



Entrepreneurship 2014-2015: The dynamics of the Greek Entrepreneurship System during the Crisis

Executive Summary

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The percentage of the population aged 18-64 who are active in early-stage entrepreneurship in Greece fluctuates strongly in recent years. In 2014, the rate of early stage entrepreneurship increased from 5.2% in 2013 to 7.8%, which is higher than the long-term average (2003-2014). On the other hand, the first results for 2015 indicate a new fall of this indicator to 6.9%. The correction is milder than in previous years -the indicator remained near the long-term average- which may be due to lower uncertainty, compared to the beginning of the economic crisis.

High fluctuation of early-stage entrepreneurship seems to be the result of contradictory trends. On the one hand, the percentage of people aged 18-64, who admit that the fear of business failure is strong enough to deter them from venturing, remains high. On the other hand, the percentage of people who identify entrepreneurial opportunities in Greece over the next six months is steadily increasing. Also, although the percentage of the population aged 18-64, who believe that have the necessary abilities, knowledge and experience to start a business remains high, the rate has deteriorated compared to the average score of innovation countries.

It seems that the recession drives more people, compared to other countries, to start a business out of necessity instead of opportunity. Greek entrepreneurship motivated by opportunity (30.5%) is much lower than the average score of innovation countries (54.9%), whilst on the other hand, the levels of entrepreneurship out of necessity in Greece are much higher (43.6%) than those in EU innovation countries (23.9%). It is no coincidence that Greece ranks last among other EU innovation countries in terms of opportunity- driven entrepreneurship and first in necessity- driven entrepreneurship.

However, it seems that entrepreneurial activity in Greece has started to grow stronger in the crisis. Only 2.8% of the population stated in 2014 that they have stopped or paused their entrepreneurial activity, down from 4.8% in 2013. It seems that in Greece in the midst of the crisis business venturing gradually exhibits improved structural characteristics that enhance its viability. Nevertheless, economic factors, and especially lack of profitability, are the main reasons (68%) for business discontinuation.

Given the contraction of real incomes and the decline of market demand, which are due to the deep recession of the Greek economy, the growth of exports is a crucial factor for economic recovery. Although in previous years, the majority of Greek businesses had stated that they do not export at all or that they export only to a small degree (1%-25% of their customers are abroad), gradually, the share of early-stage businesses that focus (entirely or mainly) to domestic clients is decreasing. The

percentage of entrepreneurs that serve exclusively domestic clients has declined to 41.8% in 2014 from 43.1% in 2013. However, it remains to be seen whether these positive indications of export orientation of the Greek entrepreneurial system will continue and strengthen in the years to come.

By contrast, innovation performance of early-stage entrepreneurship, in terms of the share of businesses whose clients consider the company's product/service new and innovative, has deteriorated. In 2014, 37.4% of early-stage entrepreneurs state that some or all of their clients consider their products new and innovative, scoring lower than the long-term average (49%). However, this finding may be attributed to the fact that entrepreneurial ventures are mostly found in the services industry, where product /service innovation is quite restricted.

In terms of the technology employed, a controversial trend is emerging. Although the percentage of businesses that use cutting-edge technology is increasing, the percentage of businesses that use technology that is less than five years old is decreasing at higher rates. Thus, early stages entrepreneurs continue to be largely focused on older technologies/processes (61.9%).

Apart from early-stage entrepreneurship, GEM, already from the first years of operation, has focused on "established entrepreneurship". As established entrepreneurs are classified those who own and manage a business that has exceeded the age of 3.5 years. With the inclusion of this variable, the GEM research program is able to study the characteristics of a country's entrepreneurial system in its entirety.

Greece has one of the highest scores of established entrepreneurship amongst the EU innovation economies (12.8% in 2014). This finding reflects the structure of the Greek economy, where most businesses are small and family-owned. Nevertheless, it is interesting that after five years of crisis the viability of small- to medium-sized businesses in Greece remains strong, albeit lower than the pre-crisis period.

