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## **Greek entrepreneurship after crisis – investment abroad, the easiest solution**

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### **Introduction**

In political economics, entrepreneurship is a process of identifying and starting a business venture, sourcing and organizing the required resources and taking both the risks and rewards associated with the venture. First used in 1723, today the term entrepreneur implies qualities of leadership, initiative and innovation in manufacturing, delivery, and services. For all economies of the world, entrepreneurship is recognized as the key factor contributing at the economic growth. Particularly for Greece, it plays a vital role, as about 15% of the active populations are entrepreneurs. Most of the entrepreneurs have micro enterprises, which make up 96% of Greek businesses. These micro enterprises, offer 33% of the total business sector value added and occupy 58% of the business sector workforce small and medium enterprises (SME) in total offer 75% of total value added and occupy 77% of the total private sector workforce. However SMEs prospects at the moment are not good.

Many young people around the world share the belief that becoming an entrepreneur is the most effective and exciting way to make their dreams and ideas a reality. It gives them freedom to transform their own lives and their communities and change the world for the better. But, entrepreneurs, whether young or adult, face discouraging obstacles, particularly in countries with underdeveloped financial systems, overdeveloped bureaucracies and inadequate infrastructure, such as Greece. During the last four years, at least 100 000 businesses have closed and about 200000 employees have lost their jobs. For 2012 another 50000 businesses closed due to the recession, adding up more unemployed to the economy. Large enterprises even though they are only 0.1% of total enterprises, they offer 24.9% of the private sector's total value added and occupy 13.6% of total private sector workforce. Even though the number of large enterprises has increased during the last years, the number of employees has decreased by 34380.

Greece due to a long term economic weaknesses, in 2009 was faced with a large deficit problem (15.3% of GDP). As a result, this fiscal deficit increased the borrowing interest rates and the country obviously asked assistance from the International Monetary Fund (IMF). The IMF lent funds to Greece with the condition that the government would sign two cooperation memorandums. These memorandums included various lending terms (cutting government spending, lowering wage rates and increasing taxes), some of which were useful for the Greek economy and others were completely inefficient and unsustainable for the market. As a result, today, the country is in its fifth year of recession and many businesses, especially SMEs, are closing.

### **Entrepreneurship**

Thanks to the data gathered by the Global Entrepreneurship Monitor project (an annual assessment of entrepreneurial activity, aspirations and attitudes across 85 countries), we can examine the status and attitudes towards entrepreneurship in Greece from 2001 to 2011. The data collected by GEM,

was harmonized so as to facilitate cross-national comparisons. In order to make comparisons and understand the impact of the economic crisis in Greece, GEM presented the Greek data along with the data for six other European countries such as, Portugal, Spain, France, Sweden, Germany and the United Kingdom. Particularly, GEM, analyzed five main indicators: the Established Business Ownership Rate, the Total early-stage Entrepreneurial Activity, the Necessity-Driven Entrepreneurial Activity, the Entrepreneurial Intention and the Fear of Failure Rate.

The outcome of this survey demonstrated that, Greece has the highest rate of established business owners from the seven countries compared. The percentage of business owners has increased from about 6.5% of the population on 2004 to almost 15.8% on 2011. Greece has the highest mean value of established business ownership for the 11 year period. Moreover, the total early-stage entrepreneurial activity (the percentage of 18-64 population, who are either a nascent entrepreneur or owner-manager of a new business) in Greece ranges from 6.8% on 2003, to 10% on 2008 and back to 8% on 2010. Therefore, a decline in the percentage in early-stage entrepreneurial activity can be observed after 2008, which means after the economic crisis broke out. Furthermore, as indicated by GEM, from 2007 onwards, there has been a large increase in the necessity-driven entrepreneurial activity (the percentage of people who are involved in entrepreneurship, because they had no other option for work), from 10% on 2007 to 25% on 2011. As about the entrepreneurial intention (the percentage of 18-64 population, who intend to start a business within three years), we can observe that Greece has the largest mean value from the 7 countries examined (12.3%). The last indicator analyzed by GEM, was the fear of failure rate ( the percentage of 18-64 population with positive perceived opportunities about entrepreneurship, who indicate that fear of failure would prevent them from setting up a business). According to GEM, the fear of failure rate was quite high in all the sample countries, ranging from 22% to 54%, but the highest mean value of fear for the 11 year period (2001-2011), was recorded in Greece (47.7%), while the lowest in Sweden and Portugal (30.5%).

