

An economic definition of enterprises for a clearer vision of France's economic fabric

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In official statistics, the enterprise has long been associated with its purely legal definition, i.e. the “legal unit”. The provision of an economic definition offers a better vision of the country's economic fabric as links between groups are now taken into account. Similarly, within the most complex and the most diversified groups, several enterprises with a certain degree of autonomy in decision-making can now be identified.

Of the three million enterprises in France, 95% are micro-enterprises employing 20% of payroll workers. In addition, 222 large enterprises employ 25% of payroll workers. There are also 136,000 non-microenterprise SMEs and 4,900 intermediate-sized enterprises (ISEs) employing 29% and 26% of payroll workers respectively. The economic fabric is therefore much more concentrated than the legal units approach tends to show. While legal units of fewer than 250 employees produce 41% of exports, this share drops to 16% if subsidiaries of groups in the ISE or large enterprise categories are excluded. This new vision also reallocates tertiary sector subsidiaries to their manufacturing enterprises, thus increasing the share of manufacturing in the economy. In this way the sectoral distributions of workforce, value added, exports and also means of production are modified in favour of manufacturing. In manufacturing industries, the balance-sheet total per employee increases almost three-fold compared to its level when using the legal unit approach. The share of export turnover in the manufacturing industry is raised by four points, labour productivity grows and margin rate increases slightly.

In France, enterprises have long been defined in purely legal terms. In statistics and also legally, the enterprise was defined according to its legal status, the “legal unit” (identified by its SIREN number), i.e. an unincorporated or incorporated business carrying out a production function.

The Economic Modernisation Act (*Loi de Modernisation de l'économie* - LME) of 2008, implemented by Decree no. 2008-1354 of 18 December 2008, provided an economic definition of the enterprise for the first time, referring back to the terms used in European Council Regulation 696/93 adopted in 1993 and based on the recommendations of the National Council for Statistical Information (Conseil national de l'information statistique - CNIS). Here, the enterprise is defined as “*the smallest combination of legal units that is an organisational unit producing goods or services, which benefits from a certain autonomy in decision-making, especially for the allocation of its current resources*”. This new definition gives a better appreciation of the way the enterprise is organised as a **group**.

When the enterprise was systematically equated to the legal unit, this did not describe the true situation of legal units that were owned by groups, as they were likely to have little, if any, decision-making autonomy. Legal units that are subsidiaries of groups were thus wrongly described as enterprises, whereas in fact they carry out purely management functions, and merely complement the rest of the group; some have no employees, or no fixed assets, or neither. This is the case, for example, of legal units dependent on groups but whose sole function is to invoice sales, either for the domestic market, or for export.

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When INSEE first applied this Decree, calculations were based on a double approximation. Each group, irrespective of size, was equated to a single enterprise. However, some conglomerates are in fact diversified, and include several autonomous branches in their day-to-day management carrying out different activities, some of which are quoted separately on the stock market, and they should therefore be considered as enterprises in their own right. In addition, when implementing the decree, accounting variables for each group were simply summed for all subsidiaries, and not consolidated. This poses no problem for what are called "additive" variables, like value added or employment, where the sum does not generate double counting. However, this is not the case of other variables such as turnover, which when added together for the legal units in a group generate double accounting because of intra-group flows. Take, for example, a manufacturing group in which a legal unit carrying out a production function invoices its products to another wholesale trade legal unit, also internal to the group, which then sells them to retailers.

In order to implement the decree further, we carried out "profiling", which consists in identifying, within the groups, any relevant enterprise(s) as defined by the 2008 decree and recreating their consolidated accounts. In the previous example, when applying profiling, the wholesale legal unit, which has no decision-making autonomy, is associated with the production legal unit to form a single enterprise. Once these two legal units have been combined into a single entity, any invoicing between them, which is purely internal to the group and directed towards the market, will be eliminated by consolidation.

The aim of this study is to produce a view of our economic fabric that takes this new economic notion of the enterprise into account. This is still an estimate since INSEE currently has not implemented this new definition fully (see *Box 1*). However, INSEE has developed an automatic profiling algorithm, which will gradually be refined, and it is this principle that is used in the study. For large groups, this algorithm can identify one or more enterprise(s), which enjoy "a certain autonomy in decision-making" on the basis of the distribution of their employees in their various market-oriented activities. However, for small or medium-sized or intermediate sized groups, it has been decided to continue to treat each group as a single enterprise. Indeed, even when they carry out a variety of activities, these groups do appear to form a single enterprise: management remains centralised, and when they are quoted, this concerns the entire scope of their coverage¹. In addition, turnover for all enterprises, irrespective of size, is consolidated by neutralising the turnover of **ancillary activities**, giving a better appreciation of their economic contribution.

This new economic approach to the enterprise is being implemented in all European national statistical institutes and several of them are also developing profiling algorithms through working groups set up by Eurostat, the statistical office of the European Union. This study relates to 2011 because at the time of writing, this was the most recent year for which links of control within groups were available for all legal units in the economy. However, the structural observations made here are very stable.

