



Entrepreneurship in Greece during 2011-2012: The Entrepreneurship Indicators during the Crisis

Executive Summary

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Executive Summary

The year 2011 was the 9th consecutive period of the Greek participation in the Global Entrepreneurship Monitor (GEM) research program. Data cover the periods before and after the financial crisis. Thus, it is possible to analyse the way in which entrepreneurial activity evolves in different stages of the economic cycle. This is of particular significance since it allows the examination of several entrepreneurship indicators in Greece before and after the recent economic crisis. Also, conclusions can be drawn about the position of Greece in an international context and, consequently, the impact of the financial crisis on entrepreneurship as compared to other countries.

Key entrepreneurship indicators in 2011

In the context of the GEM survey, the Early-Stage Entrepreneurial Activity, which approximates the activity of new start-ups in each country, is the primary indicator of entrepreneurship. In Greece, the percentage of population aged 18-64 years who are either nascent entrepreneurs or owner-managers of a new business was 8% in the summer of 2011. Based on this indicator, Greece ranks 4th among wealthy countries worldwide.

The evolution of the indicator over the nine years that Greece participates in GEM reveals how new business creation reacted to crisis. During the period 2003-2007 –i.e. before the crisis eruption—the indicator is characterized by relative stability, since it lies between 6% and 8%. However, the indicator exhibits considerable volatility during the subsequent crisis years.

This fact reveals that individuals in Greece reacted to the crisis uncertainty by doing what they knew best, i.e. by creating new small firms. However, the recession reduces significantly the likelihood of survival for these new start-ups as compared to the past.

Greece exhibits the highest rate (15.8%) of established entrepreneurs (i.e. entrepreneurs who run a business for more than 3.5 years) among the GEM countries. Despite the deep recession of the Greek economy, the percentage of the population that remain established entrepreneurs has not been changed significantly during the 5-year crisis period. This fact is also reflected in the indicator of the overall business

activity which reaches 23.4%, that is one of the highest percentages in the world and the highest among countries based on innovation. In absolute values, over 1.5 million individuals are involved in the overall business activity in Greece.

Moreover, the GEM research project investigates at an annual basis the rate of entrepreneurs who suspend or shut down a business activity. The rate of entrepreneurs who stopped their business operation in Greece was 3%, one of the largest rates among the countries based on innovation. The lack of sufficient profitability is the main reason for shutting down a business as stated by 7 out of 10 entrepreneurs in Greece. Interestingly, despite the strong liquidity constraints in the country only less than one to ten individuals consider this as the basic reason for abandoning entrepreneurial activity.

Sectoral dimensions of entrepreneurship

Even though during the whole period of the Greek participation in GEM, the provision of products/services to customers constitutes the largest share of new ventures in Greece, this share decreased significantly in the 3-year period of the crisis falling below 50% from 70% in 2005. Notably the proportion of new ventures that provide services to other companies (20.6%) exhibits an increasing trend, implying that the crisis seems also to be a driving force of restructuring at the level of “small” entrepreneurship.

Prospects for job creation

Regarding the prospects for job creation, Greece exhibits one of the lower rates of “high growth businesses” among countries based on innovation. Only 2.8% of early stage entrepreneurs expected in 2011 that their venture would create more than 20 new jobs after a 5-year period. On the other hand, 3 out of 4 early-stage entrepreneurs state that they expect to offer employment to no more than 5 people. These results have remained almost unchanged since the beginning of the Greek participation in the GEM project. In the light of the above, it can be induced that the dominance of small firms in the Greek economy is not only persists but it also develops.

Innovativeness and intensity of competition

In 2011 one out of three new ventures presented innovativeness and/or low intensity of competition according to the relevant composite index. Given this performance,

Greece ranks in the 8th place among countries based on innovation. This finding along with the change in the industry distribution of new ventures provides further evidence of restructuring. In fact, as traditional activities continue to contract due to recession, it can be expected that new business ventures will seek for alternatives in order to be competitive either by providing innovative products/services or by entering in new market niches.

