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Abstract

The dynamic U.S. economy causes many challenges to accurately measuring employment and wages. One of the more difficult areas is accounting for mergers and acquisitions, also called predecessors and successors. Inaccurate or incomplete measurement leads to overestimation. This paper profiles research findings and describes implementation into the BLS' Quarterly Census of Employment and Wages (QCEW) program, which is the BLS sampling frame and source of a number of economic series. QCEW data are used to identify job growth and decline. The QCEW program is about to implement an initiative to improve the linkage of transfers of businesses from one record to another. This will clearly distinguish births and deaths from expansions and contractions, recognize possible duplicate or missing reporting, and better target potential linkages using wage records and scoring techniques.

Keywords: Business transfers, partials, predecessors, successors, linkages, scoring, wage records

1. Introduction

The Quarterly Census of Employment and Wages (QCEW) Program, also known as the ES-202 program, is a cooperative program between the Bureau of Labor Statistics (BLS) and the 53 State Workforce Agencies (SWA) from each State, District of Columbia, Puerto Rico, and the Virgin Islands. Each calendar quarter, the QCEW program produces a comprehensive tabulation of employment and wage information for workers covered by either State Unemployment Insurance (UI) laws or the Unemployment Compensation for Federal Employees program. Two major sets of data are generated from this information. (1) QCEW employment and wage data are published each quarter for each of the nation, States, metropolitan areas, and counties. A number of private and public sector activities are based on QCEW data. For example, QCEW data are used as a major component

of the national and state personal income statistics and gross domestic product (GDP). (2) Additionally, a set of statistics, Business Employment Dynamics (BED), generated from establishment level QCEW records, are linked across quarters to provide a longitudinal history for each establishment. The linkage allows tracking of net employment changes at the establishment level and provides needed information to estimate jobs gained by opening and expanding establishments and jobs lost by closing and contacting establishments. These quarterly data series of gross job gains and gross job losses statistics are available with 1992 data and forward.

Key components of the job gains and losses include information on openings and closings versus continuous records experiencing expansions and contractions. Linking records treat predecessor establishments and their successor establishments as continuous records. It is also critical when tabulating employment and wage data that no data be duplicated or lost when information transfers from one business owner to the next.

The Predecessor/Successor Team was established in late 2003 by the QCEW Policy Council to propose new policies, procedures, and programs to ensure the accurate identification and treatment of predecessor/successor cases in order to properly reflect business expansions, contractions, births, and deaths in a variety of economic statistics. The goals of the team were to:

- Develop QCEW -appropriate definitions of full and partial predecessor/successor linkages
- Establish clear, consistent instructions and guidelines on processing and handling predecessor/successor situations for use in all SWA's
- Improve State identification of appropriate linkages prior to submittal to BLS
- Eliminate duplication of data between the successor and predecessor
- Improve State and BLS processing

- Ensure industry and area consistency between the predecessor and successor

One of the biggest challenges of the team was to ensure that all the States would be able to process linkages following an economically and statistically sound definition of true predecessor/successor transactions that typically exceeded limited State laws but not literally track individual employee movements, particularly since many employee movements have nothing to do with mergers, sales, or acquisitions of businesses.

2. Survey

In 2004, the team developed a vignette questionnaire which was provided to all states and BLS offices working on the QCEW program. The goal of this voluntary survey was to identify how different QCEW program staff defined and identified predecessor/successor relationships and how these records were treated while processing the QCEW data. In spite of the survey being voluntary with a very close completion deadline with long, complex word problems and questions with few clear cut responses, 48 out of the 53 states provided 50 responses. BLS provided 27 additional responses to the survey.

Using first a series of agency specific questions, the survey compiled information on how each respondent defined predecessor/successor relationships, what legal requirement was cited or applied, what limitations existed, and how consistent those definitions were across States. This information was used as the foundation to develop comprehensive definitions that could be used in all States regardless of their individual laws and regulations.

The second part of the survey was comprised of 11 different vignettes, each followed by a series of multiple choice questions regarding how each respondent processed these cases. After evaluating the responses to the vignettes we were able to develop clear, consistent guidelines for the treatment of different types of predecessor/successor relationships and situations.

3. Incentives and Goals

State employment and wage data are reported on the Quarterly Contribution Returns submitted with Unemployment Insurance (UI) tax payments and predecessor/successor information is reported on the Initial Status Determination forms submitted by new employers. While these reports supply a majority of

the data compiled by the states' QCEW programs, these data are limited because state UI departments are primarily concerned with accounting; keeping the UI Trust Fund solvent. Determining employer successorship is a part of this accounting function and at times involves extensive and lengthy investigation. Statistically, the QCEW program uses these data to measure the expansion and contraction of continuous business establishments, as well as identify business births and deaths. To accomplish this, the QCEW program needed to enhance the UI definition of successor to include worksites of multiple establishment employers, to deal with certain QCEW program requirements, and to identify successors that the state UI divisions may not recognize or simply may not be aware of.