1. With maybe some exceptions which are examined individually.

From the legal definition to the economic definition of the enterprise: application in official statistics

Until now, the economic fabric has been studied using two different approaches:

-The first (denoted H1 hereafter) is based on the legal definition of an enterprise where the legal unit is identified as the enterprise;

-The second (H2) is based on a double approximation. Each group, irrespective of size and diversification of activities, is regarded as a single enterprise. In addition, the three variables used to define the enterprise categories - workforce size, turnover and balance sheet total - are simply added and not consolidated. As turnover and balance sheet total are not additive variables, adding them within the groups results in double counting.

An automatic group profiling algorithm

In this study, we present the results from a new approach, which refines H2, using an automatic group profiling algorithm constructed according to the following principles.

Within groups, **ancillary activities**, a group's support activities, are defined from a list of activities at different levels in the classification. These ancillary activities are identified from a pre-defined list, agreed by European consensus since profiling is a European statistics procedure (e.g. wholesale trade). However, an important point is that the ancillary nature of these activities is also determined in relation to their frequency among the 500 largest groups in France. If an activity on the list for a group has a higher representation in the group than in the average share of jobs for these 500 groups, it will then be considered not as ancillary but as market-oriented. Thus a wholesale legal unit will not appear as an ancillary activity in a wholesale group.

Within each group, the algorithm is used to identify the number of enterprises (one or more) that are ultimately selected. This distribution is determined from reality, without the ancillary activities defined previously.

Once the ancillary activities are set aside, an enterprise is delineated within a group only if it corresponds to an activity that represents sufficient weight in terms of jobs in the group.

If applied to all groups, irrespective of size, this algorithm (approach denoted H4) would give the following results. For very large groups in France with 10,000 or more employees, the vast majority would be "multi-enterprises" (52 out of 82). This would be the case for a little under half of the

large groups with fewer than 10,000 employees (63 out of 131), 31% of intermediate-sized groups and 17% of small and medium-sized groups. In all, given the large number of small groups, 81% of groups would be made up of a single enterprise.

Decision to consider each small, medium-sized or intermediate-sized group as a single enterprise from the outset

In this article, the algorithm for splitting groups into a single enterprise or several enterprises is applied only to large groups. Each small, medium-sized or intermediate-sized group therefore remains as a single enterprise. This is the approach (H3) used to produce the results in the article; there are several reasons for this choice.

The algorithm is based on the distribution of the workforce in market-oriented activities. In the large groups, various activities are carried out by enterprises "which benefit from a certain degree of autonomy in decision-making for the allocation of its current resources". The different production segments usually have distinct management or governance structures. They are implemented by distinct production chains, with performance monitored through differentiated accounting items, usually for the profit and loss account and also sometimes for balance sheet items. In some diversified conglomerates, these enterprises are sometimes listed independently one from another. While some large groups form only a single enterprise, clearly there are other groups that form several, each "benefiting from a certain degree of autonomy in decision-making for the allocation of their current resources".

In small and medium-sized groups, or intermediate-sized groups, however, diversity of activities is much less frequent, and when it does exist, management tends to remain mostly centralised. Intermediate-sized groups that are diversified are usually managed across all of their activities. For example, some intermediate-sized groups producing luxury goods are highly diversified (jewellery, textiles, leather goods, perfumes), but still have a single management structure (sometimes family-run). They are listed for their activities as a whole, and are strongly identified with a brand. This is also the case for other intermediate-sized groups that are less well known to the general public as they are business to business oriented.

Box 1 (contd.)

These differences in applying the algorithm according to size of group are justified by some relatively intuitive threshold effects. Let us take the example of a large diversified conglomerate carrying out two different activities. They can be considered as distinct enterprises, and in the news we find plenty of examples where a group splits or part of it forming an enterprise is transferred to another large group. The enterprise itself would continue to exist. In a smaller group, however, if one activity were given up, this would not affect the individuality of the enterprise. This is clearly illustrated in the case of small or medium-sized groups or micro-enterprises where distinct activities are carried out (e.g. computer programming and consultancy, bakery and sugar confectionery, etc.).

Once the large groups are divided up, if necessary, and turnover is consolidated, the category is recalculated. The new approach (H3) is an improvement over the double approximation approach (H2) in two ways:

- a large profiled group can be split into several enterprises of all sizes;
- turnover is now consolidated, which can generate reclassifications between categories.

The three automatic profiling approaches (H2, H3 and H4) produce fairly similar results, but these are very different from those obtained using the first approach (H1), where the enterprise is equated to the legal unit (see Figure). The basic difference lies in the fact that links of control between legal units are now taken into account, which, both in groups and enterprises, reveals how extremely concentrated the economic fabric can be. Compared with double approximation (H2), approaches H3 and H4 produce a slightly higher number of enterprises in the ISE category (from 4,800 according to H2 to 4,900 according to the H3 approach, which is the one used).

