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Exports and Small Business in the Netherlands: Presence, Potential and Performance

by Roy Thurik

1. Introduction

EXPORTS ARE OF EMINENT IMPORTANCE to a small open, highly developed country like The Netherlands². The assumption that the demand for a product is spatially evenly distributed results in a positive relation between the amount of turnover and the spatial size of the market. It also results in a negative relation between the size of a country and the export share of its merchandise³. Alternatively, one might say that given the size of a company, the share of exports in total shipment will be higher if the size of its domestic market is smaller⁴. Clearly the latter relation may be frustrated if the accessibility of neighbouring foreign markets depends upon barriers. The assumption also leads to the well-known fact that the shares of exports in total shipments of large companies is higher than that in small ones. Hence, a high export share in total shipments, a high small business share in

total exports and a high share of shipments to directly neighbouring countries are three characteristics to be expected of a country like The Netherlands. This paper discusses the role of exports in The Netherlands (Section 2), the actual small business share therein (Section 3), some measures to stimulate export (Section 4), the hidden potential of small business (Section 5) and an analysis of the performance differential between small and large businesses depending upon export share (Section 6).

2. An International Comparison

Table 1 provides some key figures on the size and relative importance of international trade of several OECD countries.

The importance of international trade for The Netherlands is evident: the value of imports plus that of exports exceeds that of GDP, whereas it is less than 55 per

TABLE 1
INTERNATIONAL COMPARISON 1986*

	Population 10 ⁶ NL=100	GDP** 10 ⁹ NL=100	Imports** 10 ⁹ NL=100	Exports** 10 ⁹ NL=100	Imports/ GDP	Exports/ GDP	Small Business Share*** In Enterprises	In Employment				
United States	242	1658	4191	2389	430	491	291	306	.103	.069	.977	.351
Japan	122	834	1958	1116	147	168	226	238	.075	.115	—	—
Germany	61	419	890	507	221	252	267	282	.248	.300	.989	.455
Netherlands	15	100	175	100	88	100	95	100	.503	.543	.990	.453
Canada	25	174	362	206	96	109	99	104	.265	.273	—	—
Portugal	10	66	30	17	11	12	10	10	.367	.333	.996	.635

* Sources: National Accounts of OECD, Enterprises in the European Community, European Commission, 1990,
The State of Small Business: Report of the President, SBA, 1989.
** In US \$.
*** Small business: less than 100 persons employed.

cent of GDP in Germany and Canada. US imports and exports add up to only 17 per cent of GDP.

3. Exports and Small Business⁵

International penetration has many faces. It ranges from direct export activities to forms of co-operation. Forms of co-operation range from contracts with sales agents, through joint ventures, to investments (wholly owned production units abroad). This paper is confined to the role of exports.

More than 30 per cent of Dutch primary output is being shipped abroad. There is considerable sectoral variation in this percentage as is shown in Table 2.

The Dutch main exporters are the manufacturing, wholesaling and transportation sectors. Clearly, the export efforts of wholesale and transportation firms link up closely to the demand for their services on behalf of the Dutch manufacturing and agricultural sectors⁶. The small business export share is significant but less than that of large

firms. Exports account for only 18 per cent of total private small business output whereas they account for a generous 42 per cent of total private large business output. Small business exports concentrate on the EC-12 (90 per cent) and on the directly neighbouring countries like Belgium and Germany in particular (somewhat more than 50 per cent). Large firms tend to operate on a world market rather than on a European market.

