Netherlands: Business Dynamics

Business and employment dynamics play a central role in market economies. Understanding the characteristics and potential of businesses that populate the economy, in different sectors of activity and over time, and the extent to which they contribute to job creation and reallocation is central for economic policy. This Country Note presents key findings from the OECD DynEmp project for the Netherlands. The analysis is based on data that cover the period 2007-15, and does not cover recent developments associated with the COVID-19 pandemic.

Taking advantage of the DynEmp data infrastructure (Box 1), this Country Note provides evidence that is relevant for policy making in the Netherlands, taking into account the broader economic context of the country. The main results suggest that employment is more concentrated in medium-sized and large firms. At the same time, business dynamics appear relatively weak, considering churning and entry rates, as well as growth and survival of entering firms.

**Highlights**

- Medium and large firms (above 50 employees) account for a larger share of businesses and employment in both manufacturing and non-financial market services in the Netherlands.
- The Dutch economy is characterised by a relatively low business dynamism.
- In both manufacturing and services, average post-entry growth and the survival share of entering firms are lower in the Netherlands than in the benchmark group of countries.

**Size distribution**

The size and employment distribution of firms shed lights on the structure of the economy and provides a first indicator of the role of micro, small and medium firms for employment.

Figure 1 shows the average size distribution in the Netherlands of firms with two or more persons engaged, over the period 2007-15. The upper panel (a) shows the firm size distribution, while the bottom panel (b) presents the distribution of total employment in each size class. The firm size distribution of the Netherlands shows a similar picture to that of the benchmark countries, with firms below ten employees making up the largest share of firms in the economy in both manufacturing and services (Figure 1a). Looking at the employment distribution, however, noteworthy differences emerge. In both manufacturing and services, firms with more than 50 employees account for a larger share of total employment in the Netherlands than in other countries. In the Netherlands firms with more than 50 employees make up more than 70% of employment in manufacturing and around 55% in services, compared to respectively 65% and 46% on average for countries in the comparison group.
In manufacturing, differences in the firm size distribution within sectors have been increasingly linked with productivity and innovation differentials. A firm size distribution with a higher share of large firms may be linked to higher productivity, which has also been confirmed for the Dutch economy (Van den Berg, 2013; OECD 2018). In services, the relationship between size and productivity is empirically less strong, particularly among medium and large firms (Berlingieri et al., 2018).

**Figure 1. Size distribution**
Manufacturing and non-financial market services
The Netherlands vs benchmark countries, 2007-15
(a) Firm distribution, by employment size class

(b) Employment distribution, by employment size class

Note: The figure reports the size distribution in the Netherlands and in the benchmark group of countries for six employment size classes, separately for manufacturing and non-financial market services on average in the period 2007-15. Shares are calculated in terms of (a) firm units, and (b) employment.

Source: Calculations based on OECD DynEmp3 database, August 2019. See Box 1 for details.
The DynEmp project provides a unique comprehensive overview of employment and business dynamics across countries over the last two decades. The project collects harmonised micro-aggregated data for the analysis of business and employment across countries. The database is built from administrative records with quasi-universal coverage (such as business registers or social security records).

Country Notes provide short assessments of employment and business dynamics of a country, in comparison to a group of countries, and may contribute to inform policy makers.1

The DynEmp database generally covers most sectors of the economy, but in order to enhance cross-country comparability, the country profile focuses on manufacturing and non-financial market services (or “services” for brevity). The data source for the Netherlands is the General Business Register of Statistics Netherlands. See Desnoyers-James, Calligaris and Calvino (2019) for more details on the underlying data.

Unless otherwise indicated, the presented numbers are averages for the period for which the data for the Netherlands is 2007-15 available. To allow an evaluation of the Netherlands’ performance relative to that of other countries, the Dutch results on employment and business dynamics are compared to a “benchmark” group of countries for which DynEmp data are available: Austria, Belgium, Brazil, Canada, Costa Rica, Finland, France, Hungary, Italy, Japan, Portugal, the Netherlands, New Zealand, Norway, Spain, Sweden and Turkey. Unless indicated otherwise, all findings presented also hold when the benchmark set is restricted to a more homogeneous group consisting only of EU countries. Results presented in this paper are sourced from the DynEmp3 database as at August 2019. Owing to methodological differences, figures may deviate from officially published national statistics.

Business dynamics, survival and growth of new firms

New firms are the engine of the “creative destruction” process (Schumpeter, 1942), in particular through the introduction of new products and the replacement of older incumbent firms. Start-ups and young firms are also a key source of job creation (e.g., Calvino, Criscuolo, and Menon, 2015). The entry of new firms, and their post-entry growth are therefore important indicators of a dynamic business sector, together with churning rates that measure the reallocation of resources, one of the key drivers of productivity growth.

**Figure 2.** Entry rate across industries
Manufacturing and non-financial market services
The Netherlands vs benchmark countries, 2007-15

Note: Entry rates are defined as the number of entering units over the sum of entering and incumbent units in a sector. The entry for the Netherlands are adjusted for non-economic entry, whereas the benchmark rates are unadjusted. Lower entry rates are partially due to this adjustment, therefore comparisons with the benchmark should be taken with caution.

