Comparative Analysis of Enterprise Data (CAED) 2012 Submission

Title: Post-Entry Struggle for Life and Pre-Exit Shadow of Death from a Financial Perspective

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Data Abstract – T2LEAP

The data set used in our study is the T2LEAP database. T2LEAP, created by Statistics Canada, is a unique firm-level database that is the universe of incorporated firms that file a tax return and hire employees in Canada. The current version of the database covers the year 1984 to 1998. T2LEAP is a merger of two Canadian administrative databases. The first database, the Longitudinal Employment Analysis Project (LEAP), is used to identify de novo entry and exit, industry classification (at the 3-digit SIC level), and the number of employees. The second database is the Corporate Tax Statistical Universe File (T2SUF). This database is used to assess firm specific annual financial variables such as profit, debt, equity, assets, sales and location. The employment record of each business is derived from administrative taxation records that each Canadian employer must file. The payroll data are associated with a Revenue Canada employer identification number. Firms enter into the LEAP database in the year they first hire employees (should they enter after 1984), and record their last entry in the database in the last year they have employees (should they exit before 1998). For each year, total payroll and employment are calculated. The latter is the average annual number of employees within the firm, or Average Labor Units (ALU). Measured by either output or employment, the database includes almost the entire Canadian private sector. The omitted components are non-incorporated enterprises and corporations that hired no employees.

The T2LEAP data is ideal for identifying firm entry and exit because of its universal coverage. We are able to identify the year of birth and the year of death using the following criteria. Specifically, a panel of survivors and exitors is developed using the following method. The initial population of firms are those existed in 1986. The sample is augmented in each consecutive year by removing exits and adding entrants.   A firm is removed from the sample in year *t* if year *t* is the year when it files its *last* tax return (the T2SUF measure of exit) or if year *t* is the *last* year when it employs workers (the LEAP measure of exit). If a firm falls into either of these categories, it is considered exiting. A firm enters our sample in the *first* year it *both* employs workers and files a tax return.

An important advantage of the T2LEAP data is its complete coverage of all incorporated Canadian firms. It comprises both publicly-traded and privately-held firms (which consist of a larger portion of the Canadian business sector). The dataset not only contains manufacturing but also retail and service sector firms. The inclusion of service sector firms provides us a rare opportunity to examine their behaviour and to make comparison between service and manufacturing firms.   In addition, the inclusion of small firms makes it possible to analyze the financial position of small firms and their survival.