

The Danish Business Panels

Case Study ¹

A. BACKGROUND AND CONTEXT

1. Denmark has a long tradition involving stakeholders in the legislative process. Ministries and agencies present draft legislation to relevant organisations, interest groups and other ministries, before sending it to Parliament. The two key objectives of public consultation are to ensure that all relevant views are taken into consideration and that unintentional effects of regulation are avoided.

2. In the mid 1990's, the issue of administrative burdens on businesses rose onto the political agenda. The view was that businesses were spending too much time complying with regulations which were not attuned to their way of doing business. Businesses had extensive reporting requirements even though they did not see what purpose and use the government authorities had in gathering all the required data.

3. To get direct feedback from affected businesses, the Danish Commerce and Companies Agency – DCCA (an agency attached to the Ministry of Economics and Business Affairs) established the first business panel in 1996. The business panels were in use until 2004, when they were superseded by the Standard Cost Method.

B. THREE TYPES OF BUSINESS PANELS

4. The purpose of the business panels was to make an ex ante quantification of the administrative impact on businesses from major new business regulation. The participating businesses were also asked to make recommendations on what could be done to reduce the administrative burdens of the regulation under examination. Three types of business panels were in use in Denmark:

Test Panels

5. The DCCA established the first business test panel to measure regulation affecting all types of businesses. It consisted of 500 randomly selected businesses, which were representative of the Danish business community in terms of size (number of employees) and type of business. Businesses participated voluntarily, without receiving any payment.

6. Only businesses with a turnover of more than 150.000 DKR (app. 20.000 euros) were included in the panel. Businesses with a turnover below this threshold were deemed as inactive, holding companies or part-time companies, and hence not the main focus of the government's effort to reduce administrative burdens.

7. In creating this test panel, DCCA drew a representative sample from the CVR-register, which is the central business register in Denmark, and the selected businesses were then

¹ This case study was prepared by Peter Bay Kirkegaard (pbk@eogs.dk) who was in charge of the Danish business panels at the Danish Commerce and Companies Agency, and subsequently the Standard Cost Model measurements in Denmark. Cesar Cordova, Director of Jacobs and Associated (cesarcordova@regulatoryreform.com) commented and supervised its elaboration.

invited to participate in the panel. When enough businesses within each stratum had accepted the invitation, the panel was complete. In some cases, not enough businesses accepted the invitation within a stratum and accordingly more businesses from the central register had to be invited. In other cases, more businesses than were required accepted the invitation within a stratum – the surplus volunteers were put on a waiting list and were used to replace any business dropping out at a later date. Businesses participated free of charge in the test panel.

8. The demand for ex ante assessments of new regulations from ministries, politicians and stakeholders meant that the test panel quite quickly became a success. To avoid exhausting the volunteer businesses, two additional test panels, of 500 businesses each, were created. Since it was only practical to let a test panel conduct a survey every two or three months, the additional two panels meant that more surveys could be carried out. Two (or three) surveys of different regulation could be carried out simultaneously during peak times.

9. A total of 42 test panel surveys were conducted before 2004, when the Standard Cost Model took over. The government selected regulations that affected most or all of the business community to be analyzed by the test panels -- which meant that the test panels focussed mostly on tax regulation, company legislation and labour regulation.

Focus Panels

10. In 1998 the test panels were complemented with focus panels. The purpose of the focus panels was identical to that of the test panels, but focus panels were used to measure regulation affecting only certain types of businesses. Focus panels were ad hoc business panels set up for just one survey on the effects of a specific piece of regulation. A focus panel consisted of businesses thought to be most effected by the specific regulation, e.g. farmers or businesses with less than 10 employees. Such focus panels normally consisted of around 250 randomly selected businesses within the target group, which were then invited to take part in the survey. A sample was typically drawn from the CVR-register, but in cases where the target group was, for instance, businesses who held a certain permit, a sample was drawn from the register kept by the relevant authority. Businesses participated free of charge in focus panel surveys.

11. A total of 114 focus panel surveys were conducted before 2004, when the Standard Cost Model took over. Since focus panels were used to measure regulation affecting specific groups of businesses, regulation of all kinds were measured.