Let us now have a closer look at the development of exports in the manufacturing sector. This sector accounts for the largest share (approximately 65 per cent) in total small business exports. The average yearly increase of small business manufacturing exports has been more than five per cent in the period 1981 through 1991, whereas it has been less than four per cent for large business manufacturing exports. See Figure 1 for details. The output export share of total small business manufacturing grew from 29 per cent in 1980 to 39 per cent in 1991. The

TABLE 2
OUTPUT EXPORT SHARES IN 1986 (IN PERCENTAGES)*

Sector	Total	Small firms**	Large firms
Manufacturing	52	35	59
Construction	2	1	4
Garages and Repairs	0	0	0
Wholesaling	19	23	10
Retailing	0	0	0
Hotel and Catering	0	0	0
Transportation	43	29	57
Other Services	4	4	3
Total	31	18	42

* Source: *The State of Small Business in The Netherlands 1990*, EIM, 1990

** Less than 100 employed

explanation of this growth depends upon the period considered. In the first part of the eighties firms were forced to increase their exports efforts because the Dutch domestic market was in decline. The resulting moderate wage development rendered Dutch products competitive in the international arena. In the second part of the eighties the economic prosperity resulted in a high demand for specialised goods. Small business profited from the demand for variety and flexibility involving complex production processes with little room for scale economies and learning effects. In this period small businesses also prospered due to the deglomeration process in which complicated structures occurred of co-operating firms with an important role for suppliers and sub-contractors. Clearly, these structures are not confined to the individual European countries. Lastly, in 1989 through 1991, Dutch small business thrived because of the demand for their merchandise from a unifying Germany. During the entire period of 1981 through 1991, Dutch small business benefitted from the well developed wholesale and transportation infrastructure which is typical for the Dutch economy and from numerous export-stimulating facilities which will be the subject of the next section. Additionally, a high level of education (languages) and political stability contributed to a favourable export growth.

4. Export-stimulating Measures

Many export-stimulating measures have been taken by the Dutch government in the eighties. The Dutch policy of the improvement of trade relations has two distinct dimensions. The first is of a general nature, and attempts to improve trade relations in the

context of the EC, GATT, etc. The second is of a more specific nature and aims at individual firms, lines of business, etc., providing information and financial support. The export-promoting measures in the eighties are numerous and vary in goal or set-up. An incomplete list is provided below:

- Insurance of credits when political risks occur.
- Pre-financing of projects.
- Special financial facilities for large projects abroad (combined credits, soft loans, etc.)
- Immunisation of exchange-rate risks.
- Matching of support given to foreign competitors by their government.
- Subsidies for participation in international fairs, other promotional activities abroad (trade missions, business trips, etc.) and reception of foreign trade delegates, representatives, journalists, etc.
- Support for joint projects with potential clients (subsidy for preparing bids and proposals).
- Numerous special arrangements within the framework of development co-operation.
- Numerous information activities through embassies, chambers of commerce (Holland Trade System), etc.
- General Holland promotion.

The above measures and arrangements are not confined to either large or small businesses. It is unclear as to how far the export success of Dutch small businesses in the eighties can be attributed to these measures and arrangements. It would be unwise to state that the high Dutch trade surplus is entirely unrelated to the efforts in the area of export stimulation. In the nineties, funds for export facilities are and will be reduced despite the fact that

TABLE 3
ACTUAL AND POTENTIAL EXPORTS OF DUTCH SMALL BUSINESSES
IN 1989 IN BILLION DFL

<i>Sector</i>	<i>Actual Exports</i>	<i>Potential Exports</i>	<i>Total Exports</i>
Manufacturing	20.8	10.5	31.3
Construction	0.5	0.6	1.1
Wholesaling	40.5	29.7	70.2
Transportation	9.9	6.5	16.4
Services	1.5	3.7	5.2
Total	73.2	51.0	124.2

Source: Van Elk and Overweel (1991), Table 3.2

Dutch export growth has been lagging behind that of the aggregate EC-12.

5. The Hidden Small-business Export Potential

In spite of the growth of the small business exports, there is a general feeling that there still is a considerable unused potential among small businesses. Therefore, the Research Institute for Small and Medium-sized Business (EIM) in The Netherlands conducted a study of this potential⁷. Concern about Dutch export growth being lower during the eighties than that of the entire EC-12 also contributed to this study, aiming at gaining insight in unused export opportunities. The aggregate export share of the small-business output is low, because many small businesses are not involved at all in export activities for various reasons. The research method now is the following: non-export businesses are assumed to account for the hidden export potential. The export share of exporting firms is taken as a bench-mark for similar non-exporting firms. This supply-oriented method does not take any demand restrictions into

account, nor the retaliation by foreign firms experiencing diminishing domestic turnover. Given an actual small-business export value of about 73 billion guilders, the potential value of exports is computed to be in excess of 50 billion Dutch guilders. A sectoral decomposition is given in Table 3.

