

The European Size Distribution of Firms and Employment

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In recent years, policy debate has increasingly focused on the issues concerning size distribution of firms and employment. It is often claimed that we are approaching a new economic era, where large enterprises have lost their importance in developed economies. This raises the question as how the size distributions can be explained on basis of currently available European data. An attempt is made in this paper to examine the availability and reliability of European data related to the size distribution of firms and employment. The study suggests that though the existing data is severely limited in a number of respects, quality of statistics on employment and firm size structure has improved over time. On the basis of existing data the author has analyzed differences in the size distribution of firms and employment between countries and across time. The study illustrates that enterprises employing less than 250 people account for about 2/3 of total employment. Countries in the Southern part of the EU in general have a higher share of micro enterprises as well as a higher share of individuals employed in the micro enterprises, compared to the other countries in the EU. This difference is explained in terms of a higher share of micro enterprises within most NACE sections. Some of the differences are explained by the industry distribution of employment. The available data also shows a small increase in employment among micro enterprises since 1990.

Introduction

Micro, Small and Medium-Sized Enterprises (MSMEs)¹ are increasingly becoming fundamental to economic growth and job creation. For instance, in June 2000, the European Union (EU) adopted the European Charter for Small Enterprises, which requires members states and the Commission to encourage and support MSMEs. The Charter was seen as an integral part of the EU's declaration at the Lisbon European Council in March 2000 to "become the most competitive...economy in the world" by 2010 (European Council, 2000). MSME perspective is now increasingly integrated in many activities of the EU.

The increased policy focuses on MSMEs, and their increasing importance, in general, have enhanced the need for detailed statistics on their activities. To this end, EU Member States have been requested to coordinate research and the collection of statistics on the MSMEs, and the EU has also launched several project and report series focusing on these firms.

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¹ The abbreviation SME, Small and Medium-sized Enterprises, is often used. However, as will be shown later on, small and medium-sized enterprises have a particular definition in the statistics from the European Union, excluding the very smallest of all enterprises (the so-called micro enterprises). To avoid confusion, the abbreviation MSME is used instead.

The purpose of this paper is to employ available statistics on the size distribution of firms and employment in the EU to shed light on a number of issues. For instance, if there is any difference in the presence of MSMEs across countries and over time in the EU, and how reliable are these results? Henrekson and Johansson (1999) analyzed the size distribution of European firms based on data for the period 1988-1991. In comparison, this paper uses newer data and also looks at the industry distribution of employment. Furthermore, it briefly analyzes how the industry distribution may have influenced the differences between countries and over time.²

Before examining the available data on MSMEs, it may be useful to briefly lay the present focus on these firms into a historical perspective. During the 1950s and 1960s, the interest of politicians and economists was totally focused on the Large-Sized Enterprises (LSEs). These were seen as engines of the economy, and economic progress was obtained through mass production of standardized products in capital-intensive LSEs. The benefits of scale economies and increased specialization were normally seen to dominate the possible costs in terms of increased communication problems and bureaucracy in larger organizations. MSMEs were not seen to have any particular role to play in the development process (Galbraith 1967).

Until the 1970s, LSEs accounted for an increasing share of production in the Western World, and this was seen as a natural process of development; hence, a low share of MSME production was taken as an indication of development. However, during the 1970s, some economists claimed that there was a reversal of this trend. It was argued that the importance of LSEs had declined and would continue to decline in the future. An early important contribution in this field was a paper by Loveman and Sengenberger (1991), which analyzed the declining importance of LSEs for economic development in six Organization for Economic Cooperation and Development (OECD) countries. This paper was later followed up by Acs and Audretsch (1993), who examined the re-emergence of small business among developed Western nations.

Several reasons for the revival of MSMEs have been suggested. One is reduced importance of scale economies. Another explanation is the alleged increase in the importance of entrepreneurship and innovation. MSMEs are today often seen as important vehicles for channelling entrepreneurial ambitions. For instance, Baumol (2004) claims that many new innovations in the USA have been developed in MSMEs. Acs and Audretsch (1988 and 1990) also conclude that the MSMEs play an important role in the process of technological change. A third explanation for the revival of MSMEs is the tendency for outsourcing and downsizing among LSEs and their concentration on “core competencies”. Finally, an increased importance of the service sector, which is characterized by a large share of MSMEs, is yet another suggested reason for the increasing importance of MSMEs (Carree *et al.*, 2002, or Carree and Thurik, 2003, for a more detailed discussion).

To conclude, MSMEs have clearly grown in importance during the last 30 years, as measured by their share of production, and there are several explanations for this observed trend. It is thus becoming increasingly important for policy makers and researchers to have access to reliable data on various aspects of these firms.

² This paper focuses only on the old member states of the European Union, belonging to the western part of Europe (the so-called EU-15). The countries of Eastern Europe are in completely different phases of economic development and the statistics are not comparable with the other countries of the European Union.

The Data

For the analysis, such data is required that enables cross-sectional comparisons between the European countries to check how they differ. Time-series data is also needed to analyze how the role of MSMEs has changed over time.

Available Data at the European Level

The EU has tried to coordinate and improve the statistics about business structure in the Member States in several ways. Between 1990 and 2001, the EU published statistics about enterprises and employment in a number of reports entitled *Enterprises in Europe* (European Commission, 2001). Altogether, six reports were published and the last report presented statistics from 1996-1997. The statistics are based on national data but differ from the official national data as EU and the Eurostat have tried to adjust the data to harmonize the information and make it more comparable between countries. This report series has been replaced by a mini-series on SMEs in Europe, in the Eurostat collection detailed tables and special issues of *Statistics*, which are in focus (European Commission, 2002, and European Commission, 2003a). In addition, there exists a number of other series published by Eurostat, e.g., *Panorama of the European Union*, which presents large number of detailed data about the business sector in the EU. These reports do not present data about the size distribution of firms or their employment (European Commission, 2006).