Focus Groups

12. In 2001 test and focus panels were further complemented with the creation of focus groups. Here, a small number of businesses (typically 10 to 15) affected by a specific regulation were invited by the DCCA to participate in a two to three hours round-table discussions about the regulation. Businesses were typically drawn as a random sample from a relevant register. Businesses participated free of charge in focus group sessions, however their travel expenses were covered.

13. Focus groups were a means in which to flesh out problems identified by a test or focus panel -- such as if a survey had found large administrative burdens, with no clear recommendations on what could be done to relieve the burdens. Focus groups could also be used to assess complex regulations which were difficult to measure through a test or focus panel.

14. In focus group sessions, businesses were asked to describe what kind of consequences the regulation would have for them and give input on how the burdens could be reduced. If needed, outside experts could be invited to help qualify the consequences for businesses. The involved ministry would also participate in these sessions, and could gather valuable insights into how their regulation could be improved.

15. A total of six focus groups were carried before 2004, when the Standard Cost Model took over.

C. METHODOLOGICAL ASPECTS OF A BUSINESS PANEL

1. Preparing material for the business panel survey

16. After the line ministry or the DCCA had identified a draft piece of legislation whose impact on business needed to be quantified, the DCCA prepared the relevant material needed for the survey. DCCA also prepared a legislative explanatory note. The note gave a brief outline (typically one to two pages) of the content and possible effects of the regulation under examination. The explanatory note had to be very short, so that business would not have to spend too long trying to understand the new legislation. At the same time, it had to be very precise, so that businesses would not misjudge the administrative consequences of the legislation.

17. When preparing materials for test and focus panels, DCCA often provided a standard questionnaire. This questionnaire was sometimes also used for focus groups, but since there were more face-to-face discussions, the questionnaires were not really needed.

18. In the questionnaire, respondents were asked to identify the time needed to collect the information and/or complete the official forms and any other type of costs – or alternatively, to identify any time savings and cost reductions – related to the administrative requirements of the regulation. Businesses were asked to state both one-time adjustment costs and recurring costs. The standard questions that businesses included the following: (cf. annex 1 for a translation of the questioner):

- whether they were they legally affected by the regulation;
- what kind of administrative activities the regulation would result in for them;
- whether the regulation would lead to more or less administrative work for them;
- whether the regulation had any effect on their need for external assistance from lawyers, accountants etc.;
- whether the regulation had any effect on their need to purchase equipment, for instance software; and
- whether they would have a need to send staff on training courses in order to be able to handle the new requirements in the regulation.

19. DCCA also included specific questions which could be helpful in explaining variations in the administrative impact (for instance, asking how many trucks the company owned). The line ministry approved the survey before it was sent to the businesses.

20. In cases where the regulation was to be assessed by the test panel, the survey material was sent to one of the three test panels.

21. If the regulation was to be assessed by a focus panel, the sampling criteria had to be determined before developing the actual survey. -- i.e., a sample of the relevant businesses had to be drawn from the standard business register (the CVR-register), such as dry cleaners, or businesses with more than 50 employees, or businesses with a turnover of more than 10 million DKK. When the regulation affected very specific types of businesses, for instance businesses using certain types of chemicals in their production, or businesses who issued employee shares, DCCA drew the sample with the help of the relevant authorities, for instance, asking the Ministry of Environment for a list of companies producing a certain type of chemical. In certain cases, however, DCCA would increase the sample from 250 to 400 companies to ensure that a sufficient number of business affected by the draft regulation would be present in the sample.

22. A similar system was followed when DCCA set up focus groups. Typically, DCCA would identify a sample of around 30 to 40 businesses within the group targeted by the regulation. The DCCA telephoned businesses to invite them to participate -- giving them a little background on the legislation and the aim of the focus group. When enough businesses had agreed to participate, DCCA would send them the relevant materials in preparation for the meeting. Setting the time and place for focus group meetings was sometimes challenging, especially when the focus group involved smaller businesses or shop owners. These participants did not want to take off time during the day to participate in a focus group, and often resisted travelling long distances to participate. The DCCA learned to schedule focus group meetings in the evenings and to invite businesses from a certain geographic area.