With the possibility of delineating the large groups into several enterprises and the new consolidation hypotheses rather than simple addition, some enterprises from the large groups now fall below the threshold for the largest category.

The aim of detailed profiling, differentiated according to group size, face-to-face, surveys or algorithm

The results presented here are provisional, however, and are only a provisional estimate in relation to the profiling strategy that INSEE is gradually introducing.

These results will be refined after several more studies have been carried out. First of all, the number of small groups will be heavily revised upwards after considering the comprehensive information on links between groups to be found in company tax returns, rather than the financial links between enterprises threshold survey (LIFI). While we identified 44 000 groups in France in 2011 through the threshold survey, the number of groups jump to 79 000 in 2012 after considering the company tax returns. Next, the algorithm can be improved for the definition of ancillary units and the consolidation of turnover. Finally, studies will also be carried out on consolidating fixed assets.

After this, and most importantly, the profiling strategy used by INSEE is based not on the systematic application of this algorithm for delineating enterprises within groups, but on using different types of processing for three sets of groups:

About sixty of the largest groups in France will be profiled face-to-face, with an annual meeting between profilers and groups' representatives (often the heads of accounting). It is through this dialogue that the INSEE profilers can identify whether there are one or more enterprises and construct consolidated accounts that correspond to the activities of these enterprises in France. By 2015, the process was completed for 109 profiled enterprises in 44 of the largest groups under French or foreign control, located in France. For 105 of these 109 enterprises, results according to profiled enterprises and to legal units are compared in the report, "New data from group profiling: an increased share of manufacturing, better productive efficiency, but a deterioration in net lending and balance sheet", in this issue of the publication.

Small groups (with fewer than 250 employees) or simple groups (i.e. containing two legal units at most in France) will be equated to a single enterprise as we have seen and will be consolidated using an automatic consolidation algorithm ((79,000 groups are concerned in 2012).

For the other groups, numbering about 5,000, and which are midway in size and complexity between the smallest and the largest groups, "semi-automatic" profiling will be used. First, they will be processed automatically, but information may be collected at a later stage, through a specific survey, on the possibility of splitting each of these groups into one or more enterprises and especially about flows between their affiliates.

Box 1 (contd.)

Number of enterprises by size or category using the different approaches

	H1: Legal units (LU)	H2: enterprises with double approximation ¹	H3: profiling with selected algorithm ²	H4: hypothesis of systematic breakdown of all groups ³
Large enterprises or LUs with 5,000 or more employees	107	214	222	222
ISEs or LUs with 250 to 5,000 employees	4 487	4 794	4 917	5 066
SMEs or LUs with 10-249 employees	160 382	136 068	136 059	140 316
MICs or LUs with 0-9 employees	3 072 514	2 951 600	2 951 699	2 956 374
Total	3 237 490	3 092 676	3 092 897	3 101 978
FTE employees	12 581 897	12 581 897	12 581 897	12 581 897
Turnover (in millions of euros)	3763.1	3763.1	3456.9	3456.9
VA (in millions of euros)	1035.6	1035.6	1035.6	1035.6

1. Current enterprises: independent legal units/groups, no consolidation of turnover.

2. Enterprises in algorithm (automatic profiling of large groups only and consolidation of turnover of all groups).

3. Enterprises in algorithm (automatic profiling and consolidation of turnover of all groups). Approach not selected

Scope: France, non-farm and non-financial market activities.

Source: INSEE, CLAP, ESANE, LIFI 2011.

From micro-enterprises to large enterprises, duality of the economic fabric

In addition to providing an economic definition of the enterprise, the decree of 18 December 2008 defines four **categories of enterprise** on the basis of workforce size, turnover and balance sheet total. Applying this representation "in enterprises" reveals the extreme duality of the economic fabric. In 2011, there were 3.1 million enterprises in the non-farm and non-financial market sectors (see *Figure 1*), of which 95% were **micro-enterprises (MIC)** employing 2.5 million full-time equivalent (FTE) payroll workers. These micro-enterprises included only 20% of the total workforce for enterprises in the field, but achieved 16% of turnover and 21% of total value added. At the other end of the scope, 222 **large enterprises** employed 3.1 million payroll workers, or 25% of the total, achieving 31% of turnover and 30% of value added. In addition to this duality, there was another fairly well-balanced division: 136,000 non-microenterprise **SMEs** and 4,900 **intermediate-sized enterprises (ISEs)** employed 29% and 26% of all payroll workers respectively. They produced 22% and 31% of turnover, and 23% and 26% of value added.

Four highly contrasted enterprise categories

For the four enterprise categories, the activities in which they are engaged, the resources used, the weight of the groups and their organization in legal units, including international expansion, for example, are all very different, proof of the relevance of these categories and of their ability to shed light on different issues concerning the economic fabric.