In 1992, the European Union also started The European Observatory for SMEs, to improve and provide additional information on the situation and economic performance of MSMEs. Since 1993, the Observatory has published and produced reports with data and statistics on an irregular basis.³ The eighth and latest report released in 2003, also includes thematic studies about MSME related issues (European Commission, 2003b). These reports are nowadays prepared by the European Network of Small Business Research (ENSR) in cooperation with EIM Business & Policy Research in the Netherlands. An accounting scheme, called SEAS (the SME in Europe Accounting Scheme), has been developed in order to adjust and increase the quality of the data and to obtain better estimates.

The EU has also developed its own classification system concerning business activities, NACE, which is based on its international counterpart, ISIC. Every enterprise must normally belong to an activity in the statistics. If an enterprise operates within more than one activity, the most important (in value added terms) is chosen. The classification system was revised in 2003.⁴

Today, the bulk of all information about European business is derived from Eurostat's Structural Business Statistics (SBS) database. It provides information on the structure of businesses in the Member States broken down by size classes. SBS will continue to be the main source of data about MSMEs. The database covers information from 1995 and onwards. However, the period between 1995 and 1998 must be seen as a transitional period and the data set is more complete from the year 1999 and onwards. The SBS database mainly includes what is often called the non-financial business sections, which refer to all enterprises in the NACE (sections C to I and K).⁵ Prior to SBS, another database called the SME Database was used which was the main source for business data. Data from 1985 is available for some countries, but it only includes enterprises with more than 20 employees.

³ After the sixth report, the name was changed to The Observatory of European SMEs.

⁴ A major revision of NACE will soon be implemented. A specific information and communication section will be introduced for example.

⁵ The NACE classification system is presented in the appendix.

Limitations with the Available Data

There exists two major problems with these sources, which are based on national primary data. First, countries may differ in measurement methods and in their way of collecting data. Secondly, the way of collecting data and the measurements used may change over time. It is not unusual that countries change definitions or measurement methods. The EU has tried to solve this by introducing a harmonized way of measuring and presenting data. However, the measurement methods and definitions have also been changed by the EU over time.

For example, there is no worldwide official definition of what constitutes a small or medium sized enterprise and many countries have developed their own classification systems in this area. EU has introduced a European classification system, which has been changed and revised several times. Today, enterprises employing less than 10 people are called micro enterprises, enterprises employing between 10 and 49 people are called small enterprises, enterprises employing between 50 and 249 people are called medium-sized enterprises and enterprises employing more than 250 people are called large enterprises.⁶ Thus, enterprises with less than 250 employees are called Micro, Small and Medium-Sized Enterprises, in short MSME.⁷

Not all Member States transmit complete data in accordance with a harmonized standard. The largest deviation concerns the smallest enterprises. Some countries can only provide data about enterprises above a certain threshold size. It is difficult or almost impossible to receive reliable information about the very small shares of enterprises. The activity coverage may also vary between countries due to poor data availability for some NACE sections. The data about a particular section is hence more reliable than data about the whole economy as the coverage may be incomplete. In general, information about the established manufacturing section seems to be more reliable than data about the service sector. Some countries may, completely or partly, use statistical sample surveys to collect the necessary data of some areas.

Additional problems refer to the statistical unit. Some countries may only have data referring to the establishment and not to the enterprise level. It is almost meaningless to compare data of establishments with enterprises, between different countries. Data can also be analyzed at the enterprise group level. Unfortunately, this kind of data is not available for most of the EU countries. The national data on employment can, refer to either the number of persons employed (occupied persons) or the number of employees. The difference between these two concepts mainly consists of the self-employed, who are not included in the definition of employees. Many countries do not include the self-employed in their statistics of size distribution of employment.⁸

Making reliable comparisons over time can be troublesome. As new and better sources of information and improved measurement methods have been introduced, e.g., through a new database, the statistics and data over time are not directly comparable. This has, above all, affected the count of small enterprises. In the sixth report of The European Observatory for SMEs (European Commission 2000, p. 77), it is concluded that the differences in the number of enterprises over time that can be seen in the data mainly “reflect differences in registration methods, instead of reflecting trends in economic development”. They also conclude that the

⁶ The EU has also formally included a maximum amount of annual turnover and balance sheet total for micro, small and medium-sized enterprises.

⁷ Cf., footnote 1.

⁸ This is, for e.g., the case in the statistics that can be found in the Enterprise Database (Foretagsdatabasen) from Statistics Sweden (SCB) concerning the Swedish business structure.

various reports of Enterprise in Europe and the Observatory for SMEs are not directly comparable over time (p. 44). Thus, it seems problematic to use the available business data from the databases as well as from the published statistics to make conclusions about changes in the business structure over time. EEVI has, however, tried to construct a database that will make comparison over time possible based on the Observatory for SMEs reports and the SME database.

A complete analysis of the importance of job creation by MSMEs requires a more comprehensive and dynamic analysis of the change in employment and the number of firms. The data cannot be used to follow the employment trends for a particular cohort as it only presents the aggregation of firms and employment in particular size classes in a particular year. While analyzing changes over time in a special size class, the data material can easily be misinterpreted, even if we have perfect data. Enterprises may move from one employment size class to another, due to increasing or decreasing employment levels over time. Many firms may cross the boundaries between classes and be reinterpreted as a MSME or a LSE. An increase in the employment in MSMEs can be a result of larger enterprises becoming small. Changes in the aggregate distribution between size classes may give a biased picture of what is actually happening at the micro or firm level and where new jobs are being created in reality. In an expansion, when many enterprises may change from small to large, the importance of small enterprises may be underestimated. In a contraction, the importance of small enterprises may be overestimated.⁹ There has been a long debate in the literature concerning the interpretation of this kind of business statistics (Harrison, 1994; OECD, 1994 Chapter 3, or European Commission, 1995, Appendix 1 to Chapter 3 and Davis *et al.*, 1996).