2. Collecting data

23. With test panels, participating businesses were usually given about two weeks to respond to the questionnaire by mail. With focus panels, participating businesses were interviewed by telephone. It was felt that a more proactive effort was needed to collect information from the focus panel participants since they had not voluntarily accepted participation in the survey..

24. A response rate target of 65% was set for the test panel. If less than 65% of businesses responded, DCCA would contacted a number of them directly to identify the reason for their non-response. In general however, response rates for the test panel were above 65%, because businesses had committed themselves to participating from the beginning. For focus panels, the goal was to conduct interviews with at least 100 businesses affected by the regulation. If this target could not be reached (or in special circumstances), DCCA would draw a new sample and run through the process again. In general, response rates among focus panel participants were very good and above response rates in similar commercial business surveys.

25. Several lessons were learned about how to keep response rates and motivation high. First, it was important that test panel members not be overused. Participating in more than one survey every second month left some members feeling overburdened and opting not to respond for the given survey or to quit the test panel entirely. Second, test panel members had to be kept involved. During quiet periods, when the panel was used less often (as for instance in the parliamentary session of 2002-2003 where only two test panel surveys were conducted), some businesses became frustrated that they were not contacted often enough. Some even contacted the DCCA to find out what had become of the panels.

26. Another problem that deterred businesses from participating in both test and focus panel surveys occurred when the explanatory note was too complicated. Thus, the quality of the explanation -- in terms of a short, informative description of the regulation -- was essential in ensuring that participation was as easy as possible. More problematic were instances,

when businesses found that the given regulation under examination was simply too minor to be put before a test or focus panel. Hence, it is always very important to consider, whether the regulation merits a survey or not.

27. Collecting data from the focus groups involved meticulous note taking during meetings. Since the main aim of using a focus group was to get qualitative input on how to improve the regulation, it was also important to be able to facilitate discussion towards that goal. For example, when participants were having trouble assessing the administrative burdens of the regulation, the facilitator would ask whether a precise change in the regulation would affect them positively or negatively.

3. Analysing data

28. When all data from test and focus panels had been collected, DCCA compiled and screened the data for outliers, i.e. extreme responses. If the response from a business was identified as an outlier, the respondent was contacted in order to ask whether there were special circumstances in the business that could explain the deviant response or whether the business might have misunderstood the question.

29. DCCA processed the data using a standard method specially developed computer application that computed the final estimates on the business level as well as on the national level. The computer application produced a standardised report which calculated the administrative costs of the regulation, reported levels of uncertainty in the data and included statements from businesses on what could be done to avoid unintended consequences.

30. Based on this mainly quantitative report, DCCA staff would write a shorter report interpreting the results, and making recommendations on how to reduce the administrative burdens. A similar report was written following the focus group sessions.

31. All materials from the business panel were then sent to the responsible ministry, and a summary of the findings would be included in the remarks on the draft legislation, when it was presented in Parliament. This material would be also published at the same time on the web-page of the Commerce and Companies Agency.

Resources used for conducting a business panel

32. Typically, a test or focus panel would take around four weeks to complete. One week was spent preparing the material and clearing it with the line ministry, two weeks would be spent collecting data, and the last week would be spent analysing data and writing a report. Focus groups could be carried out faster, typically within two weeks.

33. Test panels were carried out entirely by staff at the Commerce and Companies Agency, while a consultancy firm handled the sampling and data collection phases of focus panels. Since the target groups of focus panels were always different, drawing a representative sample and extrapolating data to the national level was less standardised when compared to that of test panels. DCCA considered it was more economical to outsource this part of the work to consultants because these surveys require more specific knowledge within the given policy area. A focus panel would typically cost around 10.000 euros in external consultancy fees. Focus groups were managed entirely by the Commerce and Companies Agency.

D. BUSINESS PANELS AND THE POLITICAL SYSTEM

34. The assessment of regulatory impacts has undergone steady development in Denmark, where the use of systematic methodologies has been gradually embedded in the lawmaking process.

35. In 1997, the Danish Parliament adopted a resolution stating that all draft legislation had to include a statement describing the administrative consequences of the draft legislation. The ministry was responsible for making this assessment, but there were no requirements as to which methodology should be used. Ministries could choose to make the assessments themselves (so called expert assessments) or ask the Commerce and Companies Agency to make the assessments for them using the business panels.