Motivation of entrepreneurial activity

The entry in the business arena is always a difficult decision, which depends on several factors. Some of these factors are cultural referring to general perceptions that hold about entrepreneurial activity in a society in a given period. Other factors concern the entrepreneur's personal characteristics. Particular emphasis is placed on the way the entrepreneur evaluates his own capabilities and experience as well as the courage required to engage in a new activity despite the potentially high uncertainty. Cultural together with personal factors can be considered to determine the entrepreneurial inclination.

The identification of entrepreneurial opportunities is the first factor under examination. Greece exhibits the second lowest performance in opportunity entrepreneurship (10.9%) among the GEM countries. In particular, the percentage of population that identify opportunities is almost equal to that ultimately engage to entrepreneurial activity, a finding that is expected, given the deep recession of the Greek economy. However, it must be noted that during the last 9 years –thus, considering also a fast growth period- the relative index in Greece never exceeded 30%. Thus, even before the crisis, early-stage entrepreneurs in Greece did not appear to perceive entrepreneurial opportunities in their business environment.

Two further cultural factors are investigated in the population survey, that is the desirability of entrepreneurship as a career choice, and society's perceptions for entrepreneurs. In comparison with other countries based on innovation, Greece's relevant indicators are relatively high. For example, 61% of population considers entrepreneurship as a desirable career choice. This finding can be explained by the fact that Greek economy is dominated by small businesses. However, particular interest presents the indicator referring to the appearance of stories about successful

new businesses in the public media. This indicator attempts to capture two aspects: a) the degree to which successful entrepreneurship cases constitute daily issues of citizens and b) the degree to which successful entrepreneurship attracts the interest of citizens. It is impressive that based on this indicator, Greece exhibits the worst performance (32.5%) among GEM countries. In other words, despite the fact that entrepreneurship is perceived as a good career choice and entrepreneurs enjoy high social recognition, entrepreneurship gains no publicity or media exposure.

As regards personal factors the first one that is examined concerns individuals' self confidence about their knowledge, skills and expertise required for the establishment of a business. The relevant percentage (almost 50%) reported by Greece is among the highest in innovation countries. In other words, people in Greece perceive that they possess the skills which are required to undertake entrepreneurial activity. It is worth noting that this high level of self-confidence of Greek individuals is a common finding to all Greek surveys from 2003.

The second personal factor that is evaluated is the fear of failure. In Greece, four out of ten nascent entrepreneurs declare that they have fear of business failure. It should be noted here that this fear does not agree with the general high self-confidence characterizing the Greek population. Given that this finding is present in all previous GEM surveys for Greece, it may imply that the fear of failure seems to constitute a constant cultural characteristic in Greece that is independent of crisis effects.

Inclination is not enough for an individual to set up a business. To do so, a proper motivation is required. Within the context of the GEM survey, there are two types of entrepreneurship according to the incentives that affect the decision of engaging in entrepreneurial activity: a) the **opportunity entrepreneurship (36.8%)**, which refers to the entrepreneurship motivated by the exploitation of entrepreneurial opportunities, and b) the **necessity entrepreneurship (25.4%)**, which refers to the entrepreneurship motivated by the absence of other work options.

During the 2003-2007 period, i.e. times of economic prosperity in Greece, opportunity entrepreneurship exhibits an increasing trend, while a clearly decreasing one characterizes the necessity entrepreneurship. This latter trend appears to change since 2008, that is in the crisis years. In that period the rate of nascent entrepreneurs

driven from necessity is larger compared to the previous years, affecting significantly the qualitative aspects of new ventures.

Demographic aspects of entrepreneurship

Greece is ranked 6th among the countries based on innovation with respect to the women participation, since in 2011 the 6% of women appear as early-stage entrepreneurs. Regarding the motivation of female entrepreneurship, GEM surveys (including the last one of 2011) reveal that the necessity incentive is stronger than the opportunity incentive, as opposed to the respective finding on male entrepreneurship.