Two thirds of micro-enterprises have no employees and 16% have only one (who may be the manager). Seventy per cent of their employees are in tertiary activities, compared with 62% for the other three categories (see *Figure 2*). They also have 19% of employees in construction (compared with 9% for the other enterprises). The group structure is actually very rare in this category. The major issues specific to micro-enterprises are those that are also experienced by sole entrepreneurs: enterprise creations, status of non-salaried workers, craftspeople, freelance workers.

Non-microenterprise SMEs have about thirty employees on average. The activities in which they are engaged are more diverse than those of enterprises in the other categories. The sectoral orientation of non-microenterprise SMEs is therefore closest to the average. Only construction is very much over-represented, accounting for 14% of the workforce against 9% for the other categories. Small or medium-sized groups consist of only three legal units on average and a little over half consist of only two. For groups of this size, their organisation in legal units reflects above all arrangements linked with governance or problems with enterprise transfer, for example when a legal unit engaged in production is associated with a holding focusing on the interests of the enterprise's various associates. Virtually none have expanded internationally: only 3% of SMEs established in France are subsidiaries of foreign groups and only 1% of SMEs are groups controlled in France with subsidiaries abroad. The questions that concern these non-microenterprise SMEs tend to relate specifically to growth and the business environment: drivers and obstacles to growing the enterprise, access to funding, sub-contracting, payment deadlines.

1. Enterprises in 2011 by category

in € billion except Number and Payroll

	Large enterprises	ISEs	SMEs excl. MICs	MICs	All
Number of enterprises	222	4 917	136 059	2 951 699	3 092 897
Legal units excl. groups	s	391	101 157	2 941 105	3 042 653
French groups	168	3 223	30 145	8 776	42 312
Controlled by foreign group	54	1 303	4 757	1 818	7 932
FTE payroll workers	3 133 362	3 313 635	3 633 147	2 501 754	12 581 897
Legal units excl. groups	s	164 262	1 989 909	2 454 826	4 608 997
French groups	2 722 455	2 151 396	1 420 682	39 734	6 334 267
Controlled by foreign group	410 906	997 977	222 556	7 194	1 638 633
Number of legal units in France	26 207	74 544	218 924	2 964 740	3 284 415
Legal units excl. groups	s	391	101 157	2 941 105	3 042 653
French groups	24 412	62088	109 061	21 319	216 880
Controlled by foreign group	1 795	12065	8 706	2 316	24 882
Value added excl. tax	310.6	268.9	235.6	220.4	1 035.6
Legal units excl. groups	s	10.6	122.9	216.8	350.3
French groups	253.2	161.6	93.3	2.8	510.9
Controlled by foreign group	57.4	96.7	19.4	0.7	174.3
Gross operating surplus	78.0	67.4	47.7	75.7	268.8
Legal units excl. groups	s	3.2	25.7	75.2	104.2
French groups	69.9	39.3	18.4	0.4	127.9
Controlled by foreign group	8.2	24.9	3.5	0.1	36.7
Gross wages	133.6	127.3	127.6	91.4	479.8
Legal units excl. groups	s	4.8	67.4	89.3	161.5
French groups	109.9	78.4	49.9	1.7	239.9
Controlled by foreign group	23.7	44.1	10.2	0.4	78.4
Fixed assets	3 536.9	1 960.3	774.7	594.7	6 866.6
Legal units excl. groups	s	81.0	309.1	554.1	944.3
French groups	3 274.4	1 250.5	380.5	34.3	4 939.7
Controlled by foreign group	262.5	628.7	85.1	6.2	982.6
Turnover	1 056.9	1 074.0	774.8	551.2	3 456.9
Legal units excl. groups	s	58.4	370.5	539.0	967.9
French groups	864.9	606.8	326.3	8.8	1 806.8
Controlled by foreign group	192.0	408.8	78.0	3.4	682.2
Export sales	272.9	238.7	77.2	18.2	606.9
Legal units excl. groups	s	4.8	27.6	16.9	49.3
French groups	231.7	104.8	29.9	0.5	366.9
Controlled by foreign group	41.2	129.0	19.7	0.8	190.7