36. At the beginning of 2001, Parliament adopted a new resolution stating that ministries had to justify their chosen methodology (i.e. business panels or expert assessments) for quantifying the administrative burdens.

37. At the end of 2001, a new government came to power with the political goal of reducing the administrative burdens on businesses by 25% by 2010. This goal was to be achieved through simplification of existing regulation as well as through reducing administrative costs of new regulation as much as possible. To ensure the lowest possible administrative costs, the government made the use of business panels compulsory for all new regulations being issued by the seven key ministries most responsible for regulating businesses. All regulatory proposals from these ministries had to be submitted to the Commerce and Companies Agency, who would then decide whether the proposal's impact was large enough to need review by a business panel, or whether its impact was minor enough to be assessed by experts. If experts were used, the Commerce and Companies Agency would handle the assessment.

38. DCCA also led a project that paralleled these individual assessments: a annual survey of 1.000 companies was conducted in order to measure the total work load caused by the administrative requirements of regulation. This data gathering started in 1999 and has been designed to monitor the trends in the administrative burdens on businesses. When the incoming government committed itself in 2001 to reducing the administrative burdens by 25% by 2010, the annual surveys became the yardstick by which progress was measured. However, despite the enactment of substantial simplification legislation, the surveys were unable to show any improvement in the administrative burdens felt by businesses. This was generally frustrating, not least since results from the business panels had shown that the simplification initiatives did indeed lead to administrative relief among businesses.

39. More concrete and specific knowledge about the origins of the administrative burdens was needed -- in order to pinpoint where to simplify. The annual surveys did point out which administrative tasks were particularly burdensome, but could not tie this burden back to the original law or laws causing all the headaches.

40. Given these concerns, Denmark chose in 2004 to adopt the Standard Cost Model, which had originally been developed in the Netherlands. The Standard Cost Model is used for measuring both the existing stock of regulation and the flow of new regulation. With this methodology, the administrative costs are calculated for each regulatory requirement affecting businesses. With the analytical model, it is possible to identify in more detail where the administrative costs in regulation arise. At the same time, monitoring the development in the administrative burdens becomes more consistent. The administrative costs of new regulation can be added on to the existing stock of regulation, while administrative savings can be subtracted from the total stock of regulation. However, compared to the business panels, the Standard Cost Model measurements are a substantially more expensive to conduct and maintain.

E. KEY CONSIDERATIONS ON BUSINESS PANELS

1. Pros and cons of business panels

41. Business panels have a number of benefits. The infrastructure needed to conduct businesses panels is quite easy to set up, and the running costs are comparatively low. The DCCA had roughly four to five staff working full time on the business panels, with a budget of approximately 0.5 million euros per year. Hence, the panels are a very cost effective way of achieving direct stakeholder involvement in the legislative process.

42. Moreover, business panels can be run by individual ministries or by a central unit. The latter is preferable, if one wants to ensure methodological consistency in data collection, while the former can be beneficial, if the aim is to ensure ownership within the individual ministry towards a policy of reducing the administrative burdens for businesses.

43. Nevertheless, it can be difficult to measure the regulatory burdens of a draft regulation that businesses have yet to experience in practice. Furthermore similar businesses might have very different assessments of the potential administrative burden. Though this problem exists for any methodology used to measure the future impacts of new regulation, it is particularly important to be aware that a survey-based approach can translate variations in the responses given by businesses into statistical uncertainty when data is extrapolated. This uncertainty can sometimes become so significant that the results are difficult to use in the political process -- because too much time is spend discussing whether the results are a true reflection of the actual costs of the regulation.

2. Key decisions when undertaking measurements

44. Deciding whether to set up business test panels and how to use a survey to measure a regulation's potential impact requires decisions on a number of key parameters.

What is the main purpose of setting up business panels?

45. Before establishing business panels, you will need to have a clear idea about how their results will be used. There is little point in using resources to set up panels -- bothering a large number of businesses in the process -- if their input is not going to be taken seriously. Results from the business panels should be fed into the legislative process, and unless they have some sort of impact on this process, the panels have little value.