Source: Calculations based on OECD DynEmp3 database, August 2019. See Box 1 for details.
High entry rates can be a crucial driver for innovation, job creation, aggregate economic growth and productivity, especially in the context of declining entry rates in many countries (Calvino, Criscuolo and Verlhac, 2020). Creating an environment where new firms can easily enter the market is of increased importance during crisis periods, where new firms might face lower demand, greater uncertainty, and more difficulties accessing finance. In the Netherlands, entry rates in both manufacturing and services appear lower than the benchmark averages in almost all available industries (Figure 2), with the exceptions of the media and IT services sectors. The comparability of the Dutch indicator, however, may be affected by a different definition of entry, which excludes entry due to change in legal status. We thus focus on several other indicators that are less likely to be affected by such comparability issue.

Churning rates of incumbents, measuring the reallocation of employment among existing units, also appear generally lower in the Netherlands than in the benchmark (Figure 3). Exceptions include electrical equipment, machinery and equipment, transport equipment which display higher levels of job reallocation among incumbents, while textiles and apparel, wholesale and retail, and media display comparable levels of churning.

**Figure 3. Churning rate of incumbents across industries**
Manufacturing and non-financial market services
The Netherlands vs benchmark countries, 2007-15

![Churning rate of incumbents across industries](image)

Note: Churning rates of incumbents are defined as the sum of the job creation rates and job destruction rates of incumbent firms. Churning rates are reported by SNA A38 industries for the manufacturing and non-financial market services sectors, for the Netherlands and the benchmark set of countries, as averages over the period of 2007 to 2015.

Source: Calculations based on OECD DynEmp3 database, August 2019. See Box 1 for details.

Entry and churning rates are not the only indicators of a vibrant business environment. The ability of new firms to create sustainable competitive pressures within their industries is another one, captured in this note by the survival share of new firms and their post-entry growth.

Figure 4 (Panel a) presents the share of surviving firms at 3 years of age out of the cohort born in 2012, for the Netherlands and the average of the benchmark countries. In both manufacturing and services, the Dutch survival share is slightly lower than the benchmark one. Together with the lower entry rates highlighted in Figure 2, this results in a lower share of young firms, and could indicate barriers to experimentation. Figure 4 (Panel b) presents the average post-entry growth performance of cohorts of entering firms in the Netherlands, comparing them with the benchmark group of countries. Dutch firms entering the market in 2012 have a much lower average employment growth three years after than their counterparts in benchmark countries, in both manufacturing and services.

Overall, indicators of business dynamism appear relatively lower in the Netherlands, suggesting that policies may aim at ensuring a business environment that favour experimentation and growth of new and young firms. Such firms are more responsive to policy interventions and framework conditions than incumbents (Calvino, Criscuolo and Menon, 2016), reinforcing the importance of growth-enhancing policy settings.
**Figure 4.** Survival share and average growth of cohort of entrants at three years of age  
Manufacturing and non-financial market services  
The Netherlands vs benchmark countries, cohort of 2012

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<th>NLD</th>
<th>Benchmark</th>
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<tr>
<td><strong>a. Average survival share</strong></td>
<td>65%</td>
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<td><strong>b. Average growth</strong></td>
<td>20</td>
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Note: This figure reports (a) the average survival share and (b) the average employment growth rate, by firms entering in 2012 after three years, in the Netherlands and in the benchmark group of countries.

Source: Calculations based on OECD DynEmp3 database, August 2019. See Box 1 for details.

**Notes**

1. This note updates the previous version published in December 2020.
2. Additional OECD cross-country studies based on the DynEmp database (such as Criscuolo, Gal and Menon, 2014; Calvino, Criscuolo and Menon, 2015, 2016; Calvino, Criscuolo and Verlhac, 2020) provide the interested reader with complementary policy-relevant findings. The data as well as further information can be found on the following website: [http://oe.cd/dynemp](http://oe.cd/dynemp).
3. Results not shown for brevity but available on request.
References


OECD Insights on Productivity and Business Dynamics

The global productivity slowdown and the simultaneous decline in business dynamism has prompted widespread policy concern. Productivity is the ultimate driver of living standards improvements in the long run, whereas a dynamic business environment is key in enabling job creation. Persisting negative trends can increase earnings inequalities and exacerbate pressures on governments’ budgets, thus threatening social cohesion and political stability.

While most existing analysis of productivity and business dynamics rely on macro-aggregated data, the OECD MultiProd and DynEmp projects utilise a distributed microdata methodology to construct unique sets of harmonised micro-aggregated statistics from confidential firm-level data. The resulting databases allow studying the role of individual firms in driving aggregate outcomes and explaining the observed macro trends across countries and over time.

OECD Insights on Productivity and Business Dynamics is a series of country profiles with a focus on the microdrivers of aggregate productivity and job creation. It makes available, to wider audiences, analytical material from the MultiProd and DynEmp databases that was prepared for use within the OECD.

Comment on this country profile is invited, and may be sent to OECD, 2 rue André Pascal, 75775 Paris Cedex 16, France, or by e-mail to dynemp@oecd.org.

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