise group is the only way to fully understand the enterprise group. The experience gained from these contacts led directly into the improvement of the profiling process in Germany.

The results and findings from profiling are going directly into the national business register and is therefore helpful for other users like SBS, LCU, EGR and so on.

In our presentation we want to give an inside of our way of profiling, the data and information used and we want to give some insights from the personal contacts with the enterprise groups.

## **1. Preliminary remarks**

Niedersachsen (“Lower Saxony”) is one of the 16 states in Germany. It has around 8 million inhabitants (2022) and an annual GDP of around 319’000 million Euros (2021).<sup>1</sup> In terms of GDP Niedersachsen is responsible for around 9 percent of Germany’s economy.

The statistical system in Germany is organized federally. In manual profiling in Germany the federal statistical office of Germany (=Destatis) is responsible for methodology and coordination. The responsibility of practical profiling is in the hands of the statistical offices of the states (“Länder”).

## **2. History of manual profiling in Niedersachsen**

In 2017 manual profiling in Niedersachsen started with 3 profilers. In this year the first desktop profilings were completed. In 2018 the first intensive visits were prepared and realized. Through the years more and more manual profilings were finished. The results of these profiling cases led directly to the improvement of the profiling methodology. Currently more than 300 manual profilings will be completed every year from the profilers in Niedersachsen including two or three new intensive profiling visits. From 2021 on, Niedersachsen employed a fourth profiler in order to work on the profiling cases for the state of Bremen.

## **3. Data on enterprise groups**

Before manual profiling can start, there is a need of data on enterprise groups. In Germany there is no administrative data source available with information on enterprise groups and group structure. Therefore, it is necessary to purchase data from a commercial provider. The commercial provider has to provide the data according to the specific requirements as determined by Destatis and the statistical offices of the Länder, e.g. according to the statistical concept of control.

This data on enterprise groups is processed into the German statistical business register. Afterwards there is a first picture of enterprise groups available. Around 24’000 enterprise groups are based in Niedersachsen.

Around 14 percent of the 310’000 legal units in Niedersachsen are part of enterprise groups, but they are responsible for 78 percent of the turnover of the economy of Niedersachsen. And 61 percent of all employees are working in these legal units.

## **4. Stages of manual profiling**

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<sup>1</sup> Numbers for Germany: 83 million inhabitants (2022) and a GDP of 3’601’7500 million Euro (2021). Source: Eurostat database; tables: NAMA\_10R\_2GDP and DEMO\_R\_D2JAN.

The profiling process can be divided into different parts. The method is obligatory for all profilers in Germany, thus the way of profiling is the same no matter whether the profiler is working for Niedersachsen or not.

## **4.1 Preparation**

At the beginning Destatis is running an automatic algorithm, which suggests 230 manual profiling cases for Niedersachsen for the current profiling year 2022. Afterwards the profiler chooses one of these enterprise groups for profiling.

First of all, the profiler validates the group structure of the chosen enterprise group. With the help of the annual reports the correct group structure is identified because the provided commercial data might contain errors. Sometimes the commercial provider e.g. didn't identify a legal unit as controlled. Of course, also other resources as websites, trade registers, databases, other commercial data and press releases or media reports are helpful to get a full picture of the structure of an enterprise group. It is also important that the profiler looks whether the legal unit with the highest control in Germany is located in Niedersachsen. If this is not the case, the profiler from the state where the enterprise group is located (e.g. Berlin), is responsible for the profiling of this enterprise group.

After the validation of the group structure the profiler looks whether there is a manual profiling report of the last year available. If this is the case the profiler has to evaluate whether the manual profiling is still valid. Then the profiler makes a decision on updating the results without changes or with (minor) changes. If no profiling report is available a (first) desktop profiling starts.

## **4.2 Profiling**

The identification of enterprises follows according to the rules of autonomy as written in the "Methodology of Profiling"<sup>2</sup>:

- An enterprise has accounts at its disposal
- The operations of an enterprise are managed in an integrated manner
- The enterprise is market-oriented

After the profiler identified the enterprises, all legal units of the enterprise group will be assigned to the appropriate enterprise. This is the method of Desktop Profiling.

## **4.3 Results**

After successfully identifying the enterprises and assigning the legal units the profiler writes a profiling report and prepares the data that will be directly imported to the business register. If a profiler didn't get

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<sup>2</sup> ESSNet Profiling of large and complex Multinational Enterprise Groups, "Methodology of Profiling, Report of the Work package B of the ESSnet on profiling large and Complex MNEs: Conceptual framework, methodology, rules and standards.", Version 3.0 (Version date 24-01-2014).

a full or clear picture of the enterprises with desktop profiling there is a question to raise: should the profiler wait (one year) for more information or is this a case for intensive profiling?