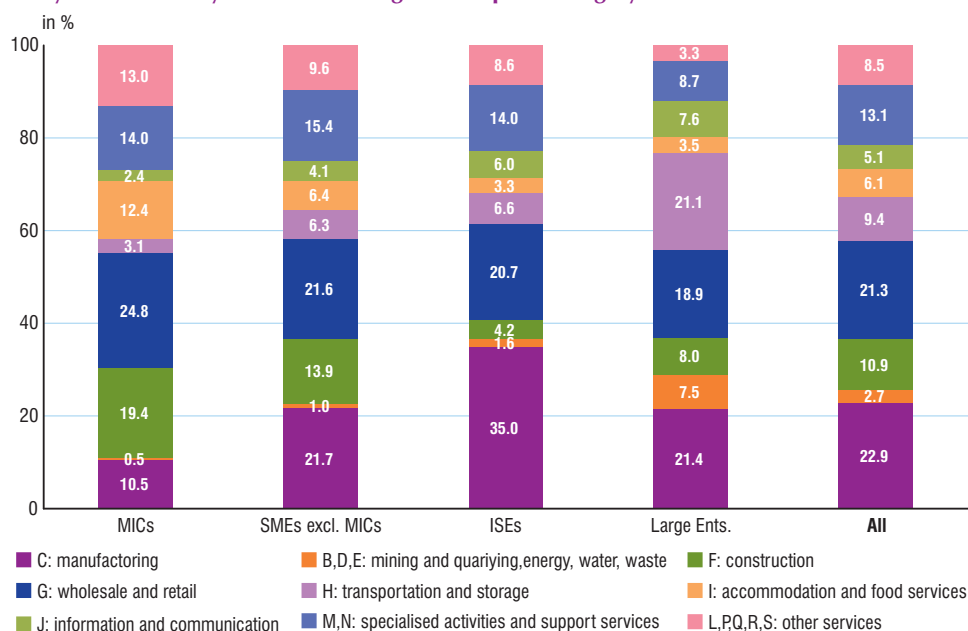
Scope: France, non-farm and non-financial market activities.

How to read this chart: in non-farm and non-financial market activities, there were 222 large enterprises in France in 2011. They employed a little over 3.13 million employees (full-time equivalent workers) and included 26,207 legal units.

s: there are fewer than 3 legal units controlled by French groups, excluding those groups that have been combined with French groups in order to preserve statistical confidentiality.

Source: INSEE, CLAP, ESANE, LIFI 2011.

2. Payroll workers by sector according to enterprise category in 2011



Scope: France, non-farm and non-financial market activities.

How to read this chart: in 2011, 35.0% of employees (FTE) in intermediate-sized enterprises worked in manufacturing industry, against 22.9% for all enterprises.

Source: INSEE, CLAP, ESANE, LIPI 2011.

On average, ISEs have 675 employees and are made up of 15 legal units. The group structure clearly predominates, with only 8% of ISEs consisting of a single legal unit. This category of enterprise stands out both for its manufacturing focus and the proportion of foreign-owned groups. In ISEs, 35% of employees work in the manufacturing sector compared with 19% for other categories. About a quarter of the 4,900 ISEs in France are controlled by foreign groups and employ almost 1 million payroll workers, or 30% of all ISE employees. This is the category where foreign groups are most likely to be found: 61% of employees of foreign groups in France are in an ISE. A little over a third of ISEs under French control have subsidiaries abroad; they employ 30% of ISE payroll workers in France. According to the European *Outward FATS survey*, which monitors subsidiaries located abroad, 44% of payroll workers of these French-controlled intermediate-sized multinational groups work abroad, where an equivalent proportion of their turnover is produced. Thus in ISEs, the issues that tend to arise most concern manufacturing, competitiveness, internationalisation and the attractiveness of the production base.

The 222 large enterprises are major groups that are very multinational. They employ, on average, 14,000 payroll workers in France and consist of almost 120 legal units in average. Three-quarters of them are French-owned groups, accounting for 87% of workers in large enterprises in France. Almost all have subsidiaries abroad. The rest are foreign-owned groups in France. According to the *Outward FATS survey*, 56% of employees of large multinational French groups are located abroad, which is where they achieve 55% of their turnover. Half of these large groups is located in at least 19 countries and a quarter is in at least 39 countries. These large enterprises are therefore particularly concerned by major multinational issues, while the national territory represents only part of their activities, and usually only a small part. They are mainly concerned by questions arising from globalisation, value chains, tax policies and practices, location of decision-making and research centers.

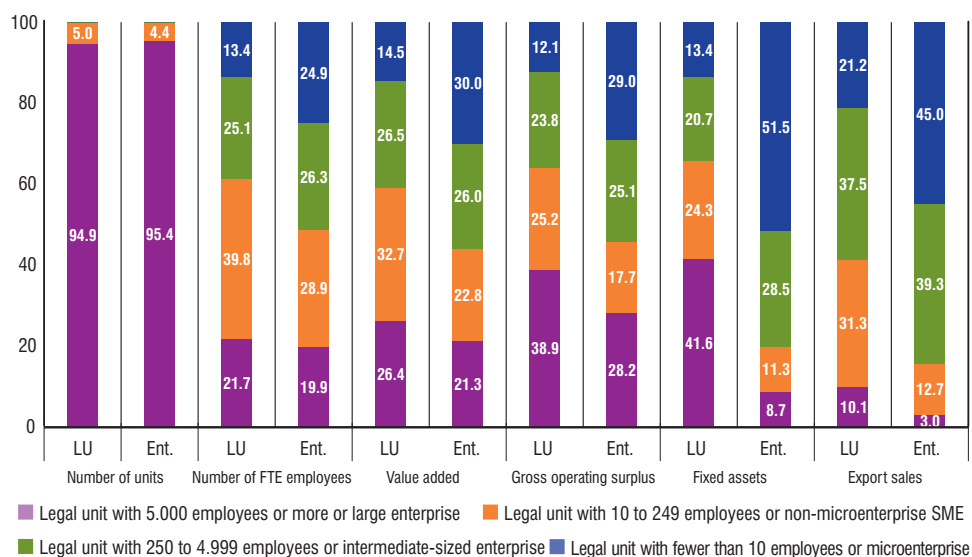
Fabric of enterprises substantially more concentrated than with legal units

