At Ease with the Market

Coordination in the Dutch Business System

Characteristics of the Dutch Business System

The Dutch business system since World War II has been characterized by three remarkable features. First, it was highly internationally oriented. Many firms sold to export markets and the economy was (increasingly) open to foreign direct investment (FDI). Secondly, for a long time, the attitude towards cartelization was very tolerant. Thirdly, by international comparison, Dutch firms displayed both a high degree of corporatist organization (bargaining between employers and unions on the national and sector level) and a high level of cooperation between firms.

In addition, we can also mention two aspects that were clearly present in surrounding economies, but were typical for the Dutch business system as well: there was a two-tier system of corporate governance, resulting in interlocking directorships that functioned as networks. (But in other countries, one-tier boards also had advisory nonexecutive board members forming networks.) Additionally, there were takeover defenses and other limitations of shareholder control which originated when family firms went public. In some respects, Dutch business relied on elaborate government provisions, for example with regard to vocational training.

These characteristics convincingly put the Netherlands in the league of coordinated market economies (CMES). The strength of the concept of ‘coordination’ in ‘varieties of capitalism’ is that it focuses on coordination in entrepreneurship. Inter-firm coordination, business organization, and shop-floor codetermination all lead to non-market collaborative relationships and consultation. This expresses itself not only in labor relations but also in interlocking corporate networks. Coordination in entrepreneurship can take many shapes, which is evident when comparing different countries. To develop a clear view on the various subfields of institutions in the economy, I distinguish between the business system (this chapter), labor relations (Chapter 4), and social policy (Chapter 5) as different domains, even though they cannot be entirely separated.¹ This chapter reviews the characteristics of the Dutch

¹ It can of course be argued that labor relations are an essential part of the business system. When viewed solely from the perspective of the business, the term human capital is
business system, its openness, and the developments in corporate governance. We look at the business system and examine how it relates to the mechanisms of coordination.

This chapter starts with a brief review of the theoretical aspects of business systems, culture, and the Chandler debate on family firms. Next, firm size in the Netherlands is summarized, in order to characterize this aspect of the business system. Having outlined these basic positions, we review cooperation among firms and developments in corporate governance in the next two sections. Finally, these findings are linked to the openness of the Dutch economy. I will summarize the way the Dutch business system reacted to worldwide developments in the second half of the twentieth century.

**Business Systems, Culture, Family Firms**

**What are Business Systems?**

In the literature, *(national) business system* is generally used as a firm-based characterization of the ‘variety of capitalism’, which encompasses the entire economy. Thus, an analysis of the Dutch business system pays attention to firm size, corporate governance, inter firm networks, interlocking directorates and acquisitions and mergers. It studies questions such as which characteristics are most striking in the Dutch private sector in the postwar period. We also may ask to what extent the changes in these characteristics reflected a decrease in coordination and an increase in the choice for market solutions.

The business system in a country is determined by the formal and informal institutions that characterize the way transactions are handled and enterprises are managed. A comparative perspective could throw some light on these variables. But the private sector is not a homogeneous object of study that can be easily compared. One should take into account the size of firms in a country (the number of multinationals, the number of small and medium enterprises), the sectors where economic activity takes place (agriculture, industry, services), and the degree of international involvement of firms (is there a sheltered domestic sector? How large is the competitive, exposed sector?).

Whitley’s *business systems* theory focuses on the type of entrepreneurship in a country and analyzes how the factors of production respond to specific

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sometimes used, reducing labor relations to provider of workforce. In welfare state matters, the organization of the business system also plays a role, which is aptly indicated by the term *social systems of production.*