#### **4.4 Intensive Profiling**

Especially the first visit in intensive profiling is very time-consuming and thus makes only sense for:

- Enterprise groups with a high significance for the economy of Niedersachsen (or Germany)
- Enterprise groups with high complexity
- Enterprise groups with lack of information (e.g. Foundations)

The profilers started with a focus on enterprise groups with a high significance for the economy of Niedersachsen and hence for the Germany economy. Recently the profilers had a deeper look on enterprise groups with missing information.

Since 2018 Niedersachsen held 7 (first) intensive profiling visits. Afterwards the meetings were annually repeated. Usually these are video calls to talk about the necessary updates.

When preparing a first intensive visit, it was often the first task for the profilers to find the right person in the enterprise group to answer their questions. After finding the contact person it was necessary to prepare the visit very well. During the visit the statistical method to define the enterprises was explained. Afterwards the profilers raised their questions.

The visits were usually very successful for both sides. The profilers gained a lot of information to understand the way the enterprise groups are structured. And of course, the enterprise groups tried to understand the statistical concept of manual profiling.

The profiles were able to get information about the enterprise groups itself, their structure and of course the corresponding legal units. The profilers also gathered information about legal units the enterprise groups are not reporting about. Additionally, other helpful information was exchanged, e.g. the NACE codes of the legal units.

There was only one visit so far where the enterprise group wanted to tell the profilers that the statistical concept of control was wrong and that they just don't fit into this system. In this case it was necessary to reschedule the visit. In this case it was necessary to be persistent in the concepts.

Sometimes the profilers need to reflect how the information they get from the company can be treated in manual profiling.

After all, it can be noted that the visits led to better results in manual profiling. Further contacts were established for annual repeats and this was also very helpful for the upcoming visits of the colleagues of the LCU. Additionally, it needs to be said that the first visits in 2018 were on a voluntarily basis. So only enterprise groups that were willing to cooperate had to answer the profilers' questions. Now the

German legislation has been adjusted, so that the profiling visit is obligatory for the enterprise groups. So, the next visits will show how cooperation under these circumstances will work out.

Of course, not all of the information the profilers want to get are available. Often the enterprise groups declared the internal financial reporting as a business secret. Thus, some relations cannot be cleared, e.g. the profilers don't get information whether the head of the enterprise group (often the holding) is working for more than one enterprise and to what percentage.

During the profiling visits the profilers also wanted to achieve that the enterprise groups report consolidated data on turnover and data on employees according to the identified enterprises. In half of the intensive profiling cases this didn't work because the enterprise groups stated that their internal reporting is different from the statistical understanding of enterprises. In this case the data on enterprises is a sum of their corresponding legal units. For the SBS results Destatis is running an algorithm on consolidation.

#### **4.5 Data**

After the successful manual (intensive) profiling all data will be directly transferred into the German business register, e.g. data on group structure, enterprises and their corresponding legal units, NACE-Codes for legal units. These information are directly available for the user, e.g. SBS, LCU, EGR. For the data collection the German profilers use a tool called "iProfAnt"<sup>3</sup>.

After finishing the manual profiling the responsible profiler can also make remarks on the future of the enterprise group. If there are changes in 2023, these information have to be evaluated in the profiling of this enterprise group in the profiling year 2023 (profiling starts in 2024).

If the profiler has a specific problem with the manual profiling which is not written in the methodology, the case will be discussed in the national working groups. These working groups meet regularly under the lead of Destatis. The discussion of the cases probably lead to an adaption of the methodology of profiling. Additionally, the working groups are regularly looking for potential new data sources.

Finally, the profilers in Niedersachsen completed 337 manual profilings in 2021. In 299 cases an update of a previous years manual profiling was done. For 36 enterprise groups a first manual profiling was finalized and in two cases an intensive profiling visit was realized. Altogether the profilers identified in total 1'727 enterprises in these manual profilings.

For 24'000 smaller enterprise groups the automatic algorithm run by Destatis identified around 50'000 enterprises.

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<sup>3</sup> Simon Rommelspacher, "iProfAnt – Integrated Profiling Analysis Tool", presentation during the 27<sup>th</sup> Meeting of the Wiesbaden Group on Business Registers, 2021.

## Further References

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