Legal units bracketed according to employee numbers have long been the definition taken into account to assess the concentration of the economic fabric and especially the weight of the contribution made by SMEs. In 2011, out of more than three million legal units in market activities in the non-farm and non-financial sectors, only a hundred or so exceeded the 5,000 employee threshold, the threshold for large enterprises: they employed 13% of all payroll workers (see Figure 3). When using an enterprise approach, as defined by the LME, the concentration is far higher. Employing 25% of employees in the scope of coverage, the economic weight of the 222 large enterprises is practically twice that of legal units with an equivalent payroll workforce. They generate 30% of value added in enterprises (15% of GDP), which is more than twice that generated by legal units of a comparable workforce size. At the same time, the weight of the other three enterprise categories in terms of workforce size and value added decreases when compared with legal units of similar size. In non-microenterprise SMEs, relative weight in terms of employees and value added decreases most. In fact, a large proportion of legal units in their size bracket (10 to 249 employees) are subsidiaries of larger groups (intermediate or large), and using the new approach they are now incorporated into these groups.

In addition, groups often have their means of production in holding companies and real estate companies which have no employees, or very few. Through these group subsidiaries, legal units with fewer than 10 employees hold 42% of balance sheet total, compared with only 9% when considering micro-enterprises. Large enterprises alone hold more than half the balance sheet total for all enterprises, instead of the 13% for legal units of corresponding size.

Large and intermediate-sized groups also invoice a large proportion of their exports via smaller trade legal units. While 41% of exports are produced by legal units with fewer than 250 employees, this share plummets to 16% if subsidiaries of larger groups are excluded. As a result, large enterprises alone generate 45% of exports and intermediate-sized enterprises, 39%.

3. Weight of legal unit size and enterprise category in the economy in 2011



Note: LU: legal unit; Ent.: enterprise.

Scope: France, non-farm and non-financial market activities.

How to read this chart: in 2011, legal units with fewer than 10 employees accounted for 21.7% of FTE employees, and micro-enterprises 19.9%.

Source: INSEE, CLAP, ESANE, LIFI 2011.

Incorporation of service-sector companies increases the weight of manufacturing and construction

The shift from one unit of analysis to another also changes the distribution in terms of sectors of activity (see *Figure 4* and *Box 2*). Manufacturing and construction groups include many legal units in their core business. However, they also often set up separate legal units whose principal activity is to perform their sales/marketing functions for France or for exportation, as well as their support functions (holding unit, head-office activities, transportation, real estate activities, research, etc.). In the manufacturing sector, the relative weight of the workforce therefore increases when the shift is made from a legal unit approach to an enterprise approach, from 23.9% to 25.6% of total employment in enterprises. The impact on value added is even greater, with an increase of 3.1 points in the share of manufacturing. The reason is that service-sector affiliates and subsidiaries of manufacturing groups often generate higher profit margins; some are set up to invoice production, while others perform highly skilled functions (head-office activities, financing, research, etc.). The situation is similar in construction; when shifting from legal units to enterprises, the share of employment increased by 0.3 point and value added by 0.4 point. This refocusing on manufacturing and construction is even more visible for aggregates that are particularly affected by spin-offs to affiliates and subsidiaries within groups, such as net assets. Most groups have affiliates and subsidiaries classified under “Professional, scientific and technical activities” (which mainly includes head-office, management, research and development activities) or “administrative and support service activities” (i.e. M and N sections of the NACE, *Figure 4*).

4. Weight of activity sectors, in legal units and enterprises in 2011

	in %						
	Manufacturing	Construction	Wholesale/retail, transportation, accommodation and restaurants	Real estate activities	Specialised activities, scientific and technical activities, administrative and support services	Other services	All
Number of units							
Legal units	7.1	14.0	31.6	4.6	17.1	25.6	100.0
Enterprises	6.9	14.3	32.1	4.1	16.7	25.9	100.0
FTE employees							
Legal units	23.9	10.6	36.8	1.5	14.6	12.6	100.0
Enterprises	25.6	10.9	36.8	1.5	13.1	12.1	100.0
Value added							
Legal units	24.4	8.6	31.2	3.5	16.1	16.2	100.0
Enterprises	27.5	9.0	31.1	3.0	13.9	15.6	100.0
Wages							
Legal units	24.3	9.7	31.9	1.5	19.1	13.5	100.0
Enterprises	27.2	10.1	32.2	1.5	16.3	12.8	100.0
Gross operating surplus							
Legal units	23.3	5.8	27.0	8.1	12.3	23.5	100.0
Enterprises	26.4	6.3	27.0	6.3	11.1	22.9	100.0
Fixed assets							
Legal units	18.3	3.6	16.3	7.1	31.2	23.5	100.0
Enterprises	41.1	6.0	27.4	5.8	9.6	10.0	100.0
Turnover							
Legal units	27.9	7.0	44.4	1.8	9.1	9.8	100.0
Enterprises	31.6	7.9	41.9	1.7	7.7	9.3	100.0
Export sales							
Legal units	54.0	0.7	30.3	0.1	7.6	7.3	100.0
Enterprises	63.7	2.3	26.0	0.1	4.7	3.1	100.0

