

# Explaining Firm Employment Growth: Does Location Matter?

Gerke J. Hoogstra  
Jouke van Dijk

**ABSTRACT.** This paper addresses the question to what extent the location of a firm can be regarded as having an influence on the performance of a firm as measured by employment growth. While in theory it is widely acknowledged that 'location' should be considered as a relevant growth determinant, empirical research has so far mainly focused on firm-internal factors. The question raised in this paper is empirically verified by means of an econometric model based on a data set of circa 35,000 establishments located in the northern part of the Netherlands during the period 1994–1999. The model includes several measurements of location characteristics like the population level and growth, employment growth, spatial specialisation and cluster indicators, type of enterprise zone, and accessibility while controlling for firm-associated factors such as size, age, and business activity. Based on the fact that we find several significant coefficients we conclude that 'location matters' but that the effect differs by type of economic activity.

## 1. Introduction

Ever since Birch (1979) unravelled the economy of the United States by focusing on the individual economic units from which it is built, there has been a lot of interest in firms and their contribution to economic growth. Following his provocative finding that most new jobs are created in small establishments, studies concentrating on firms and employment growth have been carried out in quick succession, capitalising on the increasing amount of available data on the micro-level of firms. In the emerging literature of business economics and entrepreneurship, those studies specifically dealing with the *determinants*

of firm employment growth have received considerable attention, not least because of the practical implications. Understanding the determinants of growth, a firm will more or less know what it takes to be successful. Obviously, this insight is rather beneficial to the managers of existing firms as well as to potential entrepreneurs who might enhance the (long-term) chances of success of a business start-up. Schutjens and Wever (2000) for example recently singled out having a business partner, a thorough preparation, and previous work experiences of the entrepreneur as decisive factors for the employment growth of new firms. Consequently, they suggested that shortcomings in those fields should be removed if a new firm wants to become successful.

In studies that have examined firm employment growth a distinction is often made between three groups of growth determinants, namely those that are related to the *firm*, to the *entrepreneur* (also defined as founder-specific and owner/manager-specific), and those that can be classified as *external* and which are generally seen in relation to the location or environment of a firm (see e.g. Almus and Nerlinger, 1999; Schutjens and Wever, 2000).<sup>1</sup> So far, most studies have particularly focused on the firm-associated and entrepreneur-associated factors that may influence firm growth. A comparison of the list of variables that have been investigated under the different headings in the various studies would suggest that the so-called external factors are either less fancied as having an influence on growth or simply have been somewhat neglected. Illustrative in this respect is the fact that both Storey (1994) and Barkham et al. (1996) [unarguably two of the most comprehensive studies that have dealt with growth determinants of (small) firms] included only one location characteristic in their analysis.<sup>2</sup> Furthermore, the general notion of 'location' or

---

Final version accepted on February 10, 2003

University of Groningen  
Faculty of Spatial Sciences/Urban and  
Regional Studies Institute (URSI)  
P.O. Box 800  
9700 AV Groningen  
The Netherlands  
E-mail: g.j.hoogstra@frw.rug.nl, j.van.dijk@frw.rug.nl