While ETA provides minimum requirements, state UI laws vary as to what is a successorship. Policies and procedures for identifying and reporting them vary as well. For example, some state UI departments recognize partial successorships; others do not. Some allow Professional Employer Organizations (PEO) to report their clients under the PEO UI account; others require that the clients be reported under the client's account.

In addition to varying UI practices, in the absence of clear and consistent QCEW program policies, each state developed their own policies for processing and reporting predecessor/successor data. Statistically, these inconsistencies among states presented a problem for the QCEW program. Comparisons of business dynamics between states could not be reliable and national QCEW data was a mixture of inconsistent state data.

Further, states were limited in reporting successorships by their state QCEW processing systems. Among other deficiencies, there was no efficient means of accurately reporting multiple successorships, where one UI account splits into several accounts or several UI accounts merge into one account. If the results of a successorship resulted in shifts in employment and wages large enough to trigger edit failures, QCEW staff would research these. If this did not occur, successorships could be missed, resulting in false business births and deaths or over or under reporting of employment and wages.

To address and rectify these issues, the joint Fed/State team developed an enhanced Predecessor/Successor definition, implemented new state predecessor/successor processing systems, and provided guidelines and training to state and BLS staff.

4. Legal UI Definition of a Predecessor/Successor Transaction

At a minimum, under state UI law, the successor typically meets at least one of the following:

- Acquires all or part of the organization or management or ownership and/or workforce of another's business
- Acquires the trade or business of the predecessor
- Acquires substantially all of the assets of the predecessor or an identifiable portion of the UI account in a partial sale
- Meets any additional criteria/legal requirements

Any successor determination made by a state UI department is automatically a QCEW successorship. However, reporting only legal UI successors misses many other situations that require that a successor relationship be established for statistical purposes.

The most significant limitation of UI successor data is the level of detail that is reported. Successors are determined at the UI account level, but it is necessary to report this at the worksite level to maintain industry and geographic detail. Sometimes this involves the partial transfer of some worksites of one account to another. At other times it may be the movement between worksites within a UI account. In addition, there are other statistical QCEW program policies that require applying predecessor/successor links to maintain the continuance of business establishments to avoid false births and deaths and to accurately report expansions and contractions.

Other limitations of UI supplied successor data include the time lapse due to the investigation of SUTA dumping and other tax avoidance strategies, as well as the dependence on self-reporting of successorships by employers.

5. Statistical QCEW Definition of a Predecessor/Successor Transaction

To cover those predecessor/successor cases not determined by state UI law, the statistical QCEW definition was developed. As the UI definition fulfills the UI program's accounting function, the QCEW definition fulfills the QCEW program's statistical function: the reporting and analysis of employment and wages by geography and industry;

the maintenance of a comprehensive database of employer information for surveys and research; and the reporting and analysis of establishment births, deaths, expansions and contractions.

There are two components of the statistical QCEW definition:

Employee Link

- Formal transfer of employees from one account to another
- May include transfer of payroll records or personnel files
- Employer transfers employees to an employee leasing company (PEO) and becomes a client of that PEO or vice versa

Multi-establishment Employer Link

- Intra-account employee shifts or changes in reporting configuration of multi-establishment employers resulting in breakouts, collapses, or other reporting changes.

The Employee Link addresses the problem of the time lapse in the UI determination of successorships due to SUTA dumping investigations, as well as the dependence on self-reporting of successorships by employers. State QCEW staff can identify significant employee movement between related employers as a predecessor/successor transaction. This not only preserves the continuous nature of the business establishment for statistical purposes, but also if reported back to the state's UI department, can aid the investigation of the UI determination of a successorship.

The Employee Link also solves the issue of identifying the successorships of employers that are excluded from UI determinations, such as Federal government employers, and in some states, PEO/client relationships.

The Multi-establishment Employer Link addresses the absence of worksite level detail in UI successorships. This part of the QCEW statistical definition includes the intra-account shifts of employees between worksites within a UI account. In addition to actual, economic transfers of employees, this definition includes the linking of worksites that result from QCEW program policies. This component of the definition is critical to the detailed industry and geographic data provided by the QCEW program.