In accordance with a research made by OECD (Organization of Economic Cooperation and Development), most businesses in the seven European countries examined, are micro enterprises, meaning that they have less than 10 employees. The percentage of micro enterprises ranges from 83% in Germany to, to 96% in Greece. Small enterprises in Greece (10-49 employees) are around 3%, medium are 0.4% and large are only 0.1% of total enterprises. Moreover, micro enterprises in Greece offer 37.7% of total value added, while SMEs offer 75%. This percentage is the largest contribution of SMEs in the economy for the 7 countries. Large enterprises, even though they are only 0.1% of total enterprises, they offer 24.95 of the private sector's total value added. However this percentage is the lowest one from the 7 countries examined (the largest contribution of large enterprises is observed in the UK – 49%). As about the employment by size class (the number of employees that work in each size class), the smallest number of employees was recorded in Greece (2.6 million). Micro enterprises in Greece are responsible for the 58.2% of total private sector employment. This percentage is much higher than all other countries and highlights the importance of micro enterprises in the economy. Large enterprises in Greece occupy 13.6% of private sector workforce, which is the lowest percentage of the 7 countries. According to estimates of OECD and Eurostat, from 2006 to 2011, there has been an increase and decrease in the number of enterprises in Greece. For example during 2006 and 2007 there was an increase in the number of firms in the economy, from 2009 to 2011, there has been a large decrease in the total number of firms, due to massive closure of micro firms. However the number of large enterprises has increased from 2007 onwards. This situation has totally affected employment. Specifically, the number of employees working in the private sector from 2005 to 2011 has remained the same (2.4 million out of which 2 million worked in SMEs). On the other hand, in large firms, even though their number has increased from 2007 onwards, the number of employees occupied has decreased. From 2009

onwards, there has been a continuous job losses in all business size classes (SMEs and large enterprises).

## **Greek companies abroad**

### *Balkans*

The Balkan Peninsula is culturally and economically a familiar region for Greek entrepreneurs who had successfully operated for centuries in the region in ancient times. Greek flourishing enterprise in the Balkans did last for more than two decades but it has been heavily affected by the Eurozone crisis. Greek investments of almost €15 billion in the Balkan markets resulted in a turnover of 80%. Today their value is estimated to be less than half.

Today Greek businessmen view the Balkans in a twofold way: first, not as a chance to expand their business but as a refuge to protect them from bankruptcy in Greece. It is estimated that 2000 companies of mid and small size have moved to the Balkans because of the favorable tax policy and the low operating costs. Second, some Greek companies, especially banks, have liquefied some of their assets in the Balkans in order to sustain their operation in Greece per se. Greek businessmen are active in the Balkans and in particular in the neighboring countries: Bulgaria, FYROM and Albania. In South-East Europe there are 5.000 Greek companies of which 2500 in Bulgaria. The fields of investment are banking, telecommunications, computing science, lottery, foods, drinks, retail trade, metals, building materials, construction, energy (electricity and petroleum), textile industry, tobacco industry and so on.

Bulgaria is an attractive market because of its low tax rate (10%), low labor cost (monthly salary of €300) and operating expenses (commercial property renting wages between €200 and 400). In FYROM there are more than 200 Greek companies of which 30 have invested more than €300 million with 20.000 employees. In Albania there are 400 Greek companies but more than 1000 companies in the country are associated with Greek funds. Greek investments in Albania mount to €500 million, i.e. more than a third of foreign investments in the country.

### *MENA*

Today with the current economic crisis looming over Greek economy, the Middle East looks quite appealing to Greek entrepreneurs. Thus it is not surprising that contacts between Greek and MENA companies have multiplied since 2009 and there seems to be more opportunities for further collaboration. Taking into account that this region is the nearest to Greece after the Balkans and Europe, with some countries sharing maritime borders with Greece (Egypt, Libya), it is plausible to think that much more needs to be done in order to increase exports further.

