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## **Entrepreneurship 2015-16:**

**A turning point for the growth dynamics of the business sector**

### **Executive Summary**

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The **Foundation for Economic and Industrial Research (IOBE)** is a private sector, not-for-profit, charitable research organization. It was set up in 1975 to pursue two objectives: (a) to promote scientific research on the current and emerging problems facing the Greek economy and (b) to provide objective information and make useful proposals to shape policy decisions.

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The Foundation for Economic and Industrial Research (IOBE) is the Greek partner in the Global Entrepreneurship Monitor (GEM) since 2003

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The study is dedicated to the memory of **Professor Stavros Ioannides**, Scientific  
Responsible of the Entrepreneurship Observatory IOBE since 2003.

## Executive Summary

The Foundation for Economic and Industrial Research, in the context of its participation in the research program “Global Entrepreneurship Monitor” (GEM), publishes, for the 13th consequent year, the Annual Report for Entrepreneurship in Greece 2015-2016. The GEM research analyzes various aspects and dimensions of entrepreneurship, contributing in this way to both the theoretical and empirical research for promoting entrepreneurship. The main findings that stem from the 2015 results:

### *Characteristics of the early stage entrepreneurs*

- **In Greece, the percentage of the population aged 18-64, which in 2015 was at the initial stages of entrepreneurial activity (including self-employment), is reduced to 6,7% (approximately 450 thousand people) from 7,8% (520 thousand people) in 2014.** Although the evolution of the specific index varies over time, reaches the levels of its long-term average (2003-2015). Still, it is lower than the average of “innovation-driven economies” (8,5%), that is the developed countries that participate in GEM.
- **Two out of five early stage entrepreneurs actually started a new business that operated for at least three months at the time of the survey (new entrepreneurs) with the rest being nascent entrepreneurs.** This finding could be used as an indicative quantitative target for enhancing entrepreneurship, as it reflects the percentage of early stage entrepreneurs that do manage to make the crucial step from the preparation (nascent phase) to the actual entrepreneurial activity (new entrepreneurship).
- Considering also the high proportion of established entrepreneurs, i.e. those that already operate a business project for at least 3.5 years, which in 2015 is over 13% (12.8% in 2014), then approximately 20% of the population aged 18-64 (about 1.33 mil. persons) are related somehow to entrepreneurship, either at the initial or at the following phases of activity. This is the highest rate in Europe and is certainly associated with the high level of self-employment that continues to dominate the structure of Greek entrepreneurship.
- **The percentage of the population that has ceased or suspended its entrepreneurial activity in 2015 amounts to 3.0% of the population (about 200,000 persons), slightly higher than 2014 (2.8%), but much higher than the average for the “innovation-driven economies” (1.8%).** Seven out of ten early stage entrepreneurs state that the main reason of enterprise closure or suspension is non-profitability. This is generally an index with high rates for over time (even at time with strong economic growth), since to some extent it is associated with the high level of entrepreneurship. This is mainly observed in

countries with many new ventures, where also many failures are recorded. So, the policies for entrepreneurship, that focus only on the quantitative enhancement of entrepreneurship is rather myopic, since we may achieve high rates in "start-ups", etc., but the lack of quality entrepreneurship will simply lead to numerous of "shut downs", as well.

- **22.3% of early stage entrepreneurs (about 124,000 persons) define themselves as necessity- driven entrepreneurs while 34.4% of them (about 155,000 people) as opportunity-driven entrepreneurs.** The opportunity-driven entrepreneurship fluctuates at lower levels than the average index of innovation-driven economies (52.2%), while the necessity-driven entrepreneurship fluctuates at higher levels (18.9%). However, it is noted that generally in countries with economic recession and high youth unemployment, entrepreneurship seems to be an alternative option for income rather than pursuing actual entrepreneurial opportunities. Nevertheless, the percentage of necessity-driven entrepreneurs in 2015 is at the lowest level since 2008, which can be assessed as a positive trend.
- **Female early stage entrepreneurship increased by 6% (about 210.000 women) from 5.8% in 2014, while the male early stage entrepreneurship decreased by 7.5% (about 250.000 men) from 9.9% in 2014.** Women represent 44% of early-stage entrepreneurs, which is the highest rate ever achieved in Greece since the beginning of the project in 2003. This means that the relative gender gap has decreased. High female unemployment, as well as possible pressure for income in households where men might have lost their job, may explain this outcome. Despite that, necessity driven entrepreneurship, although it is higher in women, is not particularly different than men (21% versus 24%). Greater involvement of women in entrepreneurial activities is desired, since "female ventures» generally perform better in innovation and technological advancements compared to "male ventures".
- **In terms of age, two out of three early stage entrepreneurs in 2015 were over 35 years. Some 29.4% of them are aged 45-54 years, i.e. almost 10% of the relevant population (8.4% in innovation-driven economies).** Generally, there is lower participation in entrepreneurship from younger ages up to 34 years old compared to the age groups over 35, in relation to the innovation-driven economies. Of course, a wide involvement of very young people in entrepreneurship is not necessarily desirable. Young people may have a greater passion and dynamism compared to more senior people, but the younger entrepreneurs lack experience and knowledge and eventually the appropriate networking that may improve their odds for business success.