Potential exports such as computed in Table 3 is a theoretical construct, i.e. some sort of maximum value. An inquiry has been conducted among entrepreneurs of selected lines of business to establish to which degree non-exporting individual firms are able to benefit from this theoretical export potential. Elements used in this inquiry are current initiatives related to export activities, like visiting fairs, etc., existing export schemes and the perceived effect of hitherto unused export stimulation facilities. In this way, the theoretical export potential can be converted into a 'real' export potential. Considerable variation is found in the ratio of 'real' and theoretical export potential depending upon line of business and size class. An average of one-third is found for this ratio. This implies that the 'real'

export potential of the sectors given in Table 3 is approximately 17 billion guilders. In other words: small businesses in the five exporting sectors could increase their export value by about 20 per cent if more and proper use would be made of export stimulation facilities and current initiatives and schemes. This means that it is worth while to convince non-exporters that export is a real option for firms in their line of business and with their size (as a proxy for their abilities in terms of management, personnel, financing, etc.).

6. Exports and Performance

What is the effect of exporting activities on the performance of industries^{8?}. Does the export-performance relationship differ between small and large firms? The purpose of this section is to investigate whether there are differences between the export-performance relationship of large and small Dutch manufacturing firms. This relationship will be studied within the structure-performance paradigm. This is a well-known paradigm within the field of industrial economics. It states that differences in performance between industries can be explained using market-structure variables. To analyse the effect of exports appropriately, a number of market-structure variables like seller concentration, entry barriers and business cycle will be considered too. Furthermore, the counterpart of exports — competing imports — is taken into account.

As a measure of performance the price-cost margin is chosen, which is defined as the value of production minus input and labour costs divided by the value of production. Traditionally, it is expected that the ability of an industry to

raise price above costs increases with seller concentration. In the present study, seller concentration (C4) is measured by the share of employment accounted for by the largest four firms within an industry. The capital intensity (K) of an industry can be considered as one of the sources of barriers to entry. An entrant should invest a large amount of capital to compete with incumbents of a capital-intensive industry and to survive within this industry. Incumbents of capital-intensive industries can set prices above competitive levels according to the height of entry barriers. One of the major issues in industrial economics concerns the cyclical behaviour of prices, costs and consequently of price-cost margins. Price-cost margins are expected to be higher in business cycle upswings than in downturns. In the present study the stage of the business cycle is measured by two variables: the degree of capacity utilisation (CU) and the relative change in industry sales (RS).

In a small open economy like The Netherlands, foreign competition may not be neglected: foreign competition raises the degree of competition on the domestic market and is likely to squeeze performance. Foreign competition is measured by the level of competing imports (CI). Finally, exports (EX) are likely to have a positive influence on performance.

The data set used contains 36 three-digit Dutch manufacturing industries with a partitioning into small and large firms. The data set covers the twelve-year period 1975–1986. So, a total of 864 data points is available. The data set is based on information published by The Netherlands Central Bureau of statistics in the 'Production Statistics Manufacturing Industry'. These statistics do not include

TABLE 4
REGRESSION RESULTS* FOR SMALL AND LARGE FIRMS SEPARATELY
DEPENDENT VARIABLE: PRICE-COST MARGIN

Description	SMALL		LARGE	
	Producer Goods	Consumer Goods	Producer Goods	Consumer Goods
Intercept	.030 (1.1)	.116 (4.9)	.043 (1.6)	.120 (4.9)
Seller concentration, C4	-.059 (-2.1)	-.039 (-1.0)	-.047 (-1.7)	-.001 (-0.0)
Capital intensity, K	.092 (3.7)	.036 (1.4)	-.013 (-0.6)	.005 (0.2)
Capacity utilisation, CU	.076 (3.5)	.076 (4.8)	.132 (7.4)	.061 (3.9)
Sales growth, RS	.016 (1.7)	.003 (0.3)	.038 (3.1)	.027 (2.0)
Exports, EX	.070 (2.2)	.026 (0.7)	.086 (3.8)	-0.32 (-0.9)
Competing imports, CI	.020 (2.3)	-.006 (-0.9)	-.006 (-0.7)	.005 (0.6)
Adjusted R ²	.76	.70	.60	.58
Number of observations	216	216	216	216