Crisis has led to a more symmetric distribution of nascent entrepreneurship between men and women. In 2005 almost 75% of nascent entrepreneurs were men. On the contrary, during the 3-year period of crisis (2009-2011), female early-stage entrepreneurship reaches 35%. This finding is expected for two reasons. First, due to the greater involvement of women in the necessity entrepreneurship (26.5%), which follows an increasing trend during the recession, and second, due to the fact that unemployment affects women more than men, which in turn drives higher rates of women to engage in entrepreneurial activities in order to secure income survival.

With respect to the age distribution of nascent entrepreneurship, a significant difference is observed between the years 2010 and 2011 in Greece. In 2010 the 45-54 age group reported the higher percentage of nascent entrepreneurship, while the next year the age group of 35-44 dominates the specific distribution (32.9%). How can this change be explained? In 2010 it seems that older individuals made the decision to set-up a new business since either they lost their jobs or they faced the possibility of losing them. On the other hand, in 2011 the great increase in youth unemployment rates and the considerable decrease in the likelihood of securing a job position made young people to consider starting up a new business as a way out of unemployment.

Regulatory environment

In each country the entrepreneurial activity evolves in a specific regulatory framework which can encourage or discourage the entrepreneurship activity in various degrees and ways. Apart from the population survey, GEM uses an additional research instrument in order to investigate the regulatory environment, that is interviews with

national experts. The choice of experts is based on the knowledge and experience they have in various dimensions of the entrepreneurial environment in each country. These experts are usually academics, or individuals from the entrepreneurial world, or policy makers. In Greece the team of national experts includes 36 individuals. According to Greek experts, Greece approximates the average of innovation countries with respect to two dimensions of the entrepreneurial environment as defined by GEM, that is education (basic and post-secondary). Greece has the lowest performance as regards the financial support of entrepreneurship and the availability of government programs intended to support entrepreneurial activities. Also, national experts evaluate in a negative way (although marginally to a lower degree) the general framework of national policies and legislation.

Market dynamics constitute a dimension of the entrepreneurial environment for which Greek national experts believe that the structure of markets tends to change with a high speed. This change is stronger compared to the average evaluations in the innovation countries. However, the evaluation of the entrepreneurial environment by the Greek experts in all the other dimensions is negative. Particular discouraging appear the experts' evaluations on the entrepreneurial culture and the entry barriers to the local markets that new businesses face.

The effects of crisis on the early stage entrepreneurial activity

This project also examines how the individuals, who enter the business arena, evaluate the effects of recent crisis. The importance of this information relies on the fact that relevant data allow to make conclusions about how the crisis affects the entrepreneurial activity from year to year. In other words, the aim of this information is to reveal whether entrepreneurs at the given time period believe that the environment has been improved or not compared to previous time intervals.

The first issue that is examined refers to the entrepreneurs' beliefs on whether the obstacles to establish a new business are higher or lower compared to the previous year. In the years 2011 and 2010, three out of four early-stage entrepreneurs believe that the difficulties to form a new business have increased compared to the previous year. However, it is worth noting that the increased difficulties to start a new business do not discourage these individuals from engaging in the business arena.

The second issue examined by the GEM project concerns the barriers to growth of a new business based on the evaluations of the early-stage entrepreneurs. In this perspective, new entrepreneurs believe that the growth possibilities of a new business decrease from year to year. In particular, the relevant evaluations are especially negative in the years 2009 and 2010, i.e. the first years of the crisis.

The examination of the third issue, namely the crisis effects on the entrepreneurial opportunities (according to the entrepreneurs' sample) yielded most interesting findings. In particular, a great increase was found in the individual numbers who believe that there exist more entrepreneurial opportunities compared to the previous year (from 12.6% to 37.7%). In fact, the relevant figure seems to increase in a steady way in the last three years. This finding indicates that entrepreneurial opportunities have not been exhausted during crisis and individuals being aware of this are going to probably exploit these opportunities once the conditions get better.

The full text of the study is available in Greek at: http://iobe.gr/research_b.asp