

## Data Quality and Limitations

The Business Register is largely based on the Business Number (BN) registration source as collected by the Canada Revenue Agency (CRA). Therefore, the quality of counts on the Canadian Business Patterns (CBP) is heavily dependent on the quality of the information submitted by Canadian businesses when applying for their Business Number.

### **Location counts:**

#### **Creations:**

In general, a location creation on the Business Register occurs shortly after a BN is created for each business registrant by CRA. The BN registrations are used to update the Business Register database on a weekly basis, which results in most new business locations being created only a few weeks after their administrative entry. For a small number of business locations the creation process is delayed by the imprecision or the lack of information concerning the nature of business activity as submitted to CRA. In these cases, the business is contacted to obtain the necessary information for the creation of a location record.

Since the primary trigger of location creation is the CRA administrative source, only businesses with a BN are represented on the CBP. However, all small unincorporated businesses, indicating annual sales of less than \$ 30,000, and without an employee payroll, are excluded from the CBP counts. The population of those small unincorporated businesses is approximately 600,000.

The June 2006 version of the CBP shows an increase in the number of establishments as a result of a methodological change. There is a new way of identifying newcomers on the Business Register. The following sectors have been affected: NAICS 48-49 (Transportation and Warehousing), NAICS 53 (Real Estate and Rental and Leasing) and NAICS 54 (Professional, Scientific and Technical Services).

#### **Inactivation:**

Businesses are assigned an inactive status on the Business Register when neither a tax payment nor payroll remittance has been made by these businesses for some time. Therefore, the possibility exists that a business may have ceased operation within this time period but remains recorded within the CBP counts.

Failure to make contact with a business during the conduct of Statistics Canada survey activities may also lead to the inactivation of Business Register units.

On an annual basis, about 100,000 units are inactivated on the Business Register based on the above-mentioned signals.

In the December 2000 CBP, you will note a drop in the number of establishments. As well in the June 2005 CBP, the number of smaller establishments significantly declined. These decreases should be attributed, not to economic factors, but to the change in methodology. During the last few years, the Business Register Division has analyzed new administrative sources in order to detect more rapidly and accurately business closures. This has resulted in the use of new signals that are now part of the processes to update the Business Register.

The December 2007 version of the CBP is based on the redesigned Business Register. The statistical structure (including establishments) has been simplified to better reflect the operating structure of the business. The decrease in the number of establishments is the result of our continuous efforts to detect inactive business as early as possible.

The December 2008 and June 2009 versions of the CBP show a decrease in the number of establishments/locations. This can be attributed to the introduction of new 'inactivation rules' that expanded the ability to identify units that are not reporting any economic activity.

### **The geography:**

The December 2010 CBP data showed a marked decrease in counts for the Brockville census agglomeration. This can be attributed to a shift in some of the units which were previously associated with census agglomeration 512 (Brockville) to other census agglomerations.

As of December 2007, the 2006 Standard Geographical Classification is used in the CBP. The spatial coding of locations is based on the Standard Geographical Classification (SGC-2006) maintained by Statistics Canada. The link between a specific business and its geographical code is made using the postal code.

Since the postal code is designed by Canada Post and targets the efficient delivery of the mail, there are many situations where one postal code does not align exactly to the boundaries of a single SGC geographic unit. The smaller and rural geographic units are more subject to this possibility. These situations are more prevalent in rural areas, where the addresses are defined by a single rural route, box or post office within the postal code.

Where a single postal code crosses different SGC geographical units, the Business Register assigns all the locations claiming the same postal code to a single geographical unit, which in general, is the major geographic unit in the surrounding area. There are some situations where locations are counted in geographical units (particularly at the census subdivision level) slightly askew to their true physical locality.

The number of establishments in the census agglomeration 865 – Wetaskiwin increased significantly in the June 2006 version of the CBP because of geographic changes. Additional postal codes now contribute to the census agglomeration.

Starting with the December 2007 CBP version, the number of establishments coded as “residue” (see description below) has increased with the change to the 2006 Standard Geographical Classification (SGC). Since the new geography is based on a more recent version of postal codes, a number of existing postal codes no longer find a matching geography code.

#### **The employment size ranges:**

As of December 2007, for most establishments/locations, the employment estimate is based on a Canada Revenue Agency form (PD7) filled by the employer where the number of employees over the last pay period (full time or not) is reported. This variable is updated on a monthly basis.

Prior to December 2007, for most establishments, the employment estimates were derived using, as a primary input, the amount of payroll deduction remittances made by employers on behalf of their employees. These were estimates and should not be confused with estimates produced by the Labour Force Survey or the Survey of Employment, Payroll and Hours. They are used by Statistics Canada for survey stratification purposes.

Some businesses do not have a payroll deduction account with CRA, but may still have a workforce of contracted workers, family members or business owners. The Business Register does not have this information available and assigns these locations to an “Indeterminate” category within the CBP counts.

#### **The industrial classification code:**

Locations are coded based on the concept of major business activity in a manner consistent with the approach outlined by the North American Industry Classification System (NAICS-2007).

For newly created businesses, the primary industrial coding is initially processed using automated coding software. This software evaluates the activity description indicated by the business and assigns the appropriate industry classification coding (about 50% of new business records). Activity descriptions lacking precision are subjected to a manual coding process (about 50%<sup>1</sup> of new business records). Subsequent to this initial classification process, the industry code may be further updated if:

- the Business Register is notified of a change of activity as a result of a survey contact;<sup>2</sup>
- a subsequent update from the CRA administrative source which mentions a change in the business activities; or
- a business profile is conducted by the Business Register.

Over the course of 1997, the BR implemented the conversion of the 1980 Standard Industry Classification (SIC) coding system to the newly developed North American Industry Classification System (NAICS). The fundamental concepts behind the classification systems (SIC and NAICS) were different: NAICS is based on a production-oriented principle whereas the SIC's basis was the various goods and services produced. While the BR had sufficient information to assign a NAICS code for the majority of business records, over 300,000 businesses were contacted to obtain additional information regarding the nature of their business. Based on this new information a NAICS code was assigned and, where appropriate, the SIC was also updated. The SIC and NAICS 1997<sup>3</sup> coding systems are available on our products as of December 1998 and the SIC is available up until June 2004.

Therefore, any data disseminated after October 2004 only have available the North American Industry Classification System (NAICS) code.

The products that are affected are, beginning with the December 2004 issue, the Canadian Business Patterns CD-ROM, and all customized extractions to clients requesting industry breakdowns by SIC.

Over the summer of 2002 we implemented the revised version of the NAICS: NAICS 2002. As of June 2002, NAICS 1997 has been replaced by NAICS 2002. Two sectors were affected: Construction, and Information and Culture industries.

In December 2006, we implemented another revised version of the NAICS: NAICS 2007. It is important to note that the majority of changes occurred within

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<sup>1</sup> Includes records of businesses that could not be contacted and were returned to CRA.

<sup>2</sup> This will happen only if the business is part of a survey sample.

<sup>3</sup> <http://www.statcan.ca/english/concepts/industry.htm>

sector boundaries with two exceptions. Real Estate Investment Trusts (REITs) which moved from sector 52, Finance and Insurance to sector 53, Real Estate and Rental and Leasing. Executive Search Consulting Services moved from sector 54, Professional, Scientific and Technical Services to sector 56, Administrative and Support, Waste Management and Remediation Services. The greatest change introduced by this revision is in the area of telecommunications, as was the case in the NAICS 2002 revision. As of December 2006, NAICS 2002 has been replaced, in our products, by NAICS 2007.