A Cross-country Comparison of the Size Distribution of Firms and Employment

This section presents and compares the most recent and available data of the size distribution of firms and employment in the countries of the EU. The section contains two parts. The first part presents the general results on the country level and the other part examines the industry distribution and how this might have influenced the results and the differences between the countries.

The General Results

Tables 1 and 2 show the size distribution of firms and employment in the EU, based on the data from the SBS database from the year 2003.¹⁰ In total, the statistics presented in Tables 1 and 2 include almost 14 million enterprises and 100 million workers. In each size class column, the figure of the country with the largest (smallest) share is shown in bold (italics).¹¹

As can be seen from Table 1, majority of firms are small; 90% of the firms have less than 10 people employed and about 99.8% of the firms have less than 250 people employed, i.e., almost every enterprise is an MSME. The difference is not particularly large between countries. The Mediterranean countries (Spain, France, Italy and Portugal) and Belgium have relatively more micro enterprises than the other countries. Finland, Germany and Ireland have more medium-sized enterprises which are slightly more than the LSEs.

⁹ See the appendix for a numerical illustration of this problem.

¹⁰ Greece and most sections from Luxembourg are missing and these countries are excluded. Data is also lacking for some sections for the year 2003 and data from 2002, if available, has been used instead in these cases. Lack of data mainly concerns sections C and E. These sections are, however, very small as compared to the other sections.

¹¹ Figures in bold and italics showing the largest and smallest figure will be used in most tables.

Country	1-9	10-49	50-249	250 and Above
Austria	86.7	11.3	1.7	0.3
Belgium	92.1	6.7	1.0	0.2
Denmark	86.8	10.9	1.9	0.3
Finland	85.4	13.1	1.2	0.3
France	92.2	6.5	1.1	0.2
Germany	83.0	14.2	2.3	0.5
Ireland	84.2	12.8	2.6	0.5
Italy	94.5	4.9	0.5	0.1
The Netherlands	88.1	9.8	1.8	0.3
Portugal	92.4	6.5	0.9	0.1
Spain	92.2	6.9	0.8	0.1
Sweden	90.9	7.6	1.3	0.3
United Kingdom	86.4	11.4	1.8	0.4
EU-13	90.6	8.0	1.2	0.2

Note: Figures refers to Sections C, D, E, F, G, H, I and K. Section C is excluded for Portugal and Sweden, as data are missing. Section D refers to the year 2002 for Sweden. Section E is excluded for Finland and Sweden, as data are missing. Section F refers to the year 2002 for Sweden and is excluded for Ireland, as data are missing. Section G refers to the year 2002 for Sweden. EU-13 refers to the first 15 member states of the EU (EU-15), excluding Luxembourg and Greece.

Source: SBS, Eurostat.

Country	1-9	10-49	50-249	250 and Above	Size Class Dominance
Austria	25.5	23.9	19.0	31.7	SME
Belgium	29.0	21.7	15.9	33.3	SME
Denmark	19.6	24.9	21.0	34.5	SME
Finland	21.9	18.7	18.4	41.0	LSE
France	23.3	20.7	16.9	39.2	LSE
Germany	19.6	21.9	18.7	39.8	SME
Ireland	23.1	23.1	21.5	32.3	SME
Italy	47.1	22.0	12.4	18.5	Micro
The Netherlands	28.9	20.6	18.6	31.9	SME
Portugal	39.8	23.5	17.5	19.2	SME
Spain	38.6	25.8	14.7	20.9	SME
Sweden	24.4	20.4	17.0	38.2	LSE
United Kingdom	21.1	17.9	14.8	46.2	LSE
EU-13	28.5	21.5	16.2	33.8	SME

Note: Figures refer to Sections C, D, E, F, G, H, I and K. Section C refers to the year 2002 for Italy and is excluded for Denmark, The Netherlands, Austria, Portugal, Finland, and Sweden as data are missing or confidential. Section D refers to the year 2002 for Sweden. Section E refers to the year 2002 for Sweden and Finland and is excluded for Austria as data are missing or confidential. Section F refers to the year 2002 for Sweden and is excluded for Ireland as data are missing or confidential. Section G refers to the year 2002 for Sweden. A country has a Micro, SME or LSE size class dominance if micro enterprises (0-9), small and medium-sized enterprises (10-249) or large-sized enterprises have the largest share of total employment.

Source: SBS, Eurostat.

Table 2 presents the corresponding size distribution of employment. The differences between the countries are more evident here. The table also includes a column presenting size class dominance, showing the largest size class in every country.

While the LSEs represents a very small share in total enterprises, they account for one-third of the total employment in EU (EU-13). Nevertheless, MSMEs account for about two-third of the employment and micro-enterprises contribute 28% of total employment. Enterprises with less than 250 workers account for a significant share although their economic weight associated with employment is not as large as their share of the total number of enterprises. At the country level, the Mediterranean countries (except France) have a larger share of employment in the smallest enterprise, whereas UK, Finland, Germany and France have a larger share of employment in the LSEs.

In general, there seems to be a geographical split between the Northern and Southern part of Europe. In the Southern Europe, we have a relatively high number of micro enterprises as well as a high share of individuals employed in the micro enterprises, whereas Northern Europe is characterized by more larger enterprises. France is an interesting example of a mixed country with a large share of micro enterprises but the major share of employment is in the largest enterprise.

The problem with the above data is that it is far from complete and only refers to a subset of all sectors in the economy. According to the Observatory of European SMEs (European Commission 2003b), there are approximately 18 million non-primary private enterprises in EU (EU-13) employing about 135 million individuals in 2003.