What do ministries, politicians and other stakeholders expect from business panels?

46. It is important that all interested parties are aware of the kinds of output that can be expected from the business panels. To that end, key stakeholders should broadly agree on the methodological design, the organisational setup etc. Such agreement could, for instance, be achieved through a hearing procedure, where relevant parties have the opportunity to comment on the methodological design, and the way in which the work is organised and results are used in the subsequent legislative process.

Who should be in charge of conducting the measurements?

47. The surveys can be carried out by individual ministries or by a central unit. Having ministries conduct the data collection themselves gives them a high degree of autonomy. As a way of ensuring ownership towards the survey results, this can be a good option. However, there are risks associated with the many different ministries each using their own analytical approach. Such variations would make the entire concept of business panels vulnerable to methodological criticism. Having a central unit conduct the surveys is probably the preferred

option, as this will allow for consistency across measurements. Moreover, it will also be the cheaper option, since there are economics of scale in using a specialist staff and any consultants.

What kind of role should a central unit have?

48. If this process is centralized, the government needs to decide how much power to give the central unit: should it have the power to force ministries to change the regulation so as to reduce administrative burdens, or should it only have an advisory function? Both options (and the options in-between) have advantages and disadvantages. Furthermore, what works in one country may not work in another. Therefore, deciding which option to choose requires a thorough analysis of the legislative process and the political support for better business regulation in a given country. However, it is probably always good to start out with an advisory function and then as time progresses seek to establish a stronger mandate for the unit.

Should assistance from consultants be sought?

49. Carrying out the surveys without external help ensures that knowledge about individual measurements and the methodology are kept in-house. However, this option requires in-house statistical and methodological capabilities. If these capabilities are not available, hiring external advisors can be worthwhile, at least during the start-up procedure when the business panels are being established.

50. It should be noted that ministries often give short notice on when they want to consult a business panel. This makes it difficult to plan and allocate staff for the individual surveys. Therefore, it is necessary to have an in-house core team (2-3 people at least), who can work systematically – but not necessarily exclusively – on overseeing the day-to-day running of the panels. In-house staff can be scaled up if need be, or external consultants can be hired to carry out the actual measurement (with the provision that they have to be able to take up assignments with very short notice).

Should all regulation be measured or only major ones?

51. In order to justify spending time and resources on carrying out a business panel survey, it is useful to screen out regulations with only minor administrative consequences for business -- leaving only the burden of major regulations to be measured. In Denmark a rule-of-thumb threshold was applied, whereby only regulations which were assumed to have more than 2,000 hours of administrative work (either in terms of burden increases or decreases) for all affected businesses was eligible to be measured using business panels. The screening procedure was quite simple: the size of the target group was assessed and the estimated additional administrative burden was calculated. These two figures were multiplied, and if the sum was close to or in excess of 2,000 hour per year, the regulation had to be tested. For example, if target group only consisted of 100 businesses, their administrative burdens would have to be in excess of 20 hours per year for the regulation to be tested. The relevant question then was whether or not such a scenario was plausible -- which was usually quite easy to answer.

What is the acceptable level of statistical uncertainty in measurements?

52. The larger the number of business surveyed, the greater the statistical reliability of the survey results. However, the larger the sample is, the more expensive the survey. Hence, a balance needs to be obtained between implementation costs and an acceptable levels of uncertainty in the resulting measurements.

How do you ensure that the results will be representative of reality?

53. Proper survey design requires reliable statistical information on the composition (by line of business and size) of the national business sector. Although such statistical information is often readily available, it can be still be difficult to create representative samples. A central business register will be the preferred tool in deciding which businesses to survey, but if this is not available, help can be sought with business organisations, which might be willing to provide members of their organisation for the panels. However, involving business organisations runs the risk of survey bias -- wherein businesses with certain types of views, or only well-established businesses are over represented on the panel. Such an approach can lead to results which are biased against less organised businesses and start-ups.

54. While test panels only need to be set up once, and refreshed every two to three years, focus panels are ad hoc panels that need to be set up periodically. Designing representative samples for the focus panels therefore requires having access to either a central business register, ministerial information on registered businesses, or information from specific business organisations.

How should results be reported?

