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Old firms in the Netherlands

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1 INTRODUCTION, OLD FIRMS IN THE NETHERLANDS

'Since 18-something' is a well-known phrase applied to old firms. Old firms in the Netherlands - it sounds like a clear thing, however, it is not. Everybody interprets this concept within their own context and their own sets of perceptions about what is an old firm. In practice this shows that the concept 'old firms' can be understood either as old in terms of years (long lived so to speak), or more metaphorically as 'mature': grown-up firms, where age in years is not directly the primary indicator. This particular research focuses on the first category of old firms; long lived, firms that have been part of the Dutch economy for a considerable period of time.

Well-known examples of the connection between location and 'old firms' are company towns such as Philips-Eindhoven or region-specific products produced by old firms such as Graanjenever (Dutch gin) by Hooghoudt in Groningen. Are these examples merely incidental cases, or are there clear connections between old firms and their specific locations? A good location is essential for firms to prosper, and therefore relocation, if necessary, is a choice not easily made (see among others Pen, 2002). However, the initial location of a firm is mostly not a very well considered choice, especially not in the long-term time frame of this particular research: investigating firms established before 1851.

This particular research will focus on old firms in the Netherlands at different levels of analysis. From the aggregate level, at which firms are studied as populations, through the investigation of firm internal dimensions in comparison with different age-groups and locations using surveys, to more in-depth studies of specific old firms, considering these firms' specific histories, location behaviour, firm strategy and culture. Unfortunately, considering the long time frame of this study, there is a memory gap that needs to be taken into account. However, by means of 'traditions' within firms, jubilee or lustrum books, archives and memories, it may be possible to track down some 'spatial histories' of these specific cases.

1.1 Introduction

Not much is known from literature about the dynamics of commercial and industrial organisations in the long-run, or what happens to firms over time (Audretsch et al., 1998). Mostly, the survival of firms is studied from the viewpoint of growth of the firm or product (Agarwal, 1997). This research, however, adopts a spatial perspective on the firm's life cycle in lengthy periods. In most cases, the birth of a firm takes place in an urban environment, whereas the growth of firms often takes place in a suburban environment. However, the question remains, what

happens to the older firm? The study of the spatial context in the later phases of the firm's life cycle can reveal a better perception of the development of the life cycle of firms as a whole, as considered in a spatial-economic context. None of the existing theories expands upon the fact that very old firms (in years) considerably outlast the effective industrious working period of the successful entrepreneur. Accepting this, the characteristics of the firm itself, and the characteristics of the firm's business and spatial environment grow in relevance.

The geographical location of firms has mostly been studied in the light of the location of new firms and the relocation of existing firms (Pellenbarg et al., 2002). This study focuses on the location of old firms: Dutch firms founded before 1851 that still exist today. Collins and Walker (1975) argue that the success of individual firms is a function of both the way they behave and the economic environment in which they exist. Thus, a firm might choose a location more - or - less by chance but economic conditions could then favour it and the environment accept the firm (see Jovanovic, 1982). In this light the question arises whether the location behaviour of old firms differs from that of younger firms? Is the age of the firm an important determinant, or is location behaviour influenced more by other factors such as size, market or product?

In traditional economic development theories, as used to explain industrialisation processes over the last few centuries, economies tend to be modelled in terms of a dual system, with a stagnating agricultural sector in rural areas and a modern industrial sector in urban areas. These theories usually assume that the function of the urban industries and the construction of infrastructure in economic development is an immigration of firms from the rural areas to the urban areas (Terluin, 2001). So, in the study of old firms from a geographical perspective, not only place and distance matter, but also history. Time and history are at the centre of any process analysis. However, in this context, it is important to underline that time is not just 'out there' as a neutral succession of chronological facts for all subjects, but is also 'in there', within the studied objects, here old firms (Pettigrew, 1997). According to Pettigrew (2000) "History matters, but history is not just events and chronology: it is carried forward in the human conscience *and communicated from generation to generation*. The past is alive in the present and may be shaping the emerging future" (pp.700, emphasis added). History determines firm behaviour in a path-dependent way (Arthur, 1989 and Antonelli, 1997).

1.2 The research field

Within the field of economic geography, in the last twenty-five years, a new approach has been developed for explaining regional differences in economic development within countries. This approach uses the distinct mutation-components in the population of firms, such as birth, death and migration. In an analogy with the methods of demography, this approach is called the *demography*

of firms. Internationally, this approach starts with the work of Birch in 1979, and in the Netherlands with a more spatial context with the work of Wever (1984), Ayodeji et al. (1982) and Bos (1982). The studies with a strong emphasis on the migration of firms, as undertaken at the department of Spatial Sciences of the University of Groningen are also an important body of work in this field (among others: Pellenbarg, 1985; Kemper, 1992; Kemper and Pellenbarg, 1988,1991,1993, 1995, 1997; and Sloterdijk and Van Steen, 1994). Furthermore, this research approach has been given increasing attention at the annual conferences of the European Regional Science Association (see among others, Neunonen et al., 1994; Van Wissen, 1994; special issue *Annals of Regional Science*, 2004 vol. 38 issue 2). The context of this particular type of research can be found in the interdisciplinary research approach within the fields of geography, economics and business administration, in the theoretical perspective of the field of organisational ecology and evolutionary economics. This research project is unusual, in the sense that, from all fields, only very limited attention has been given to the specific subject: the old firms in the Netherlands.