Table 3: Size Distribution of Firms (2003) (%)

Country	1-9	10-49	50-249	250 and Above
Austria	86.5	11.0	2.0	0.5
Belgium	93.0	5.5	1.0	0.0
Denmark	87.5	10.0	2.0	0.5
Finland	93.0	5.5	1.0	0.5
France	93.0	6.0	1.0	0.0
Germany	88.0	10.0	1.5	0.5
Greece	97.5	2.0	0.5	-
Ireland	85.5	12.5	2.0	-
Italy	95.5	4.0	0.5	0.0
Luxembourg	84.0	12.0	4.0	-
The Netherlands	90.5	7.5	1.5	0.5
Portugal	93.5	5.5	1.0	0.0
Spain	93.5	6.0	0.5	0.0
Sweden	93.5	5.5	1.0	0.0
UK	89.5	9.0	1.5	0.5
EU-15	92.5	6.5	1.0	0.0

Note: The data from The Observatory about LSE in Greece, Ireland and Luxembourg is rounded to zero.

Source: The Observatory of European SMEs, European Commission (2003b).

The SBS data presented in Tables 1 and 2 include about 25% of total enterprises and employed workers including public enterprises.

The figures from SBS can be compared with the latest statistics from the Observatory of European SMEs (*ibid.*, 2003b), which also refers to the year 2003. These figures are supposed to include all non-primary private enterprises, i.e., only excluding the state-owned enterprises and agriculture, forestry and fishing, and covering NACE Sections C-K and N-O. This data is, however, supposed to be more comparable between countries. The size distribution based on this data is presented in Tables 3 and 4. As the data presented by the Observatory, about firms, is rounded to the nearest thousand, hence, the distribution can be somewhat misleading, and in Table 3 also, the result is rounded to the nearest 1/2%.

Table 4: Size Distribution of Employment (2003) (%)

Country	1-9	10-49	50-249	250 and Above	Size Class Dominance
Austria	37.0	19.0	15.5	28.0	Micro
Belgium	40.0	16.5	13.0	30.5	Micro
Denmark	35.5	20.0	17.0	27.5	SME
Finland	34.5	15.0	15.0	35.5	LSE
France	37.0	16.0	13.5	33.5	Micro
Germany	34.0	18.0	13.0	35.0	LSE
Greece	57.0	17.0	13.0	13.5	Micro
Ireland	25.0	23.5	21.0	30.0	SME
Italy	57.0	17.0	70.0	16.5	Micro
Luxembourg	24.5	24.5	24.5	27.0	SME
The Netherlands	32.0	18.0	16.0	35.0	LSE
Portugal	37.5	23.0	18.5	21.0	SME
Spain	50.5	20.0	11.5	18.5	Micro
Sweden	38.5	16.0	13.5	32.0	Micro
UK	32.0	75.0	12.5	41.0	LSE
EU	39.5	17.5	13.0	30.5	Micro

Notes: This table refers to sections J, N, and D: Section J refers to financial intermediation; Section N refers to health and social work; and Section D refers to other personal service activities.

Source: The Observatory of European SMEs, European Commission (2003b).

The size distribution of firms does not differ particularly between SBS and the Observatory of European SMEs, as can be clearly seen by comparing the results in Tables 1 and 3. According to the Observatory of European SMEs, the majority of enterprises is the micro enterprises.

On the other hand, the differences concerning the size distribution of employment, are large, as

can be seen by comparing the results in Tables 2 and 4. On average, the employment share in micro enterprises increases by more than 10 percentage units, and the share in all other class sizes decreases by 3 to 5 percentage units. This is a noteworthy difference and the influence of the micro enterprises will appear more important if the data from the Observatory of European SMEs is used.

How does this difference arise? The data from the Observatory of European SMEs in Table 4 also includes Section J (financial intermediation), Section N (health and social work) and Section O (other personal service activities), compared to the SBS data from Table 2. However, two of the three divisions in Section J are dominated by LSEs and this should make the LSE size class larger. In Section N, and two of the four divisions in Section O are on the contrary, characterized by micro enterprises, which may have altered the result and made the smallest size class larger. The exclusion of public enterprises in the Observatory data is likely to be another reason for the difference, as public enterprises are normally large. However, if this is the main difference between the two sources, the number of enterprises and occupied persons in each section should be higher in the SBS dataset, whereas in fact, in the comparable sections, it is actually higher in the Observatory of European SMEs dataset. This is somewhat puzzling.¹²

Exclusion of the producer and personal services sections or exclusion of the public enterprises may, hence, heavily influence the result. It can be hard to find complete, reliable and comparable data about service sections, for every country in the EU.

At the country level, it can be noticed that France and Sweden have an LSE class dominance in Table 2, but micro class dominance according to Table 4. Portugal is the only country where the share decreases in the smallest size class and increases in the largest size class. Germany and the Netherlands are, further, classified as having an LSE class dominance in Table 4, but however, it is only in the Netherlands that the actual share of LSE increases.

The Industry Distribution

Even if Tables 1 and 2 or Tables 3 and 4 are examined, it can be concluded that the size distribution differs among countries. The more to the south, the larger the share of micro enterprises. This may be explained by differences in the business structures among countries. Countries might have specialized in activities and industries that can, in general, be characterized by a particular size distribution. Some activities are more suited to be carried out by the MSMEs or the LSEs. Next, the industry distribution is closely examined to see if and how this may have affected the differences between the countries.

Table 5 shows the total size distribution of employment in Section C (mining and quarrying), Section D (manufacturing), Section E (electricity, gas and water supply), Section F (construction), Section G (wholesale and retail trade), Section H (hotels and restaurants), Section I (transport, storage and communication) and Section K (real estate, renting and business activities) among the EU Member States based on SBS. As done previously, a column with size class dominance is added to Table 5.¹³

As can be seen from Table 5, three of the sections are SME and LSE dominated whereas two are micro enterprise dominated.¹⁴ Micro, small and medium sized enterprises are particularly important in Sections F and H, while LSEs dominate Sections C, E and I.

¹² There can also be a difference if the size distributions are based on the number of employees and not on the number of persons employed, as mentioned earlier. However, the data in both Table 2 and Table 4 is supposed to be based on the number of persons employed and not on the employees.

¹³ It is, unfortunately, not possible to do this analysis based on the statistics from The Observatory of European SMEs.