*The regression results are corrected for first-order autocorrelation and heteroskedasticity.

data of firms with less than 10 employees. 'Small' refers to firms employing 10 to 50 people and 'large' to firms with 50 or more employees. The average small firms size is about 23 employees and that of large firms about 180 employees. The coverage ratio of the data set is substantial: 46 per cent of the total employment in the manufacturing sector is covered. See Prince and Thurik (1993) for further details.

Table 4 shows the regression results for small and large firms separately. Also, a partitioning into producer and consumer goods is made. Earlier exercises showed that this partitioning reflects the structure of the industrial-goods buyers' market. Producer-goods industries tend to have a higher buyer concentration than consumer-goods industries. See Prince and Thurik (1992).

Market power of the largest four firms (C4) does only affect the price-cost

margins of small firms involved in producer goods: their price-cost margins are negatively influenced by seller concentration. Large firms appear to have no (dis)advantage caused by seller concentration at all. Capital intensity (K) has a positive significant influence on price-cost margins of small firms in producer goods only. It is straightforward that capital intensity affects price-cost margins of small firms more than those of large firms because most entrants will be small. As expected, price-cost margins are higher in business cycle upswings (CU and RS) than in downturns. Small firms move their price-cost margins according to their capacity utilisation (CU) rather than to changes in sales (RS). Furthermore, we see that large firms in producer goods are more sensitive to business cycle fluctuations than those in consumer goods. This conforms to the notion that bulk

products are sensitive to cyclical movements.

The effect of exports on price-cost margins differs significantly between firms producing consumer goods and producer goods. Exporting of producer goods is profitable for both small and large firms. Producer-goods industries may have more direct relations with their buyers, because the number of buyers is lower than that of consumer goods industries. Furthermore, consumer goods may be dumped on the foreign market more often than producer goods.

The effect of competing imports is somewhat surprising. No negative effect of foreign competition is found. On the contrary, price-cost margins of small firms in producer goods are positively influenced by competing imports. One would also expect that competition from abroad affects price-cost margins of large firms rather than those of small firms. However, this is not confirmed by our results.

The analysis of this section shows that the export-performance relationship does not differ between small and large firms but does between producer goods and consumer goods. The reader has to bear in mind that the level of analysis is industry averages and not individual firms. This will be referred to again in the next section.

7. Conclusion

The growth of Dutch exports has been below that of the aggregate EC-12 since the beginning of the eighties. Where is the unused export potential, and how can it be stimulated? Countries export goods which they can produce relatively efficiently, and import the remaining merchandise. This specialisation is to the advantage of all participating countries.