Scope: France, market activities in non-farm and non-financial sectors.

How to read this chart: in 2011, the principal activity of 7.1% of legal units was manufacturing and they employed 23.9% of FTE employees. The principal activity of 6.9% of enterprises was manufacturing and they employed 25.6% of FTE employees.

Source: INSEE, CLAP, ESANE, LIFI 2011.

In manufacturing, shifting from legal units to an enterprise approach more than doubles fixed assets (18.3% to 41.1% of the whole). Symmetrically, the situation is reversed for M and N sections (31.2% to 9.6%). There are also many manufacturing groups that invoice their exports through dedicated commercial subsidiaries. As a result, legal units in the manufacturing sector generate 54.0% of turnover in exports, compared with 63.7% for manufacturing enterprises.

Box 2

Industry and sector: what is the share of manufacturing?

There are different ways of measuring the share of an economic activity in a country's total economy. One example is to measure the manufacturing industry's share (C section in the Nace classification, i.e. all manufacturing, excluding mining and quarrying (B) and other manufacturing activities (D, E)).

One approach, called the **industry-based** approach (in French: *par branche*), measures the share of value added attributable to the activity, irrespective of the units in which it is produced. In France, value added by manufacturing activities represented 10.2% of GDP in 2011. This figure is obtained from the national accounts and is used for international comparisons. It is not affected by the change in collection unit or analysis, for example by the shift from legal units to enterprises.

A second approach, called the **sector-based** approach (in French: *par secteur*) measures the share of units engaged in a given principal activity by aggregating all their activities. There are

therefore two possible ways of measuring this share, depending on whether we consider the legal unit or the enterprise:

-if we consider the sector of legal units whose principal activity is manufacturing, the share is slightly greater than in the industry-based approach, at 10.4% of GDP. The difference is due to the fact that some manufacturing legal units also engage in secondary activities in the tertiary (service) sector, whose value added (which remains attributed to the tertiary sector in the industry-based approach) is accordingly included in the manufacturing total in a sectoral approach.

-if we consider the sector of manufacturing enterprises, the share is 11.7% of GDP. Here, unlike the sector-based approach with legal units, all legal units of manufacturing enterprises are included, since they contribute to their production. Manufacturing legal units in enterprises with a different principal activity, on the other hand, are now excluded.

A more realistic vision of enterprise performance

Thus by integrating all the legal units of enterprises that form a group, we also get a more realistic vision of economic performance, since all companies contributing to the functioning of the enterprise are now taken into account (*see Figure 5*). As before, the most significant fact is the inclusion in enterprises that constitute a group of legal units dealing with their professional, scientific and technical activities (M section), where most of the capital held by head offices and various holding units is located. The same phenomenon happens, to a lesser extent, in the case of real estate activities. When shifting to an enterprise approach, all production and real estate resources are reassigned to enterprises belonging to other sectors. In the manufacturing industry, balance sheet total per employee increases from €270 K in legal units to €750 K as an enterprise. As they use more resources, manufacturing enterprises have a greater labour productivity than the corresponding legal units, and value added per employee increases from €80 K to €85 K. Within manufacturing enterprises, service-sector subsidiaries overall have a greater value added and higher profit margins than manufacturing subsidiaries. Thus by changing from legal units to enterprises, the **rate of value added** of the manufacturing industry increases by 2.5 points and the **margin rate** by 0.7 point.

Groups also market some of their production via commercial legal units, and this intra-group trade represents a share that can be valued at around one fifth of the total turnover of legal units in France. In most sectors, commercial or specialised subsidiaries play a major part in exports. The share of export sales from manufacturing is 34% in legal units and 38% in enterprises.