¹⁴ Note that even if some sections are SME dominated, the distributions in these sections may vary a lot. Sections D and F are both SME dominated, but the share of the smallest and largest size classes differs substantially. In some sections, e.g., Section K, the differences between size classes are very small. It can be misleading to identify these sections as dominated by a particular size class.

Country	1-9	10-49	50-249	250 and Above	Size Class Dominance
C (mining and quarrying)	9.3	13.6	3.0	42.8	LSE
D (manufacturing)	13.6	21.9	23.5	41.1	SME
E (electricity, gas and water supply)	3.0	5.5	12.2	79.4	LSE
F (construction)	42.8	32.0	13.8	11.4	SME
G (wholesale and retail)	37.3	20.9	12.0	29.9	Micro
H (hotels and restaurants)	44.0	26.4	10.1	19.6	Micro
I (transport, storage and communication)	16.7	15.5	12.8	55.0	LSE
K (real estate, renting and business activities)	31.9	17.7	16.7	33.8	SME
Note: Denmark, The Netherlands, Austria, Portugal, Finland and Sweden are not included in Section C. Ireland and Austria are not included in Section E. Ireland is not included in Section F.					
<i>Source: SBS database, Eurostat.</i>					

Businesses in the Sections C, E, and I, probably depend heavily on scale economies affecting the minimum efficient scale of production and hence, tend to favor LSEs. These sectors may require huge investments to operate at an efficient scale. Starting a business in Sections F, G, or H, on the other hand, requires relatively low levels of capital investment and is better suited for micro and small enterprises.

Industry distribution of employment in different countries is presented in Table 6. A column with section class dominance is added to the table, showing the two largest sections for each country.

Section D (manufacturing) and Section G (wholesale and retail trade) are the largest sections, accounting for more than 50% of total employment in the whole EU. These sections are also the two largest sections in every country except the Netherlands and the United Kingdom where Sections G and K (real estate, renting and business activities) are the largest. The distribution does not differ to any large extent between the countries. Naturally, some

Country	C	D	E	F	G	H	I	K	Section Class Dominance
Austria	0.2	26.9	1.4	10.9	25.5	9.6	10.8	14.8	DG
Belgium	0.1	26.7	0.9	10.6	24.9	6.5	11.9	18.4	DG
Denmark	0.2	26.7	1.0	10.5	26.0	5.6	11.4	18.6	DG
Finland	0.3	34.6	1.3	10.2	20.4	4.4	12.8	15.9	DG
France	0.3	28.0	1.4	10.6	22.7	6.0	11.2	19.8	DG
Germany	0.5	35.3	1.3	8.2	21.9	5.6	8.7	18.5	DG
Italy	0.3	32.9	0.8	11.8	22.7	7.0	8.2	16.4	DG
Ireland	0.6	23.9	1.0	4.4	28.3	14.6	9.4	17.9	GD
The Netherlands	0.2	77.7	0.7	10.3	29.2	6.5	10.1	25.4	GK
Portugal	0.5	30.9	0.9	15.2	26.9	8.0	6.5	77.7	DG
Spain	0.3	21.2	0.5	18.7	24.8	8.9	7.9	17.6	GD
Sweden	0.4	33.0	1.0	9.9	22.9	4.1	10.8	18.0	DG
United Kingdom	0.4	19.8	0.7	7.4	27.7	10.5	9.0	24.5	GK
EU-13	0.4	27.6	1.0	10.8	24.3	7.4	9.2	19.3	DG
Note: Section C refers to the year 2002 for Italy and Sweden. Section D refers to the year 2002 for Sweden. Section E refers to the year 2002 for Finland and Sweden. Section F refers to the year 1998 for Ireland and the year 2002 for Sweden. Section G refers to the year 2002 for Sweden.									
<i>Source: SBS database, Eurostat.</i>									

differences do exist. Section D, e.g., has a share of 17.7% of total employment in the Netherlands, whereas this share is almost twice as large (35.3%) in Germany.

Some of the difference in the size distribution of employment may partly be explained by the industry distribution, as mentioned above. However, if the industry distribution in every country is assumed to be the same and equal to the average distribution, the general pattern will not change to any considerable extent, as can be seen from Table 7, which shows the size distribution in each country, given that the industry distribution is the same in every country. The only noticeable difference is that Sweden and France now have an SME class dominance instead of an LSE class dominance.¹⁵ But the difference is not really large. Hence, it seems that the general industry distribution cannot be used to explain the main differences in the size distribution between the countries.

Table 7: Size Distribution of Employment Given that the Industry Distribution is Same in Each Country (2003) (%)					
Country	1-9	10-49	50-249	250 and Above	Size Class Dominance
Austria	25.5	23.8	19.2	31.5	SME
Belgium	29.5	21.8	16.1	32.6	SME
Denmark	79.8	25.2	21.2	33.8	SME
Finland	23.8	19.4	18.0	38.7	LSE
France	24.3	21.1	16.8	37.9	SME
Germany	21.7	23.1	18.0	37.1	SME
Ireland	21.7	22.0	21.8	34.5	SME
Italy	48.5	21.0	77.9	18.7	Micro
The Netherlands	27.5	20.9	19.6	32.0	SME
Portugal	38.7	22.2	17.2	21.9	SME
Spain	36.7	25.0	15.3	23.0	SME
Sweden	26.0	21.3	16.6	36.0	SME
United Kingdom	20.2	78.0	15.9	45.9	LSE
Note: The figures above are calculated assuming that the section distribution in every country is the same and equal to the average distribution in EU-13. Section C is excluded in the analyses of Austria, Denmark, The Netherlands, Portugal, Finland and Sweden. Sections C and E are excluded in the analyses of Austria. Sections E and F are excluded in the analysis of Ireland.					
<i>Source: Own calculations based on SBS, Eurostat</i>					

The differences between Northern and Southern Europe may instead, mainly be a result of differences within the sections. The Mediterranean countries may, e.g., have a tradition of managing family-run businesses and sole proprietorship, which often takes the form of running micro and small enterprises. Many sections in these countries will, in this case, have a higher share of micro and small enterprises than the rest of the EU.¹⁶ As an example, Table 8 shows the size distribution of employment within a section (Section D, manufacturing).¹⁷ This section can also be interesting to examine separately as it is part of what has traditionally been seen as the core of the private sector.