55. Data from business panels can be compiled into a number of interesting specifics. Such results will interest certain parts of the ministry, as well as certain stakeholders, who are interested analysing the results in-depth. However, key decision makers in ministries and in the political system will only be interested in the main overall findings. It may therefore be worthwhile to produce two types of reports for each panel survey: an in-depth report documenting all measurements, and an abbreviated version intended for decision makers.

How will results be published?

56. Lawmaking should ideally be an open and transparent process, where everybody can see what is going on, and what information has shaped the final legislation. Similarly, it is important that all results from panel surveys be published openly, so that everybody has a chance to question them. Occasionally criticisms will arise regarding the methodological soundness of the survey, its statistical significance or the interpretation of the survey results. Sometimes this criticism will be politically motivated, and should be dealt with as such. Other times, the criticism is genuinely sound and should therefore be taken into consideration in the ongoing work on improving the methodology.

How can respondents be motivated?

57. Getting Danish businesses to take part in panel surveys was seldom a problem, even though they received no payments or other forms of direct rewards. This high response rate was largely due to the survey panels being sponsored by government rather than a private consultancy firm. Hence, rather than participating in a survey aimed at improving the market knowledge of another business, businesses took part in a survey where they were given the opportunity to comment on a regulation which would eventually affect their daily life – a rare opportunity to make their voice heard directly in the legislative process.

58. These benefits need to be conveyed clearly to businesses who are invited to participate in surveys, since it can make their responses more accurate and meaningful both to the government and to themselves in the long run.

F. ADDITIONAL READING

Regulatory Reform in Denmark - Government Capacity to Assure High Quality Regulation

(OECD, 2000) – the report analyses the institutional set-up and use of policy instruments in Denmark, including the business panels.

The Corporate Sector and the Regulation for 2002/03 (Danish Commerce and Companies Agency, 2004) – an English translation of an annual report presented to the Danish Parliament on the status of regulation affecting businesses. Contains information on the use of business panels.

Evaluation of Danish test and focus panels (Epinion, 2004) – an English translation of the summary for a report on the evaluation of the test and focus panels.

Annex 1: Questions used on Danish business panel surveys

Q. 1: Is the company affected by the regulation?

(1) No, definitely not

(2) Possibly

(3) Yes

Q. 2: Which administrative activities does the regulation affect?

Internally -- within the company:

(1) Adjustments – necessary one-off activities, e.g. changes in the IT system or the accountingsystem

(2) Statements – collection of information, e.g. calculations, counts and sampling

(3) Assessments – description of the company specific environment, e.g. workplace assessments

In relation to public authorities:

(4) Registrations – statutory notification to public authorities, e.g. VAT registration

(5) Duty of information – make statutory information available to citizens and authorities

(6) Reports – statutory delivery of certain information to public authorities

(7) Payments – statutory payments to public authorities

(8) None (No need to answer the remaining questions in the questionnaire)

Q. 3: Has the regulation resulted in more administrative work for the company?

(1) No (Continue with question 4)

(2) Yes, more administrative work **the past year** of about hour min.

Q. 4: Has the regulation resulted in less administrative work for the company?

(1) No (Continue with question 5)

(2) Yes, less administrative work **the past year** of about hour min.

Q. 5: Has the regulation influenced the extent to which the company makes use of external assistance (lawyers, auditors, financial counsellor, consultants etc.)?

(1) No (Continue with question 6)

(2) Yes, **more** external assistance **the past year** of about: DKK

(3) Yes, **less** external assistance **the past year** of about: DKK

Q. 6: Has the regulation influenced the extent to which the company has had to get additional help/equipment to handle the administrative duties?

Examples of aids are: technical tools, agricultural tools, containers, tanks, machines etc.

(1) No (Continue with question 7)

(2) Yes, **increased** procurement of aids **the past year** of about: DKK

(3) Yes, **decreased** procurement of aids **the past year** of about: DKK

Q. 7: Has the regulation led to changes in the education of the administrative personnel in the company?

(1) No (Continue with question 8)

(2) Yes, **more** education **the past year** of about: DKK

(3) Yes, **less** education **the past year** of about: DKK

Q. 8: [Optional open-end question]