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Τσάμη Καρατάσου 11, 117 42 Αθήνα, Τηλ.: 210 92 11 200-10, Fax: 210 92 33 977, www.iobe.gr
11 Tsami Karatassou, 117 42 Athens, Greece, Tel.: +30 210-9211 200-10, Fax: +30210-9233 977

Annual Entrepreneurship Report 2017-2018:

Fewer ventures, better employment prospects

Executive summary

Aggelos Tsakanikas

Sofia Stavraki

Evangelia Valavanioti



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The **Foundation of Economic and Financial Research** is a private, non-profit, research organization. It was found with the aim to promote scientific research on the current and emerging problems of the Greek economy, to provide objective information and to express proposals that will be useful in the planning of relevant policies.

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Foundation for Economic and Industrial Research (IOBE)
11 Tsami Karatassou, 117 42 Athens, Greece
Tel.: +30 210 9211230, Fax: +30 210 9228130, <http://www.iobe.gr>

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IOBE ENTREPRENEURSHIP OBSERVATORY

The IOBE Entrepreneurship Observatory represents the Greek partner of the Global
Entrepreneurship Monitor -GEM

National research team GEM

Aggelos Tsakanikas, Assistant Professor National Technical University of Athens,

Scientific Responsible for the Entrepreneurship Observatory IOBE

Evangelia Valavanioti, Researcher IOBE

Sofia Stavraki, Researcher IOBE

The opinions expressed in this report constitute *the various positions and views of the writers* and are not necessarily in line with those of the organizations that support, finance or collaborate with the foundation .

EXECUTIVE SUMMARY

IOBE, in the context of its participation in the research program “Global Entrepreneurship Monitor” (GEM), proudly presents for 15th consecutive year the Annual Report for Entrepreneurship in Greece. GEM programme analyzes various aspects and dimensions of entrepreneurship, contributing to the theoretical and empirical research for promoting entrepreneurship worldwide. The main findings that stem from the 2017 results in Greece are the following:

Characteristics of early stage entrepreneurship in 2017

- **In Greece, the percentage of the population aged 18-64, which in 2017 was at the early stages of entrepreneurial activity (including self-employment), dropped at 4.8% (approximately 320 thousand people) from 5.7% (approximately 380 thousand) in 2016.** This rate is the lowest ever recorded (2003-2017: 6.9%) and well below the average level of “innovation-driven economies” (2017: 9.2%). Therefore, it seems that despite the gradual stabilization of the economy during 2017, uncertainty remained strong and affected the level of early stage entrepreneurship. At the same time however, a small increase in the supply of waged employment was recorded, while unemployment declined.
- **Some 56% of early stage entrepreneurs are new entrepreneurs, while the remaining are nascent entrepreneurs.** This rate is a little higher than the average of innovation driven economies and has increased compared to 2016, when nascent entrepreneurs were more than half of the total. **Hence, the fact that during 2017 more than half of those in the early stage of entrepreneurship made the crucial step from preparatory actions to start a firm to actual launching of a business activity is a positive development.**
- Taking into consideration the high rate of established entrepreneurs (operating for at least 3.5 years) in the country, which in 2017 reached 12.4% (from 14.1% in 2016), means that **about 17% of the population aged 18-64 (1.13 million people) has some relation with entrepreneurship, either in early or in subsequent stages.** Greece ranks third in total entrepreneurship among innovation driven economies, as a result of the first position in established entrepreneurship.
- **The rate of population that shut down an entrepreneurial venture in 2017 reached 4.2% (approximately 310 thousand people), higher than the corresponding rate in 2016 (3.8%) and much higher than the average of innovation driven economies**

(2.2%). Half of them report that the main reason for this suspension of activity was the lack of profitability. This finding is related with the high levels of entrepreneurship in general, since in countries with quantitatively many new ventures, many failures are recorded as well. **As a consequence, policy planning for the stimulation of entrepreneurship should not just focus in its quantitative increase, since high rates of newly established ventures do not necessarily ensure their sustainability.** On the contrary, fewer businesses can be created in an economy, but with better quality characteristics and a more significant multiplying effect on the economy.