As can be seen from Table 8, the differences between the countries in the manufacturing section are as large as in the economy as a whole. In particular, it can be seen that the Mediterranean countries have a much higher share of micro enterprises. This is actually true for

¹⁵ An interesting result obtained from this comparison of data is that Sweden and France can be said to have a micro class dominance (if non-primary private enterprises are analyzed), an SME class dominance (if one analyzes the private and the public non-financial business sections using the EU average industry distribution) or an LSE class dominance (if the private and the public non-financial business sections are analyzed using the national industry distribution).

¹⁶ The institutional environment and economic policy may also differ between countries and can influence their business structure (Davis and Henrekson, 1999 or Henrekson and Johansson, 1999).

¹⁷ A table showing size distribution in every country and of every section will be some pages long and thus, is not included in this paper.

Table 8: The Size Distribution of Employment in Section D, (2003) (%)					
Country	1-9	10-49	50-249	250 and Above	Size Class Dominance
Austria	10.7	18.8	26.9	43.6	SME
Belgium	11.1	19.6	24.2	45.1	LSE
Denmark	7.5	19.0	26.4	47.0	LSE
Finland	7.9	15.9	22.8	53.4	LSE
France	12.1	18.9	22.1	46.9	LSE
Germany	6.7	15.8	23.4	54.1	LSE
Ireland	4.5	19.9	32.0	43.6	SME
Italy	25.3	31.5	21.0	22.2	SME
The Netherlands	15.0	21.4	28.2	35.5	SME
Portugal	21.6	28.5	29.1	20.7	SME
Spain	18.7	31.9	23.2	26.1	SME
Sweden	11.2	15.0	20.5	53.3	LSE
United Kingdom	10.5	19.6	26.0	43.9	SME
EU-13	13.5	21.9	23.6	41.0	SME

Source: SBS Database, Eurostat

most of the other sections as well.¹⁸ Hence, according to this brief analysis, it seems that the difference within sections may help explain some or most of the differences between the countries.¹⁹ The reason that Italy has a higher share of micro enterprises is not that it has focused on sections that can, in general, be seen as micro dominated but because Italy has a larger share of micro enterprises within most sections, as compared to the other countries.²⁰

A Panel Data Comparison of the Size Distribution of Firms and Employment

Next, the change in the distribution of firms and employment between countries and across time is analyzed. Is it possible to find reliable panel data to examine this issue? The changes at the section level are also briefly analyzed.

The General Results

The data from SBS is not sufficiently long to be used to analyze the changes over time, as data for sufficient countries and sections can, at best, only be found from 1999 and onwards. As already concluded, the statistics from the Enterprise in Europe and the Observatory of European SMEs are not directly comparable over time and cannot be used either. The data from these sources from 1990 and onwards is, in any case, not sufficiently complete and specific to be used for this purpose. The EIM database mentioned earlier does however, allow for such a comparison. The dataset contains estimated and rounded figures covering the non-primary private enterprises (covering NACE Sections C-K and N-O) between 1990 and 2001. These figures are supposed to be harmonized and comparable over time. This seems to be the only present source that can be used to examine the change in the size distribution over time.

By analyzing the changes in the size distribution of firms between 1990 and 2001, it can be concluded that no major changes in the size distribution of firms have occurred according to the data from EIM. On average, the smallest size class (1-9) has increased its share slightly, and the small firm size class (10-49) has decreased slightly (approximately less than a 0.5 percentage unit increase and decrease in each class). The largest change among the particular

¹⁸ This is not shown in any table. An interesting exception is Section E where Denmark has a very high share among 1-9 workers (almost 40%), whereas all other countries have a share below 10%.

¹⁹ However, even within a section, the countries can specialize in special divisions. Germany's largest division within Section D is motor vehicles, whereas, e.g., Spain and Italy have a large share of textile, leather and clothing.

²⁰ The Observatory of European SMEs reports also conclude that the industry distribution cannot explain the differences between the countries, see e.g., The European Observatory for SMEs, first report (European Commission, 1993).

countries can be found in Germany and Ireland with about a 1 percentage unit increase in the smallest size class and a corresponding decrease in the small enterprise class (10-49).²¹

One may try to update these figures, which end in 2001, with the data from 2003, taken from the Observatory of European SMEs. This is however, problematic. The change between 2001 and 2003 will be larger than the entire change between 1990 and 2001. Particularly Sweden and UK will have large changes in their size distributions. These changes are probably a result of different measurement methods in the EIM 2001 data and the Observatory 2003 data. The size classes are, for example, based on employee in EEVI 2001 but on the number of persons employed in the Observatory 2003.²² A closer look at the data behind these figures also reveals that the total number of enterprises changes dramatically and the results are not reliable, at least not for these two countries. This result underlines the problem when trying to compare different datasets over time. It is problematic and should be avoided.²³ If the EEVI dataset gives some indication of the changes during the 1990s, it can be concluded that no dramatic changes have occurred at all.

A similar analysis can be applied to the size distribution of employment. The changes in size distribution between 1990 and 2001 based on the dataset from EIM is presented in Table 9.

Country	1-9	10-49	50-249	250 and Above
Austria	0.3	-0.1	-0.4	0.2
Belgium	1.8	-0.4	-1.1	-0.4
Denmark	0.3	-0.3	-0.4	0.4
Finland	-0.6	-0.6	-0.1	1.3
France	0.0	-0.4	-0.5	0.9
Germany	2.1	0.7	-0.4	-2.3
Greece	4.6	-1.4	-1.6	-1.5
Ireland	0.9	-0.7	-0.8	0.5
Italy	1.4	-0.3	-0.7	-0.4
The Netherlands	0.5	0.3	-0.2	-0.6
Portugal	1.3	-0.6	-0.9	0.2
Spain	0.1	-0.2	-0.3	0.4
Sweden	0.3	-0.1	-0.1	-0.1
UK	1.6	0.1	-0.2	-0.5
EU-14	1.4	0.1	-0.4	-1.1

Note: Luxembourg is excluded.

