

Entrepreneurship in Focus

Förderkreis Gründungs-Forschung e.V. (FGF) and IfM Bonn

Issue 1/22

Business Dynamics in the Netherlands 2020: The First Phase of the COVID-19 Pandemic

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Abstract

During the large economic contraction in the Netherlands caused by the COVID-19 pandemic the number of bankruptcies surprisingly fell. But this is only part of the story. If we look at business exits we still see many businesses that stop. At the same time the number of firm entries is historically high. Overall there has been a net increase in the number of businesses in 2020 in the Netherlands.

In 2020, the Netherlands experienced the largest economic contraction since World War II. The various lockdowns made many economic activities impossible. As a result, GDP has declined sharply (by 3.8 percent in 2020) and shifted partly (for example, from offline to online purchases). The decrease in spending means that many companies had to downsize or quit.

The support measures have prevented a much larger economic shock in Netherlands (Groenewegen et al. 2021). Many firms survive because of government support. However, too much aid can take the dynamism out of the economy. If the Netherlands wants to emerge from the crisis strong, companies must innovate and resources of non-viable companies must quickly find new uses. The support measures may have slowed down this dynamic.

There is a need for companies to reinvent themselves since the economy will be fundamentally different after the pandemic. For example, consumers indicate that they will shop online more often and eat out less often after the crisis (Hodobod 2020 et al). Also the digitalization trend has been accelerated due to the COVID-19 crisis: firms and workers have invested in years' worth of digital transformation in just a few months (Baldwin 2020).

This report tracks the business dynamics during these early stages of the COVID-19 crisis. It looks at the number of bankruptcies and the number of firm exits and entries. The report is based on data from Statistics Netherlands (CBS) and the Chamber of Commerce (KVK). Exits and entries are measured by their registration or deregistration at the KVK.

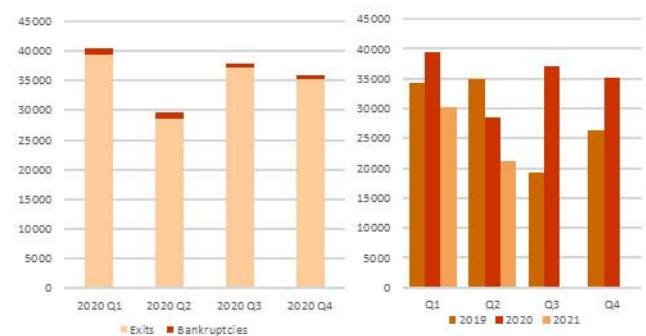
Bankruptcies low, but number of dissolved businesses high

In times of crisis, one would expect a sharp increase in the number of bankruptcies. Yet the opposite currently holds true.

The number of companies going bankrupt is historically low. CBS reported that the number of bankruptcies in August 2021 was even the lowest in 21 years.

But bankruptcies only tell part of the story. In 2020, 2,703 organizations have been declared bankrupt, which is only a fraction (2 percent) of the 140,325 businesses exits in 2020. The total business dynamism can therefore be measured by looking not at bankruptcies but at the number of entries and exits in the business population.

Figure 1 (left): Bankruptcies and Exits 2020
Figure 2 (right): Exits 2019 - Q2 2021 (Source for both figures: CBS)



The number of exits increased after the start of the COVID-19 crisis, although with some delay (figure 2). In 2021 when the economy started opening up again the number of exits decreased.

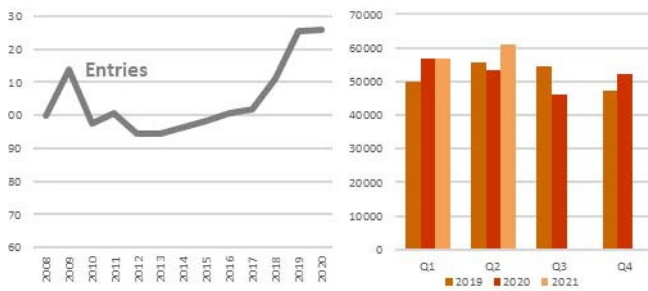
Firms in the business services sector are particularly affected

One would expect sectors like hospitality and culture, sports and recreation sectors to have the sharpest increase in business exits. They do perform poorly (with increases ranging from 57 to 91 percent in Q3), but there are sectors that are hit harder, such as specialised business services (up 158 percent) and information and communication (up 139 percent).