GEM research data has established that the main motive for entrepreneurship in all countries is opportunity. This holds true for both early stage as well as established entrepreneurship. However, from 2009 onwards, the percentage of established entrepreneurs in Greece who remained in business out of necessity, - i.e. because they believed that they had alternatives for making a living- , converge to the percentage of established entrepreneurs who are opportunity- driven. Approximately one third of established entrepreneurs state that they continue to be active because they do not think they would be able to find another job.

In 2014 we found the lowest percentage of established entrepreneurs who answered that their clients consider the product/service they offer innovative (3.5%)

and the highest percentage of established entrepreneurs who responded that none of their clients considered their product/service innovative (87.3%). However, since the beginning of the crisis the cumulative percentage of businesses whose clients (some or all) consider their product innovative has declined from 39.8% in 2008 to 12.8% in 2014. In other words, the crisis has had a negative impact on innovation in established entrepreneurship.

The introduction of an innovative product creates a market niche, thus lowering, at least temporarily, the intensity of competition. However, lower levels of competition may be also attributed to other mechanisms. This is the case when harsh economic conditions push businesses, which had hitherto offered similar products/services, to exit. This seems to be the case in Greece, where the percentage of established entrepreneurs who respond that they face fierce competition has declined from 88.1% in 2007 to 57.2% in 2014. Thus, it is argued that low competition is attributed to a decline in the number of active established entrepreneurs.

Established entrepreneurs in Greece do not seem to behave differently from entrepreneurs in other innovation countries in terms of the technology used. Therefore, access to latest technologies has not deteriorated during the crisis. Despite the difficulties that Greek established entrepreneurs face, they continue to keep up with international technological advancements.

However, Greek established entrepreneurs did not improve their export performance in the crisis. The percentage of established entrepreneurs with 1-25% of their clients abroad has been steadily declining from 47% in 2008 to 31.5% in 2014.

The impact of the crisis on current employment figures is also severe. Before the crisis (2007-2010) the percentage of established entrepreneurs that had at least one employee more than doubled, from 40% to 84%, falling to around 60% during the crisis. Expected and current employment figures almost converge. It seems that established entrepreneurs do not expect higher levels of employment in the next five years than the ones currently offered.

In 2008, IOBE produced a report on female entrepreneurship in Greece based on GEM data from 2003 to 2007. That study brought to light a very interesting finding, unique for Greece. The ratio of female to male turned from 3:7 in early stage entrepreneurship to almost 50%-50% in established entrepreneurship. The hypothesis put forth was that in Greece the husband started the business while the wife took over in running it after its establishment. After the crisis's burst, however, the ratio of female to male established entrepreneurship is back to 3:7. Thus, in established entrepreneurship the crisis has shifted the internal dynamics of families and the distribution of entrepreneurial activity between the two sexes.

The profile of established entrepreneurship in terms of education remains the same over the years. The greatest percentage (53.3%) is the group of entrepreneurs who have completed a secondary education (high school and senior school). The second belongs to those who have completed a tertiary education (bachelors, masters or PhD). Finally, the smallest percentage (14.9%) is made up of those who have only completed the mandatory educational levels. This profile is quite similar to other innovation economies.

In 2014, the large majority (94.6%) of established entrepreneurs in Greece had an annual income of less than 40,000 euros. Just 4.1% had an income between 40,000-60,000 euros whilst the percentage of those with greater than that was infinitesimal. However, before 2009 over 80% of established entrepreneurs had an income over 60,000 euros. This finding, itself a consequence of the crisis, validates another finding discussed above, that the lack of profitability is the main reason for abandoning entrepreneurial activity.

Intense fear of failure is another legacy of the crisis that holds true both for the entire population aged 18-64 as well as for entrepreneurs. In fact, fear of failure does not only concern early stage entrepreneurs, who have just started a new business, but established entrepreneurs too. During the crisis, over 60% of established entrepreneurs state that they are afraid of failing.