- **Almost two out of five entrepreneurs (40%) have at least a higher education degree and 9% have a postgraduate degree.** However, nearly 37% of early stage entrepreneurs are high school graduates, a rate that has been strengthened in 2015 compared to 2014.
- **The percentage of population aged 18-64 years who declared that they are informal investors in another person's business venture was 3.5% (about 234 000 people), as it was in 2014, but lower than the average of innovation-driven economies (4.3%).** About 85% of informal investors are family member highlighting the close relationship between the informal investor and the recipient of the funding. Apparently the difficulties in raising capital from the financial system remain strong. Family members, perhaps under the psychological pressure of high unemployment, decide to fund entrepreneurial activities of another family member. Besides, possible failure does not have major repercussions to the entrepreneur that have to do either with bankruptcy legal regulations or other financial sanctions. On the contrary failure remains within the family circle thus, the entrepreneur is not heavily "stigmatized" for his/her next potential entrepreneurial activity.

#### *Characteristics of entrepreneurial ventures*

- **At the sectoral level in 2015 the proportion of early stage entrepreneurs that engaged in the primary sector increased significantly, reaching 12%, which is the highest level ever recorded in Greece, and the highest in Europe. Furthermore, the rise of the entrepreneurial activities relating to manufacturing (21.7%) is positively assessed reaching at a level even higher than the average for the innovation-driven economies (19.4%).** The challenge here is to reduce the number of ventures in sectors with small contribution to economic growth, those that are considered as consumer oriented activities to the level of other countries. In 2015, this was reduced to 46.7%, below the average of the innovation-driven economies (48.1%). Of course in most countries new ventures are created in consumer oriented activities. However, while it is relatively easy to create such ventures, this kind of entrepreneurship especially when private consumption decreases, have limited survival chances. Furthermore, their contribution to the economy is rather limited, as they are usually characterized by lack of extrovert-oriented strategy, low innovation and low added value. While the crisis has led to a steep correction of entrepreneurial ventures for the final consumer, from 2011 onwards, despite the decline in consumer demand, a slight upward trend in these ventures is recorded, although still not reaching the pre-crisis levels. Instead - and this is a positive note for the Greek economy - a restructuring of the business sector is recorded over time leading to an increase of entrepreneurial ventures that provide services to other businesses, although possibly at the expense of manufacturing.

- **61% of early stage entrepreneurs states that no (potential) client will consider their products / services new and unfamiliar with the relevant index in innovation-driven economies reaching at 51.5% on average.** This means rather low levels of innovation in the new ventures created in Greece. Also, 25.5% of early state entrepreneurs indicates some degree of innovation, while 14% of them states that all customers will consider their products new and unfamiliar (16% in innovation-driven economies).
- **60% of the early stage entrepreneurs exploit widely known technologies / processes for the production / provision of services, a rate which is the highest form 2003.** Only 12.3% states that they use completely new technology in the production / provision of goods / services.
- **Almost one out of three early stage entrepreneurs responds that apart from the founders, no one else will be involved in this entrepreneurial activity, at least at the time of launching.** At the same time, 62% reports that will employ some 1-5 people, which is the highest performance recorded in Greece. This means that the vast majority of ventures are very small enterprises (micro firms), a trend however that is reported in several countries in Europe and in the world.
- **While nearly 79% of early-stage entrepreneurs believe that intent to employ at least one person within the next five years, most of them (83%) believe that they will be able to offer up to five jobs.** Across time in Greece, new entrepreneurial activities may indeed emerge at a satisfactory rate, but they do not grow in terms of size. Thus new entrepreneurship simply reproduces the basic structure of the Greek economy, i.e. an economy based on micro-firms, most of which do not grow significantly and do not create enough new jobs.
- **54.3% of entrepreneurs – a higher rate than 2014 - state that there are many businesses that offer similar products or services to the market.** This means the new ventures are created markets with a strong competition. This is not a Greek result, as in most innovation-driven economies this rate is almost at this level, while it is even higher in efficiency-driven economies. The Greek case rather differs from other innovation-driven economies in the low rate of new ventures that are created in new markets (niches). As only 2.3% of the new ventures are created in totally new markets, Greece is in the last position in the relevant ranking.