5. Performance ratios of legal units and enterprises by sector in 2011

	Average turnover (in thousands of euros)	Turnover/ employee	VA/employee	Fixed assets/ employee	Average wage	VA/Turnover (in %)	Gross operating surplus/VA	Export rate
C: manufacturing								
Legal units	4 372.0	332.5	79.5	266.9	38.2	23.9	21.4	34.1
Enterprises	4 801.2	320.8	84.6	750.0	40.3	26.4	22.1	37.9
D: electricity, gas, steam and air conditioning supply								
Legal units	9 462.3	680.8	155.2	2 365.4	49.1	22.8	48.7	16.6
Enterprises	12 205.7	677.0	152.7	2 690.8	49.2	22.6	47.8	21.9
E: water supply, waste management, remediation								
Legal units	3 252.0	269.7	84.5	568.4	34.8	31.3	31.9	9.5
Enterprises	4 282.7	307.6	85.5	929.3	36.4	27.8	31.4	23.9
F: construction								
Legal units	582.0	196.3	66.2	184.3	34.6	33.7	17.6	1.7
Enterprises	620.7	199.1	67.8	301.9	35.1	34.0	18.1	5.1
G: wholesale/retail trade; repair of motor vehicles								
Legal units	2 010.9	513.3	75.3	260.0	33.8	14.7	22.7	10.1
Enterprises	1 743.7	433.8	74.5	414.0	33.7	17.2	23.6	9.7
H: transportation and storage								
Legal units	2 110.6	171.8	69.8	283.0	35.8	40.6	23.3	21.2
Enterprises	2 217.0	167.5	69.3	523.1	36.2	41.4	20.3	22.3
I: accommodation and food services								
Legal units	349.9	111.0	50.0	116.6	27.4	45.0	21.0	2.1
Enterprises	364.7	112.6	51.9	197.3	27.9	46.1	22.5	1.9
J: information and communication								
Legal units	1 700.5	268.4	122.4	440.2	49.8	45.6	36.3	9.4
Enterprises	1 747.2	264.9	123.4	728.3	49.9	46.6	36.6	9.8
L: real estate								
Legal units	458.3	361.3	193.6	2 585.8	38.6	53.6	59.6	0.9
Enterprises	467.9	315.0	166.5	2 129.4	38.5	52.8	54.7	0.9
M: professional, scientific and technical activities								
Legal units	532.5	217.4	100.3	1 982.3	52.8	46.1	21.1	16.5
Enterprises	396.9	184.1	99.1	518.6	48.5	53.8	26.6	11.9
N: administrative and support services								
Legal units	827.0	149.0	80.1	251.4	46.4	53.7	17.7	8.6
Enterprises	788.8	139.5	76.5	294.8	46.5	54.9	13.7	9.6

Scope: France, non-farm and non-financial market activities.

How to read this chart: in 2011, legal units whose principal activity was in the manufacturing industry had an average annual turnover of 4,372.0 thousand euros. Enterprises whose principal activity was in the manufacturing industry had an average annual turnover of 4,801.2 thousand euros (as a result of incorporating their subsidiaries which had been engaged in other activities).

Source: INSEE, CLAP, ESANE, LIFI 2011.

In enterprises organised into a group, staff in subsidiaries performing professional, scientific and technical activities receive higher wages than in the other subsidiaries, which increases the average wage compared with the figure observed in terms of legal units. With an enterprise approach, the more highly qualified staff in these subsidiaries are included in this sectoral average.

For most of the ratios, similar phenomena can be found in the construction sector (F section of the Nace Rev. 2), in accommodation and food service activities (I section), and in information and communication (J section). For water supply, sewerage, waste management and remediation activities (E section) in particular, the inclusion of commercial or specialised subsidiaries increases the share of export sales, from 10% in legal units to 24% in enterprises. This difference in ratios between legal units and enterprises is usually less marked in transportation and storage (H section) and in the production and distribution of electricity, gas, steam and air conditioning supply (D section). Finally, these two sections have in common the fact that they are dominated by large groups in which just a few legal units hold a dominant position, in terms not only of workforce and means of production, but also in terms of turnover. ■

Definitions

Ancillary activity: the sole purpose of an ancillary activity is to support activities of another unit directed towards the market, by providing goods or services only for the internal use of this unit. An ancillary activity is therefore not itself market-oriented.

Industry: an industry is composed of homogeneous production units, i.e. producing products (or providing services) that belong to the same item in a classification of activities.

Enterprise category: as defined in Decree no. 2008-1354 of 18 December 2008, the enterprise is “the smallest combination of legal units that is an organisational unit producing goods and services and enjoying a certain decision-making autonomy”. Four categories of enterprise are defined:

- **Small and medium-sized enterprises (SMEs)** employ fewer than 250 people, and either their turnover does not exceed €50 million or their balance sheet total do not exceed €43 million;

- of these, **micro-enterprises (MICs)** employ fewer than 10 people and their turnover or their balance sheet total do not exceed €2 million;

- **Intermediate-sized enterprises (ISEs)** are enterprises that do not belong to the SME category, they employ fewer than 5,000 people, and either their turnover does not exceed €1,500 million or their balance sheet total do not exceed €2,000 million;

- **Large enterprises** are enterprises not classified in the categories above.

Group: a set of legal units interlinked through shareholdings where one has decision-making power over the others.

Activity sector: production units engaged in the same principal activity.

Margin rate: ratio of gross operating surplus to value added excluding taxes.

Value added rate: ratio of value added excluding taxes to turnover.

For more information

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