- **29% of early stage entrepreneurs (about 90 thousand people) are necessity driven entrepreneurs, while 37% (about 120.000 thousand people) are opportunity-driven entrepreneurs.** In comparison with the average of innovation driven economies, opportunity driven entrepreneurship is very low (53.5%), while necessity driven entrepreneurship is higher (22.9%). However, it is worth mentioning that **in 2017 the percentage of necessity driven entrepreneurs increased for the 4th consecutive year.**
- **In terms of age, in 2017 the higher participation in early stages of entrepreneurship was from the age group 35-44 years old, (7.6% versus 11.3% in innovation driven economies).** In general, due to the decrease of the level of early stage entrepreneurship (TEA index), lower participation from all age groups is recorded, at least compared to the innovation driven economies. **In general, two out of three entrepreneurs come from the most productive age group (25-44 years old),** with the average early stage entrepreneur being 35 years old. Note however that at least during the last 3 years, the share of younger ages seem to be increasing. Whether this development is positive or not is rather controversial. High participation of young people is not necessarily preferable, since although youngsters have passion and dynamism, they lack the experience, the business knowledge and networking that may increase their chances of success. Besides, in the most developed economies of the world, starting an entrepreneurial activity seems to involve mainly older people while in developing countries the majority stems from younger people, maybe driven to entrepreneurship as a way to make a living.
- The decrease of the total level of entrepreneurship affected both women and men in the same way. **The percentage of female early stage entrepreneurship dropped at 3.9% (about 131 thousand women) from 4.8% in 2016, while the percentage for men dropped to 5.7% (about 185 thousand men) from 6.6% in 2016.** Structurally, however the percentage of women in early stage entrepreneurship remains high. It reaches

40%, slightly lower compared to 2016, but higher in comparison to 2013, when it was at 29%. Note that this is mainly necessity rather than opportunity driven entrepreneurship, although the difference from male necessity entrepreneurship is not significant.

- **In 2017, 41.7% of early stage entrepreneurs had at least a degree of tertiary education, presenting a higher share compared to 2016, while another 11.5% had a postgraduate degree.** This means that more than half of early stage entrepreneurs have university education. The participation in entrepreneurship of people of a higher educational level should be a constant policy aim, since the relevant literature shows that there is a positive correlation between the educational level of the founders and the possibility of survival of their newly established business. Furthermore, this can also favor the entrepreneur in relation to financing, since investors assess this personal element very positively.
- **3.2% of people aged 18-64 (approximately 214 thousand people) declared that they were informal investors in another person's business venture, a rate slightly lower compared to 2016, but also lower than the average of innovation driven economies (5.4%).** About 83% of informal investors are members of the family. The role of informal investors is substantial considering the problem of accessing to finance in Greece. However, in this case there is also a lack of a more "professional" business assessment of the venture, since no formal processes are used neither rational choices are usually made. Instead the decision to fund a member of the family may stem from emotional criteria, downplaying the quality characteristics, which jeopardizes the sustainability or the growth of the business.

Characteristics of the entrepreneurial ventures

- **At the sectoral level, the high proportion of new ventures in the primary sector during 2015 (12%) dropped to 4% in 2017.** On the contrary, new entrepreneurial activities in manufacturing increased at 24.5%, which is a positive development, while a small drop was recorded in the percentage of new consumer oriented activities. Nevertheless, the stabilization of the economy in 2017 and the small increase in private consumption still has an impact on strengthening the interest for business initiatives in consumer oriented activities and specifically in Wholesale and Retail, a pattern which is similar to the growth pattern before the economic crisis.

- **Almost two out of three of early stage entrepreneurs** stated that **no** (potential) client will consider their products / services as new and innovative, **a much higher rate than the average in innovation driven economies. Besides, only 3.9% state that everyone will consider their products innovative** (18.3% in innovation driven economies). **Some 50.7% of early stage entrepreneurs stated that many businesses offer a similar product or service, close to the average rate in innovation driven economies (51.2%). Furthermore, 54% of early stage entrepreneurs report that they use known technologies/ procedures for the production of goods/services (56% in 2016). There was not, thus, a significant improvement on these quality characteristics of the new ventures in 2017.**
- Almost 70% of the early stage entrepreneurs report that they employ, **at the time of the launching, 1 to 5 people (founders excepted) vs 61% in 2016, while those that employ more than six persons increased at 11.7%.** This development, although it does not change the fact that the vast majority of those ventures are micro firms that actually provide employment only to their founders, **is positive as it indicates an increase in the average size of new entrepreneurship. Moreover, the improvement in the expectations of employment is significant, given that almost 85% of the entrepreneurs estimate that in the next five years they will be able to create at least one job, the highest percentage in five years (75% in 2016).** The results for the current and expected employment as well as the general decrease of new ventures in Greece in 2017, **show that in terms of employment the losses are milder, since new ventures in 2017 are, and expect to become bigger in size compared to the past.**
- **Only 21.6% of early stage entrepreneurs responded that they sell their products/ only to the domestic market, compared to 38.1% in innovation driven economies.** Note that 30% of entrepreneurs state that more than ¼ of their turnover comes from abroad, slightly more than the average in innovation driven economies (25.8%). **Furthermore, more than 30% of entrepreneurs export more than 25% of their production. This means that not only the extent of exports, but also their intensity increases, a development which can be considered as an improvement, despite the fact that most of them come from the tourism industry.**

Cultural and Personal perceptions with regards to entrepreneurship

- **The percentage of the population seeing good opportunities for starting a business remains very low, at around 13.7% (from 13% in 2016). This the lowest percentage**

worldwide. It seems that uncertainty in the economic environment in Greece still constitutes a significant burden for Greek entrepreneurship in 2017.