- **In 2015, a positive development related to the extroversion of new ventures can be noted. Only one out of three early stage entrepreneurs states that its business is exclusively oriented to the internal market, compared with 39.4% in innovation-driven economies.** This means that nearly 23% of early stage entrepreneurs reports that more than ¼ of their sales comes from exports, higher than the average of innovation-driven economies (20.2%). To some extent this outcome is associated with the relatively high number of new ventures in the tourism industry, which by definition have an extrovert character. However, it is worth mentioning that since 2012, when more than half of new ventures were exclusively focusing on internal market, this proportion has declined significantly (reaching 39%). This means that at least in 2015 we note a reinforcement not only in the number of exported businesses (many more exporting ventures) but also in the export intensity (higher volume), a trend that if continued could only have a positive impact on the Greek economy.

*Cultural and Personal perceptions about entrepreneurship*

- **In Greece, in 2015 only 14.2% of the population (compared with 20% in 2014) states that foresees** there will be good opportunities for starting a **business in the next six months in the area they live.** This is one of the lowest proportions worldwide, indicating the effects of the accumulated economic recession and increased uncertainty that dominated the country in 2015.
- **On the other hand, on more personal perceptions about entrepreneurship results are generally above the average of innovation-driven economies. A 46.8% of the population (from 45.6% in 2014) responds that they do have the knowledge, skills and experience required to start a new business.** This index is almost double in the case of early stage entrepreneurs, where more than 80% of them believe they are capable of starting a business, indicating high level of self-esteem and confidence in the population of early stage entrepreneurs.
- **61% of early stage entrepreneurs state that starting a business is a desirable career choice, (58.6% in 2014) while 67.8% (66% in 2014) of them believe that** those successful at starting a new business have a high level of status and respect. This is one **of the highest rates recorded since the beginning of the crisis.**
- On the other hand, Greece continues to show one of the lowest rates in Europe in the media coverage one successful new businesses (38% in 2015 compared with 46% in 2014).
- **Greece, since the launching of this survey in 2003, shows one of the highest rates in the fear of failure factor, a trend however that has strengthened all over Europe during the**

**crisis.** In 2015, 64.2% of the population (compared to 70% in 2014) notes that the fear of failure would prevent them from starting a business. This decline may reflect either the end of a recession economic cycle (optimistic approach), or just the fact that people due to the prolonged duration of the crisis have adapted to a riskier business environment (most pessimistic approach). Even at the early stage entrepreneurs population the fear of failure is even higher (80%), which means that entrepreneurs understand the difficulties and are heavily concerned about the possibility of a failure in their effort.

#### *Initial capital investment and financial mechanisms*

Despite the recent economic crisis which has adversely affected the entrepreneurial financing conditions in a large number of economies around the world, new financing tools to stimulate entrepreneurship have also emerged. These new financial instruments, which are usually integrated in the official financial system of an economy, provide greater flexibility, and seem to meet the needs of each potential entrepreneur. In addition to traditional financing sources (banking loans, self-financing, family loans), other financing mechanisms have now developed, such as venture capital, peer-to-peer lending the crowdfunding, microfinance, as well as others even more specialized lending schemes.