High number of firm entries in 2020

If we look at firm entries we would expect a decline during the COVID-19 crisis. But we currently see the opposite: a historical high number of entries in 2020, the first year of the COVID-19 crisis (figure 3).

Figure 3 (left): Entries 2008-2020 (Source for both figures: CBS)
Figure 4 (right): Number of entries 2019-Q2 2021

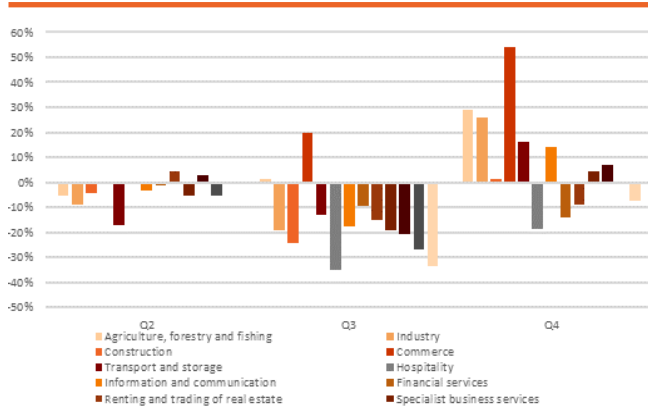


If we look at the dynamics more closely, we see that the number of entries in quarter two and quarter three of 2020 is slightly lower than in the same quarters a year and two years earlier (figure 4). But in the fourth quarter of 2020 and first two quarters of 2021 we see an increase.

Internationally, there is no convergence with respect to firm entry dynamics. In the Netherlands there was a slight increase in the number of firm entries in 2020, like Australia, Switzerland, Estonia and China. While countries including Chile, Turkey and the US saw an increase of more than 10 %, and Spain, Romania, Portugal and Russia saw declines of more than 20 % of entries (Djankov & Zhang, 2021).

If we look at what exactly is starting up during the crisis it appears to be web shops. Figure 5 shows the increase in the number of firm entries in 2020 for different sectors. The commerce sector stands out in quarters three and four.

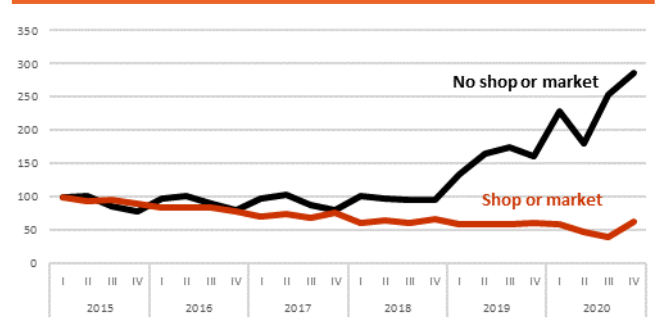
Figure 5: Increase number of entries 2020 per sector
(% change to 2019, Source: CBS)



The increase in this sector, which consists of wholesale, retail and car trade, appears to be mainly explained by the increase in web shops (3210 more web shops started in Q4 2019 compared to the year before). They benefit from the physical closure of shops due to the lockdowns and the resulting increase in online shopping.

In recent years, more online shops started than physical shops, but this trend is reinforced by the lockdowns during the COVID-19 pandemic (figure 6). The entry numbers are probably an underestimation of this digital transformation: many existing businesses are making the transition from offline to online without shutting down or starting a new business.

Figure 6: Development of entries in retail (Source: CBS)



To conclude, despite the enormous shocks the Dutch economy faced during the pandemic, the economy continues to show substantial business dynamism. The businesses that start up are mainly web shops and focused on the digital transformation.

To assure this digital transformation, that is vital for a strong economic recovery, continues, the government should not let the support measures continue for too long: the capital and labour of less productive firms is needed for the companies that drive the digital transformation.

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More publications:

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Baldwin, S (2020) Covid, hysteresis, and the future of work, VoxEU.org, 29 May. <https://voxeu.org/article/covid-hysteresis-and-future-work>

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