As can be seen from the table, some changes have occurred during the 1990s. On average, the share of the smallest size group has increased by about 1.4 percentage units, while the share of the large and medium sized class group has decreased. At the country level, in particular Germany and Greece, but also Belgium, Italy, Portugal and UK, have had an increasing share of employment among the smallest enterprises and a decreasing share among the largest enterprises. In Finland and France, the trend

is the opposite; more employment in the larger enterprises and less in the smaller. Austria, Denmark and Ireland have a decreasing share of small and medium sized enterprises (10-249) and an increase in both the smallest and the largest size classes.

²¹ This result is not shown in any table.

²² Cf., as discussed earlier.

²³ The total number of enterprises in the private non-primary economy in Sweden is about 275,000 according to the EIM. In The Observatory data, the number is almost 500,000. According to national data, the number of non-primary private enterprises in Sweden was about 650,000 in 2002 (including about 125,000 enterprises which do not belong to any NACE section, due to missing information or because the firms are very small or maybe inactive). The EIM estimations have reduced the number of enterprises by more than 50% as compared to national data. In the UK data material, the number of enterprises is about 50% higher in the EIM dataset than in The Observatory of European SMEs. These changes cannot represent any true change between 2001 and 2003.

If one tries to compare the EIM data from 1990-2001 with the Observatory data from 2003, the result will once more be problematic. The change between 2001 and 2003 will be unlikely large. The result cannot be updated with the Observatory data from the year 2003, due to different measurement methods used, as previously.²⁴ It is not possible to use and compare these datasets with one another in this way.

Even if the changes in the size distribution of enterprises are very small according to the EEVI dataset, the changes in employment are somewhat larger, though no dramatical changes can be seen in Table 9. This result is based on data that seems to differ substantially from other reports and datasets presenting statistics of size distributions. It seems that many changes and estimations have been done to make the dataset comparable over time and between countries. The Swedish data seems to have been largely reduced (at least the number of firms though not the number of persons employed), only retaining what is possible to be compared over time and between countries.²⁵ The data that is left and is comparable may not show the whole picture and give a biased view of the actual change over time. As shown in the earlier analysis, only analyzing a subset of all sections and enterprises may substantially alter the result.²⁶

The Industry Distribution

Even if the changes seen in Table 9 be spurious, it can be followed up by an analysis at the section level. Can the difference be explained by changes in the industry distribution, maybe towards sections characterized by smaller enterprises, or is the change mainly caused by a larger share of smaller enterprises within each section?

The change in the industry distribution between 1990 and 2001 according to EIM is presented in Table 10. It also includes the share of total employment and size class dominance for each section at the end of the period.²⁷ As can be seen from the table, the employment share has mainly decreased in Section D (manufacturing). In relative terms, it has increased only in Finland.²⁸ Section D is an LSE dominated section and this may be an explanation for the increasing share of employment in small enterprises. In Sections F (construction) and G (wholesale and retail trade), which are dominated by micro enterprises, employment has, however, increased only slightly, and Sections H (hotels and restaurants), N (health and social work) and O (other community, social and personal service activities), which are also dominated by micro enterprises, employment has decreased. In the LSE dominated Sections C+E (mining, quarrying, electricity, gas and water supply), I (transport, storage and communication) and J+K (financial intermediation, real estate, renting and business activities) employment has further increased.

Unfortunately, it is not possible to do a country analysis between 1990 and 2001, assuming the industry distribution to be same and to see how the result would change.

²⁴ The data from Sweden can once more be used to show the discrepancy between the datasets. Total employment in the private non-primary economy in Sweden is about 2.3 million according to the EIM. In The Observatory data, the number is about 3.2 million. According to national data, an estimation of the employment in the non-primary private economy in Sweden is 2.7 million (including 300,000 employers working in enterprises without any connection to a specific NACE section).

²⁵ Cf., footnotes 23 and 24.

²⁶ Note, however, that the EIM dataset is based on private non-primary enterprises, including the same sections as in The Observatory of European SMEs reports (i.e., NACE sections C-K and N-O).

²⁷ Some sections cannot be derived separately from the EIM dataset. Note that the size class dominance may differ from Table 6, which is based on figures from 2003 and the SBS database.

²⁸ In absolute terms it has, however, increased in Ireland and Spain but decreased in all other countries including Finland.

Table 10: The Change in the Distribution of Sections between 1990 and 2001							
(<i>% units</i>)							
Country	C+E	D	F	G	I	J+K	H+N+O
Austria	0.5	-5.3	-0.2	2.5	0.9	1.6	0.0
Belgium	0.1	-1.5	-0.9	-0.1	0.2	2.1	0.0
Denmark	0.2	-1.7	-1.1	0.3	0.2	2.0	0.1
Finland	0.1	1.8	-2.6	-0.6	0.9	-0.1	0.4
France	0.5	-4.4	0.2	-1.0	1.2	3.8	-0.3
Germany	0.5	-7.3	0.6	1.6	1.4	3.2	-0.1
Greece	0.3	-8.0	3.1	2.9	0.4	1.0	0.2
Ireland	0.3	-3.4	-0.1	-3.3	0.3	7.1	-0.9
Italy	0.3	-2.5	-1.0	0.8	0.6	1.4	0.5
The Netherlands	0.3	-4.2	-1.0	0.7	3.2	3.8	-2.8
Portugal	0.4	-6.9	1.5	1.7	0.7	2.2	0.4
Spain	0.2	-0.6	0.1	-1.3	0.5	1.4	-0.4
Sweden	0.4	-0.1	-2.0	-0.6	1.1	1.2	0.0
UK	0.3	-1.9	0.3	-0.9	0.4	3.3	-1.5
EU-14	0.4	-4.1	0.2	0.4	1.0	2.7	-0.5
Share of Total Employment (2001)	1.5	25.2	9.0	20.8	7.9	19.5	16.2
Size Class Dominance	LSE	LSE	Micro	Micro	LSE	LSE	Micro

Source: EIM.