**According to the GEM study in Greece in 2015, half of new ventures require more than €30,000 as an initial capital investment, which is almost double compared to the European average (€16,400), and higher even than the required initial capital in the innovation-driven economies (€24,000).** Even necessity entrepreneurs need more resources to start a business compared to other European entrepreneurs (€25,500 versus €21,000 in innovation-driven economies). Therefore, starting a business in Greece requires a substantial initial capital, even for necessity entrepreneurs.

Various funding sources are used in order to accumulate this amount of capital. Especially, in 2015 due possibly to several structural funds like NSRF, 44% of entrepreneurs raised some public funding / granting under a government program, compared to only 24% on average in other European countries. Obviously, the role of the family is important, as 35% of early stage entrepreneurs raised capital from their family members (compared to 24% in innovation-driven economies). Despite the versatility of funding sources, the early stage entrepreneur had to finance about ¾ of the total investment (savings, friends, family) as equity capital. In innovation-driven economies in general however the equity capital is about the same (71%). Some other features of the new business financing that can be noted are:

- The female's ventures seem to require less initial capital in almost all countries, since in most cases, their investment projects involve retail activities.
- There is a positive relationship between age and investment capital: the early stage entrepreneurs aged over 35 need higher initial capital in Greece compared to

innovation-driven economies, with the difference amongst groups of countries widening even at older ages, since the required initial capital increases.

- Exporting new businesses require relatively high initial capital (approximately €66,000), as they are usually associated with large capital investment, more than double compared to the rest of Europe (€32,000).
- In 2015, 7.6% of Greek early stage entrepreneurs received funding from informal investors, similarly to that in innovation-driven economies (6.5% in Europe).

#### *National experts' survey*

Apart from the population survey, IOBE in the context of GEM undertakes an additional field research in Greece, the national expert survey. These experts are specialists in different fields of the business environment in each country. **Based on the results of the 2015 survey, the business environment in Greece remains less favorable compared to most European countries in several of the topics examined.** Although the experts believe that the domestic market is rapidly changing, which is something that could be considered as a positive feature for entrepreneurship, still there are many difficulties in place. The prospects of Greek entrepreneurship have been negatively affected by the sharp economic crisis. However, still the structural weaknesses of the country that are related to the bureaucracy, unstable tax environment, and the unavailability or ineffective functioning of financing mechanisms of entrepreneurship, are the main determinants of the problem. **The main obstacles to doing business in Greece significantly arise from the lack of a single national policy framework for entrepreneurship. Significant barriers to entrepreneurship still posed by the difficulty in accessing funding, high barriers to entry, as well as by the prevailing culture against entrepreneurship which is rather ambiguous.** The main exception from the rather unfavorable picture in most of the parameters examined is the post-secondary education sector, where Greece's performance in 2015 has improved. More specifically access of young people to a scientific / technological knowledge and support of business ventures based on advanced technology, as well as the accesses to physical infrastructure converge with the average performance in innovation-driven economies.

#### *The growing elements of early stage entrepreneurship*

New business ventures that may have more favorable prospects to grow and create jobs appears to be the most crucial element of entrepreneurship policy today in the Greek economy, in the shadow of a deep and prolonged economic recession. Identifying **those ambitious early stage entrepreneurs which can contribute to a restructuring of the business sector and to economic recovery must be a key objective of policies for entrepreneurship.** In this context, an empirical analysis is performed to investigate the factors that can facilitate or hinder the growth --in terms of employment-- of early stage entrepreneurs operating in Greece both for the crisis period (2009-2015), and to pre-crisis period (2003-2008).

**Econometric analysis shows that the opportunities perceived by early stage entrepreneurs during the crisis can contribute to the emergence of a potential entrepreneurial growth.**

Furthermore the impact of gender on high growth ambitions of entrepreneurs during the crisis is an important feature, since it is found that the female entrepreneurship development lags far behind male entrepreneurship. Necessity entrepreneurship seems to be a major obstacle to ambitious entrepreneurship development, especially during the crisis.

**In addition, econometric estimates showed that the educational level of early-stage entrepreneurs contribute positively to the ambitious developing entrepreneurship, although this happens only in the pre-crisis period.** In contrast, the level of education does not seem to play a significant role during the crisis, a result which may be related to the brain drain from Greece.

Finally, the role of structural reforms may prove crucial for the promotion of good investment opportunities, which in turn will enhance the ambitious developing entrepreneurship and job creation potential.