Survival is of course an important issue in any demographic analysis, but usually firm demographic studies focus on the survival of young firms (Schutjes and Wever, 2000; Stam, 2003). Young firms are, in many cases, the subject of research because of their impact on future growth of the economy of a city or a region. Likewise, the attention of spatial policy in the Netherlands is on new, young and growing firms. These categories are – rightfully – expected to have major influences on economic growth. Thus it is important to take into account future space claims of these firms. Given these considerations, does a high proportion of old firms indicate the opposite: stagnation and a future deterioration of the regional economy? Agarwal and Gort (1996) find that the survival chances of firms increase with age but, at the same time, decrease with the age of the sector or industry. It might thus be important to focus on old firms and old industries at the same time since these firms have been part of the Dutch economy for the last 150 years, and this category of firms might be unjustly underestimated in its contribution to economic development. The development history of these old firms and their home regions within a given time frame may hold interesting lessons for other firms and the government concerning the relationships between economic development, location and the survival of firms. An additional point of interest is the fact that old firms tend to be located on ‘isolated’ locations rather than on ‘collective firm sites’. Related to the age of the firm, these isolated locations are frequently located in the central parts of cities and towns, which can create spatial planning problems.

This thesis first defines the category of old firms: the basic element of the research. Within the field of demography of firms, one can identify specific groups of firms, such as start-ups, spin-offs, movers, growers and, as in this case; old firms. This latter group has not been studied much, especially not in a specific spatial context. However, it is important to note that the interest in old firms in this research project

is of an integrative nature, that is to say, as a contribution to the explanation of the structure and development of the total firm population. The characteristics of old firms are only of interest when compared to and related with other groups within the total firm population. Are old firms located at different types of sites than other firms? Did they relocate more - or - less often than younger firms? Are there any indications that any of these characteristics have any influence on the long-term survival of old firms? Furthermore, the integrative approach is also expressed in the magnitude of the population of old firms as a share of the total population through the use of age pyramids. Further, do these age pyramids differ among regions? The birth rate of firms is found to differ significantly between regions and the death rate only slightly (Kemper, 1992). However, do the categories of young and old firms differ between regions? Do they differ from location type to location type (e.g. inner city, residential neighbourhood or industrial site)? Are there any relationships between other characteristics and age, such as size, growth or sector, are there characteristics of firms that indicate long-term 'survival'? Are there other influences such as from product or process innovation, or the effect of technology, on survival? Dutton and Dukerich (1991) find that the consistency of corporate identity and image can explain adaptation of firm behaviour, suggesting that the organisational context is also of influence. Does this also apply to old firms? Is the survival of old firms perhaps path dependent, and are there historical contingencies to be taken into consideration?

Last, but not least, a question that is very important is what is the definition of an 'old firm'? What is old? Is it possible to define a firm as a whole on the basis of age in years, or should this be done in relation to the age of the different attributes of the firm, such as its product, personnel, organisation or location? Mostly this is achieved by, thinking in cycles related to product development. The product life cycle, in a spatial context as defined by Vernon (1966), is used to describe in the development of multinational and multi-establishment corporations, at the international scale. Later, the product life cycle was also used at lower spatial scales by Thompson (1968), Atzema et al. (1986) and others. However, such approaches were criticised on the basis that some firms are working, at the same time, in multiple phases of the cycle, some firms stay in the same phase permanently, and other firms follow anticyclical movements (Van Geenhuizen, 1993). Dosi et al. (1997) also claim that life cycles seem to be much more particular patterns of evolution for specific uses of technology in groups of firms or products, influenced by sectoral differences, rather than these being one specific model of 'life cycle' that can be applied to all firms. Furthermore, the firm itself can also be described in a cycle, alongside its product. This cycle can be directly opposite the first one (Porter, 1983; Taylor, 1986; Van Geenhuizen, 1993). Theory is very ambiguous about the relationship between the firm's life cycle on the one hand, and the product life cycle on the other. An additional problem in finding a satisfactory explanation of long-term spatial survival patterns is that, in the case of