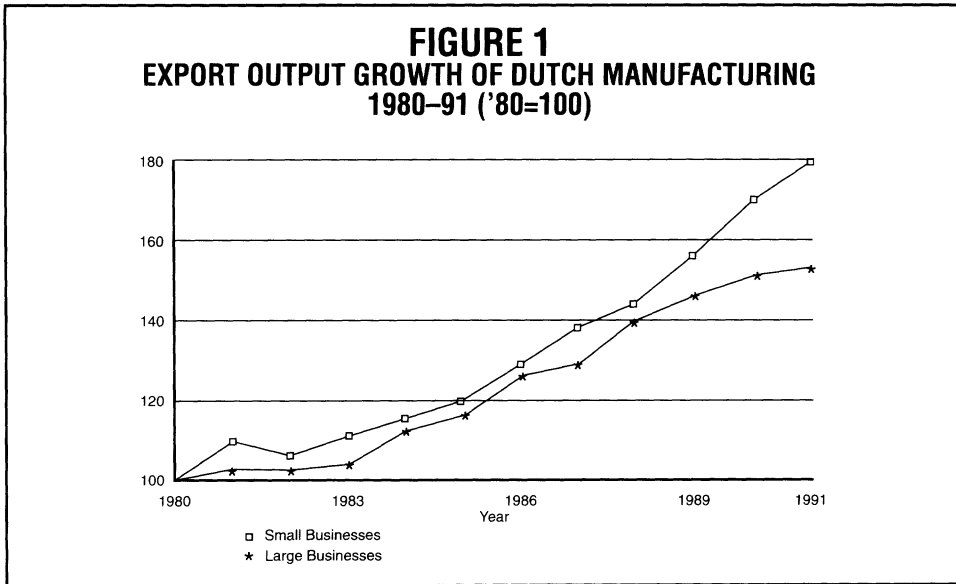
Obviously, trade barriers will be detrimental to this process. Open borders to neighbouring countries are important, particularly for small countries. Closed borders hamper the growth of firms and obstruct gaining scale economies. The main reason why firms export is the limitation of their domestic market. A second reason why firms export is the gathering of information. Contacts with new markets, new products, new people and new habits are made while exporting goods. This provides new information which can be vital for a sound management and for innovative processes indispensable for future success.

Investigation of the relation between exports and performance shows that the share of exports on the industry level does not immediately contribute to a high industry performance except in the case of producer goods. This might point at a recompensation for export efforts which is not visible at the level of current performance. A flow of new information which is likely to have a lagged influence on performance is probably the main reason for exporting. It is important to realise that these findings refer to averages across industries. A micro-economic analysis of the influence of export behaviour on the performance of individual firms per industry may lead to different results⁹.

Research reveals that small business export activities usually are not the result of systematic planning. Initial export orders are often due to coincidence, and they are not characterised by systematic follow-up. That is why there is a considerable unused export potential among small businesses. Research also reveals that there is a 'real' export growth potential of about 20 per cent of the

current Dutch small-business export value. The question now is what the main problems are of non-exporting businesses. Van Elk and Overweel (1991) report that risks of payment and lack of knowledge of and experience in foreign markets, laws, custom regulations, etc. are the reasons for businesses not to export. Exporting small businesses also experience risks of payment as a bottleneck, but they report other, entirely

different and often very practical bottlenecks. The conclusion is that risks of payment remain unavoidable but that lack of knowledge and experience must and can be reduced. Information increasing the consciousness of export potential and advice reducing the lack of knowledge are essential for exploiting the biggest export potential of Dutch small businesses as well as that of small businesses in other countries.



Notes

- ¹ An early version of this paper has been read at *Small Business in the Global Economy; New Structures for Development, May 24–27, 1992, Montreal, Canada*, organised by the Federal Business Development Bank of Canada and the IECD. Assistance and comments by Kees Bakker, Aad de Koning, Sjaak Vollebregt, Yvonne Prince, Wim Verhoeven and Koos van Elk of the EIM are gratefully acknowledged.
- ² Even for a large closed economy like that of the US exports are of importance. “According to a 1988 Dun and Bradstreet survey, although less than 10 per cent of US firms with fewer than 100 employees currently export, many of these small exporters are achieving rapid sales growth in overseas markets”. See Walter and Samiee (1990, p33).
- ³ Clavaux (1977) computed an elasticity of -.36 of the export share with respect to the size of a country.
- ⁴ See Van den Berg *et al* (1986).
- ⁵ This section is based partly on *Kleinschalig Ondernemen 1990*, EIM 1990. See also *The State of Small Business in The Netherlands 1990*, EIM 1990.
- ⁶ However, wholesalers and transporters are also concerned with the movement of merchandise between countries outside The Netherlands.
- ⁷ See Van Elk and Overweel (1991), and also *The State of Small Business in The Netherlands 1991*, EIM, 1991, for an abstract.
- ⁸ See Walters and Samiee (1990) for the modelling of performance assessment of small US exporters.
- ⁹ See Kiejweg (1991).

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