Nevertheless, it is possible to calculate how large the change in the distribution would have been in aggregate, if the industry distribution had not changed between 1990 and 2001. The increase among the micro enterprises would have been somewhat lower (1 percentage unit instead of 1.4 percentage units), the increase among small enterprises would have been somewhat higher (0.3 percentage units instead of 0.1 percentage units) and the decrease among medium-sized enterprises would have been somewhat lower (-0.1 percentage units instead of -0.4 percentage units). The change among the LSE would have been about the same. Hence, it seems that the change in the distribution of the sections cannot be the only or the main explanation. Nevertheless, there seems to be a small shift from an industrial economy dominated by manufacturing towards a more service-based economy which has influenced the total size distribution. Note, however, that according to this data, the personal services sections (H+N+O) have decreased slightly in relative importance.

As the change in the industry distribution fails to explain the entire change, the size distribution within each section must have also influenced the outcome.

Analyzing the change over time in each section, a small increase in the share of micro enterprises will be found in all sections except Sections C+E and J+K. The largest change can be seen in parts of Section G (retail distribution) with about a 3 percentage unit increase among the micro enterprises. Section F and Sections H+N+O show an increase by about 1.5 percentage units.²⁹ The proportion of micro enterprises may have increased within each section, due to, e.g., downsizing and outsourcing or increasing establishment of new small enterprises.

²⁹ This is not shown in the table.

Conclusion

This paper has examined the availability and reliability of European data concerning the size distribution of firms and employment. On the basis of the existing data, differences in the size distribution of firms and employment between countries and across time have been analyzed.

The enterprises employing less than 250 people account for about two-third of total employment. Countries in the Southern part of the EU in general have a higher share of micro enterprises, as well as a higher share of individuals employed in the micro enterprises, compared to the other countries in the EU. This difference might be explained by a higher share of micro enterprises within most of the NACE sections. Some of the differences might also be explained by the industry distribution of employment. The available data also shows a small increase in employment in the micro enterprises, since 1990. This may be explained by a change in favor of sections characterized by smaller enterprises and an increasing share of micro enterprises within each section, which could be the result of outsourcing. These trends are, however, not very pronounced.

The data and statistics that have been employed have some limitations. When making cross-sectional comparisons, it seems that there must be a choice between analyzing precise, but incomplete and fragmentary data, or analyzing estimated data covering the whole economy. Even if the latter data is more complete and comparable, it must be kept in mind that in many cases these are rough estimates. The result must therefore be treated carefully, and should only be seen as indicative of the structure. In particular, the data on small firms and the service sector must be interpreted with caution. Analyzing changes over time is even more difficult, and most of the available data cannot be used to this end, due to the fact that the registration methods have changed over the period of data collection.

Finally, it is encouraging to note that the quality of the statistics on employment and firm size structure has improved over time. In the future, the structures that the EU has recently built up concerning the business statistics will allow for greatly improved possibilities for comparisons both across countries and over time. □

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Appendix

Tables A1 and A2 show the number of persons employed in MSMEs (defined as enterprises employing less than 250 individuals), and LSEs in two periods, t and t+1. Analyzing the aggregate statistics, in Table A1 only, the number of persons employed in MSMEs is found to be increased by 100 individuals between the two periods, while the number of persons employed in LSEs is found to be decreased by 150 individuals. However, by analyzing Firms A, B and C separately, it is easily seen that only Firm C, which is an LSE, has experienced an increase in the number of persons employed. Firm A, an MSME, and Firm B, which becomes an MSME, faces a decrease in their employment level. If the aggregate data is only concerned, it may erroneous to conclude that more people have been employed among the MSMEs. In the same way, it can be concluded from Table A2, that more people have been employed among the LSEs, whereas a closer look at the firm level reveals that the increase in employment comes from the MSMEs.

Table A1: Changes in the Number of Persons Employed

Period	MSME	LSE	Total	Firm	Firm	Firm
				A	B	C
t	200	550	750	200	300	250
t + 1	300	400	700	100	200	400
Change	+100	-150	-50	-100	-100	+150

Table A2: Changes in the Number of Persons Employed

Period	MSME	LSE	Total	Firm	Firm	Firm
				A	B	C
t	300	400	700	100	200	400
t + 1	200	550	750	200	300	250
Change	-100	+150	+50	+100	+100	-150

NACE

(Nomenclature statistique des Activites economiques dans la Communaute Europeenne)

The following list shows the NACE activity 1 letter codes. Sections are as follows:

- A - Agriculture, hunting and forestry
- B - Fishing
- C - Mining and Quarrying (Extractive Industries)
- D - Manufacturing

(Contd...)

Appendix

(Contd...)

- E - Electricity, Gas and Water Supply
- F - Construction
- G - Wholesale and Retail Trade
- H - Hotels and Restaurants
- I - Transport, Storage and Communication
- J - Financial Intermediation
- K - Real estate, Renting and Business Activities
- L - Public Administration and Defense; compulsory Social Security
- M - Education
- N - Health and Social Work
- O - Other Community, Social and Personal Service Activities
- P - Private Households with Employed Persons
- Q - Extra-territorial Organizations and Bodies

The following, non-official, aggregates are occasionally used: Sections C to E are called the industry sections. Sections C to I and K are called the (non-financial) business sections. Sections G to K (or G to Q) are called the services sections. Sections G to I and K are called the non-financial services sections. Sections J and K are called the producer services sections. Sections H, N and O are called the personal services sections.