very old firms, the firm's life cycle – if such a thing exists – overlaps with two cycles of a totally different kind, namely the product life cycle and the personal life cycles of entrepreneurs (Van Geenhuizen, 1995). Nevertheless, the spatial pattern of long-term survivors is interesting and offers a source for hypotheses to be tested. Thus far, this specific group of old firms has been largely overlooked in previous research; hiatuses have been generated in both theory and empirical research. As De Geus (1997) rightfully argues, most multinational companies do not survive more than about 40 years, but then again he observes that there are a few firms that have already lived a very long time and this brings up the idea that “the average lifespan of firms should be two or three centuries” (pp.16). In particular, studies concerning the spatial aspects of the older part of the firm population as a whole are absent. The lack of available data is an important reason for this. Especially for very old firms, a lack of relevant data sets prohibits the monitoring of the development of regional age cohorts and thus hampers a true answer to the question as to which regions offers the best conditions for long-term firm survival. Some of the more exceptional geographical studies that have focused on old firms adopted a case study approach and can be seen as ‘spatial firm histories’. Van Geenhuizen (1993) and Vaessen (1993) used this approach for companies in the Netherlands. The specific investigation underpinning this thesis tries to fill in some of these gaps and to broaden the insight into the long-term survivors in the Netherlands. It addresses the economic impact that these firms have had and still have, and how these can be studied from an organization ecological viewpoint, as well as the use of more ‘traditional’ location theories (Hayter, 1997). From this first focus, on the impetus behind the study and its positioning within scientific disciplines, an academic context is provided from which the objectives outlined in the following sections can more easily be understood.

1.3 Research goal and questions

The various aspects mentioned in the description of the research field lead to the central aim of this research, which is *to study the regional differences in the age-composition of the population of firms in the Netherlands, with special attention to the occurrence of older firms. Furthermore, the aim is to investigate the relationship between the existence of old firms and the spatial conditions in which these firms operate, and to gain more insight into the spatial aspects of the long-term existence of firms in terms of their specific characteristics.*

With the study of these relationships the following distinct research objectives emerge and will be investigated in this project:

- 1) What is an old firm? How can a firm be defined in the long-term, and what is ‘old’ in the context of the firm?
- 2) What proportion do old firms (age in years) have in the total firm population, and what are the differences in shares between regions and

sectors? Can these differences be explained from the economic history of the Netherlands?

- 3) How is the population of old firms distributed over the Netherlands? Are old firms notably concentrated in specific areas or regions that are lagging in terms of economic development? Are there indications of a relationship, or are these differences based on distinct historical developments?
- 4) What are the characteristics of old firms, in terms of size, location type, relocation behaviour, products, sector etc.? Do old firms differ from younger firms in these characteristics? Is there a causal relationship between old age and other firm characteristics, in particular concerning the spatial elements? Is the development of old firms path dependent?
- 5) How do old firms 'perceive' their corporate identity and corporate image and does sense-of-place play a role in these? Do old firms show embeddedness in their local environment?
- 6) What conclusions can be drawn from the gathered data and uncovered relationships concerning firm, age and location in the spatial-economic context?

The study does not pretend to answer these questions fully and definitively, but it will attempt to contribute to the understanding of regional economic differences. In order to achieve this aim the focus will be on the above objectives, understood from the results of empirical research among old firms. A systematic overview of the facts, and critical analysis of the data, will achieve this objective.

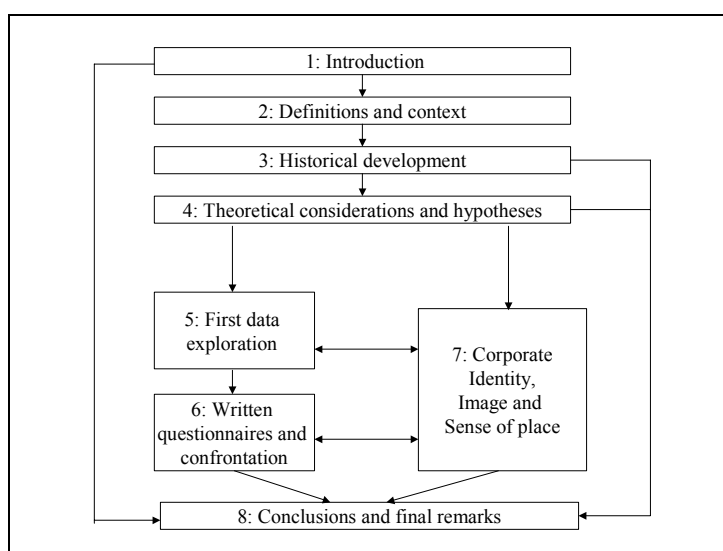
1.4 Research layout

In any research project, the only aspects that can be observed are those that the used research tools allow the researcher to capture (Waluszewski and Håkansson, 2002) Nevertheless, it is important to realize that the actors studied are not 'isolated'. That is, the relationships of an actor to other agents in its environment are important determinants of the actor's behaviour. A difference between viewing the surroundings of a certain object as a uniform environment, or as a context, is the fact that a context does not exist independently of the object and cannot be separated from it (Snehota, 1990). The concept of context has often been used to describe and analyse the surroundings of an organization (Pettigrew et al., 2001). Pettigrew (1997) argues that context is not just a stimulating environment, but is what he calls a nested arrangement of structures and processes where the subjective interpretation of actors' perceptions, learning and remembering help to shape processes.