6. Partial Predecessor/Successor Transaction

Definition

Many times only part of a business is transferred to a new employer. Some state UI departments recognize these as partial successorships; others do not. Even when legally recognized, the reporting of these can be problematic. The Partial Predecessor/Successor definition was developed to provide a consistent basis for determining partial successorships in the QCEW program.

- A predecessor's employees are acquired by more than one UI account(s)/worksite(s) (The successor may or may not have existed previously.)
or
- The predecessor still exists, but some of the employees go to one or more UI account(s)/worksite(s).
or
- A portion of the predecessor's employees are acquired by one or more UI account(s)/worksite(s), and the balance of employment can be explained by an economic event, such as a layoff or a closing.

The three components of this definition recognize that several different scenarios can lead to partial successorships. In each one, determining the part of a business that is involved is essential to maintaining the accuracy of industry and geographic detail in the QCEW program.

7. Enhanced Predecessor/Successor Processing and Reporting

The enhanced definitions solved the limitations of the UI determinations of successorships, but the states also needed an efficient means of not only identifying these additional predecessor/successor transactions, but to also process, store and report them. System modifications were developed to solve these issues.

To begin, tools were developed to aide the states in identifying potential predecessor/successor transactions. In some states, QCEW staff used wage record reports submitted to their UI departments to manually research significant shifts of employees from one UI account to another. This was typically done in response to an employment edit failure. In other states, an automated wage record match was

available to do this. Even in those states where this automated tool was available, it needed to do more. Improvements to the automated wage record match were made and will be available to all states. The goal of improving this tool was to make the identification of potential predecessor/successor transactions more efficient so that states could not only resolve edit failures, but also identify other transactions that they had been missing, otherwise resulting in false business births and deaths or misreporting of employment and wages.

Not all employee shifts identified by matching wage records between employers are due to a predecessor/successor transaction. Linking employers based only a wage record match can lead to the over reporting of predecessor/successor transactions and skew the data in the other direction. An additional tool was needed to help make this determination. Successors are normally expected to remain in the same business activity and location. To maintain clients and customers, they may keep the same phone number and trade name. A scoring tool looks at these factors, as well as the percentage of employees involved, and provides a measure of the likelihood that a predecessor/successor transaction has occurred.

The other major limitation in the state systems was the inability to store multiple predecessor/successor transactions. A predecessor/successor table was added to the states' QCEW database in which a record is appended for each transaction. For example: If an employer has two successors, two records are stored for that employer, one for each successor.

Additional data elements were added to this table to also enhance the quality and usefulness of predecessor/successor information. To further address the time lag issue present in many cases when the UI department is investigating successorships, a transfer date was added to pinpoint the effective time period that a predecessor/successor transaction is reflected in the QCEW data. It is also useful to know the source of this data, whether this is a legal UI determination or whether other sources such as wage records, the media or employer contact led to the assignment of a predecessor/successor link.

To further improve the quality of the data, improvements to the editing process were made. Overlapping and missing reports often occur during the transition period when one business succeeds another. Improved edits were implemented to capture these reporting problems, including when

multiple predecessor/successors are involved. Edits were also added to use wage records as a tool to gauge the quality of reported employment and wage data.

8. Prioritizing Potential Links

State staff do not have the time or resources to investigate every potential predecessor/successor link. A score function was developed in order to generate a prioritized list of potential links so that the most likely links are listed first.

For each set of two consecutive quarters (A and B), a summary file was created. The key variable for each observation on this file is the number of workers who were employed by the predecessor in quarter A and by the successor in quarter B. In order to keep the set of potential linkages to a manageable size, the following restrictions were made:

1. The number of transitioning workers must be at least 5.
2. Employment of the predecessor in quarter A must be at least 5.
3. Employment of the successor in quarter B must be at least 5.
4. The number of transitioning workers must represent at least 20% of predecessor employment.
5. The number of transitioning workers must represent at least 20% of successor employment.

A logistic regression approach was used to develop the score function, using data from six states. The following variables are used in the model when comparing a potential predecessor, P, to a successor, S:

- % of P's employment that moved to S
- % of S's employment that came from P
- Number of employees that left P

- Number of employees that started at S
- Indicator variables to identify when there was a match between P and S:
 - 4-digit NAICS Industry Code
 - ZIP Code
 - County Code
 - Employer Identification Number (EIN)
 - Geocodes

9. Summary

The definitions establish a consistent application of predecessor/successor links among states, while the system enhancements enable all states to have equal and efficient means to identify, process, and record these transactions. Together these enhancements improve the QCEW's detailed employment and wage data by geography and industry and the business employment dynamics series, while also enabling reliable comparisons between states.

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