- **Some 43.4% of the population (from 41.7% in 2016) – independently of whether they are involved in entrepreneurship or not- stated that they do have the knowledge, skills and experience required to start a business.** This rate is 76.7% in the case of early stage entrepreneurs, indicating high level of self-esteem and confidence in Greece.
- **About 64% of Greek citizens state that entrepreneurship is a desirable career choice, while 66.5% responded that successful businessmen have a high level of status and respect in Greece. This is one of the highest rates recorded since the beginning of the economic crisis.** On the other hand, Greece still has one of the lowest rates in Europe with respect to public media attention on successful new businesses.
- **Greece has among the largest rates worldwide in the fear of failure factor, although such an upward trend has been reported all over Europe during the last years. The fear of failure has been increasing since 2009 as a result of the crisis and it remains well above the long-term average.** In 2017, like in 2016, it reached 70.4% of the population, one of the highest percentages ever.

Female entrepreneurship

Female entrepreneurship has become an interesting research field and a new policy area for entrepreneurship. According to GEM, in 2016, approximately 163 million women started new businesses in 74 economies worldwide, while about 111 million were running already established businesses. This is indicative of the strong female presence in entrepreneurship globally. Women-entrepreneurs plan, create and produce products and services, while at the same time provide income for their families and employment positions for their communities, contributing in progress and social prosperity.

In Greece, female early stage entrepreneurship is slightly lower than in the rest of Europe and innovation driven economies. High unemployment and difficulties in finding a job seem to lead Greek women in necessity driven entrepreneurship, more than in other European or innovation driven countries. This negative image is strengthened by the fact that a woman in Greece is more likely to interrupt her business activity than in the other European or innovation driven economies.

In terms of sectors, most new ventures are related to wholesale and retail trade and Services, just like in the other European and innovation driven economies. However, the percentage of trade in Greece (42.2%) is significantly higher than in the other countries.

With regard to innovation, 1 out of 3 women entrepreneurs in Greece stated that they produce improved goods and services, a rate similar to the rest of Europe (31.3% in both cases). Export activity is on the other hand satisfactory, as 41.1% of women entrepreneurs in Greece reported that more than ¼ of their sales come from foreign clients.

However, the image is pessimistic when it comes to opportunities to start a business in Greece, since the country ranks last, while almost the entire funding stems from family members, which is also a problematic dimension of female entrepreneurship. As a consequence, the number of potential female entrepreneurs is very low, since entrepreneurship does not seem to constitute the first choice for the vast majority of women.

National experts' survey

IOBE, in the context of its cooperation with GEM undertakes an additional survey among national experts, which are persons specialized in various dimensions of the business environment in each country. According to the 2017 results, the business environment in the country remains less favorable compared to the majority of the European innovation driven countries. The low momentum of Greek entrepreneurship is negatively affected by the economic crisis, yet it is mainly due to the structural problems of the economy such as bureaucracy, unstable tax framework and the limited or ineffective function of mechanisms to promote and support entrepreneurship.

According to the experts, the domestic market is very uncertain. **The main obstacles in business activity in Greece are associated with the lack of a broader framework of national policies for entrepreneurship.** In addition, the unstable tax system, the lack of tax motives when it comes to new ventures, bureaucracy and inefficiency in other factors, such as the inefficient operation of public bodies supervising the establishment of new businesses still represent significant obstacles in business creation. **Entrepreneurship is also hindered from difficulties in accessing finance, high entry barriers and the prevailing, ambiguous culture on entrepreneurship.** According to the experts, main motives for entrepreneurship can include the upgrading of the educational level, mainly with regard to business development, and the access to financial tools. **Note that in comparison with previous years a slight convergence with the average of innovation driven economies is recorded, which indicates an improvement in entrepreneurship-related skills development, in all levels of education.**

Therefore, actions and strategies should focus on schemes that support entrepreneurship - from public and private programs- as well as targeted initiatives for entrepreneurs, women and young unemployed, and the development of new financial instruments.

The three main factors that affect negatively entrepreneurship in Greece are:

- Lack of an institutional framework and targeted policies concerning the taxation of new ventures, bureaucracy and in general the current regulation, as well as the role of public bodies supervising the establishment of new businesses.
- Obstacles created by the function of the political and social environment
- Limited availability of financial mechanisms, and thus the absence of financial support for new ventures

According to the experts, main ways to promote entrepreneurship in Greece could include:

- The improvement of the level of education in Greece, to include relevant knowledge and skills for the development of sustainable business activities.
- The improvement of the investment climate, through actions that encourage entrepreneurship and provide motives for the implementation of new ventures.
- The upgrade and modernization of infrastructure (roads, water, gas and electricity supply networks, telecommunications networks) and the creation of organized places for the installation of businesses that facilitate the development of business ventures and make it more effective.
- The adoption of a policy and strategy for the support of entrepreneurship, with public actions, special initiatives for young entrepreneurs, women and unemployed people at local level
- The disposal of contemporary financial instruments.