In this context neighboring Cyprus and Turkey play a major role in Greek efforts to expand economic collaboration with the Middle East, they have a strategic role as economic hubs, posing an interesting bridge between Greece and the Middle East. In the last two years more than 1000 companies have moved from Greece to Cyprus. However due to the huge impact of the Eurozone crisis, Cyprus has suffered a major recession and the future for Greek companies there is bleak. In neighboring Turkey taxation is 2% of the profits for the first eight years. As a result many Greek companies have decided to move their base to Turkey whilst some others are in the process of doing so. Greek investments in Turkey are \$6 billion and Greece is amongst the top five foreign investors in Turkey in the last five years. Turkey absorbs more than 4% of total Greek exports. There are 500 Greek companies operating interests in various sectors such as banking, food, energy, etc. Approximately 250 companies based in the outskirts of Istanbul. Many of these are inactive and are only recorded in the registers of the Chambers; about 60 are considered the most important.

The level of cooperation between Greece and the MENA countries is quite well developed, but there are significant prospects for further assistance. Lately there have been particular efforts by most of the MENA countries to lift existing restrictions and barriers to trade in goods, services and procedures for admission and establishment of foreign enterprises. Egypt is one of the most important Arab countries for Greek business interests, enjoying a Greek investment value of 700 million \$ U.S. Greek investments lie in the areas of paper industries, cement, petroleum, construction, food, paints and building materials, irrigation systems and aluminum, banking, property, marine and aviation training services and gaming.

More than 40 Greek interest companies operate in the UAE, without considering the very small companies like fur shops etc. Their activities involve technical construction, trade, shipping, production, computer programs, etc. Mainly three construction Greek companies (Actor, Athena Archirodon) have contracts to build roads, hospitals, bridges, wastewater treatment; there is also a strong presence of Greek shipping companies in the Emirate of Fujairah.

In Iraq, Israel, Lebanon, Kuwait, Bahrain, Oman, Yemen and Palestine Greek investments are limited or absent because of bureaucratic, administrative, customs and tariff restrictions, liquidity policy and the consequent political risk and poor security.

## **Conclusion**

In this point we can say that, the negative status of the Greek entrepreneurship is a result of the barriers met by Greek enterprises, during the start up phase and the daily operation of the enterprises. According to a research carried out by the World Bank (2008), about the ease of starting a business, Greece is the European country, among 20 others, where it is the most difficult to start a business. Business owners in Greece agree that the most important barriers they face are, tax rates, employment and insurance status, market psychology and bureaucracy. As we can notice, most barriers are related with the state. However, the policies that have been proposed by the IMF and applied in Greece so far, have increased tax rates, changed more than once the employment and insurance status, froze market psychology ( public and private sector wage cuts) and didn't lessen bureaucracy.

SMEs have a very significant role for the economic growth and innovation in Greece, meaning that the Greek government must support them with every mean possible. First of all, the government should aim at abolishing the barriers met by the Greek enterprises, which according to the Greek business owners are, tax rates, employment and insurance status, government bureaucracy, corruption, policy instability and market psychology. Many enterprises have cut wages and fired personnel in order to minimize costs and escape closure, but this is not enough, businesses themselves cannot change any of the barriers they face. There is an urgent need for the Greek government to proceed to some decisive measures, such as, minimization of the state bureaucracy and corruption, establishment of fair and effective employment, lowering of taxes, establishment of insurance laws and finally increases in wages (which in their term will increase buying power). There is an urgent need for political and economic reform, in order to support SMEs' operation and secure their valuable contribution to economy. Very helpful would also be the formation of more public private of mixed ownership large enterprises, for boosting domestic productivity and employment.

More entrepreneurship would likely hasten a recovery. As Deutsche Bank's Antje Stobbe and Peter Pawlicki write, since Greece can't improve its competitiveness through external devaluation, it must focus on boosting productivity. GDP growth would help the country reduce its debt burden and return to a manageable public debt-to-GDP ratio. More entrepreneurship would create more jobs,

and help diversify an economy that is still heavily reliant on traditional industries such as tourism, agriculture and shipping. The creation of tech millionaires would have a knock-on effect, as wealthy entrepreneurs look to invest in other startups.

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