In the research of old firms, the element of context is part of the integrated nature of the research and can be found throughout the chapters that follow. Especially Chapters 2 (definitions and context) and 3 (historical development) focus on this. The context is divided into the outer and the inner contexts. The outer context

includes the physical, economic, social, political and sector environment in which a firm is located. The inner context is defined as the features of the structural, historical, cultural and political environment within the firm, through which ideals and actions are taken (Pettigrew et al., 2001). This view is most clearly adopted in Chapter 4 (theoretical considerations) and the more empirical Chapters 5 (initial data exploration) 6 (written questionnaires), and 7 (corporate identity and image). The path chosen in this research is outlined in Figure 1.1 below. The outline of the research follows the questions posed in Section 1.3. Every chapter ends with a look forward to the following chapters. Given the layout of this dissertation, it is not appropriate to read the separate chapters in isolation.

Figure 1.1: Research layout and reading guide



1.5 Research methods

This study is, in most parts, of an exploratory nature considering theory, methodology, data, and findings. Orton (1997) rightly argues however that most researchers do include both inductive and deductive analyses in explorative research as well. Furthermore, Orton argues that researchers are most free to study a complex phenomenon when they use relatively few a priori design constraints and can freely “cycle back and forth between theory and data” (pp.419). In his argument, research designs seem to work in the well-mapped and more linear world of deductive research but not so much in more explorative studies. In a study such as this, in which neither theory nor data is fixed, research improvisation works better than strict research design. Or as Dawson (1997) phrases this, it’s trial and error and “getting your hands dirty” (pp.389) on the job.

The first part of this research is mainly explorative in nature: partly descriptive and partly explanatory. This is to uncover the underlying structure, relationships and patterns (Segers, 1999). However, after some theoretical consideration, this research will move to inductive analysis to test a number of posed hypotheses by means of a historical inductive approach (Van Geenhuizen, 1993).

The research is divided into three main parts.

- 1) *Inventory and identification*: which firms are old and why are they old? What is old in a firm context? Is age in years the right way to define ‘old firms’? What is the age structure of the total firm population, and how do old firms fit into these categories? What is the spatial distribution of these old firms in the Netherlands and how can this be explained from historical developments? What data sources can be used, and how can old firms be identified? Data collection on old firms using telephone interviews will give insights in the characteristics of the old firms. Chapters 2 through 5 will elaborate on these issues. Chapter 2 will discuss the definitions and context of the research; Chapter 3 will explore the historical development of the Netherlands, and whether or not the actual spread of old firms can be explained by this. Chapter 4 will elaborate on the theoretical background of this thesis and, in Chapter 5, the first data exploration and initial results from a telephone survey are presented.
- 2) *Confrontation*: what are the differences in firm characteristics between old firms and younger firms? How are these differences reflected in the spatial elements, and are there also regional differences? The focus in this part of the investigation is on the confrontation between old and younger firms, on the basis of written questionnaires addressed to old firms and also to younger firms. The results are also confronted with findings from previous research and secondary data. The results are tested by means of several analyses. These results are used to test the hypotheses posed at the end of Chapter 4, and mainly described in Chapters 5, 6 and 7.
- 3) *Consideration*: by means of written questionnaires, the findings from the aggregate level are explored on a more qualitative level by means of spatial firm histories and more attention is given to the sense-of-place and tradition: the so-called additional age characteristics. Also attention is given in this phase to the external representation of these firms and their products. This is achieved in two ways, firstly by confronting corporate identity and corporate image with results from the telephone survey and, secondly, by a content analysis of websites. This issue will be introduced in Chapters 5 and 6, and elaborated in Chapter 7.

The underlying research has been conducted based on step-by-step ‘improvisation’, where the results from previous steps become the basis for the following steps. The methods chosen reflect a ‘mixed mode’ approach in which a combination of qualitative and quantitative tools is used (compare Segers, 1999). This thesis will

not describe an a priori chosen research design (compare Dawson, 1997), but rather discuss the methods selected within the specific parts of the undertaken research. The different chapters will, because of this approach, as necessary contain a part on the specific methods applied there, as can be seen in Figure 1.2. In the final chapter of this thesis the conclusions will be given as well as a discussion of the methods applied and the findings gathered, which will also result in suggestions for future research.

Figure 1.2: Methods applied within this research

