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Annual Entrepreneurship Report 2018-2019:

Early stage entrepreneurship improves

Executive Summary

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Global Entrepreneurship Monitor



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The **Foundation for Economic and Industrial Research** is a private, non-profit, research organization. It was founded 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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IOBE ENTREPRENEURSHIP OBSERVATORY

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

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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 the 16th 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 2018 results in Greece are the following:

Characteristics of early stage entrepreneurship in 2018

- **In Greece, the percentage of the population aged 18-64, which in 2018 was at the early stages of entrepreneurial activity (including self-employment), increased to 6.4% (approximately 418,000 people) from 4.8% (approximately 314,000) in 2017.** This rate is among the highest ever recorded in recent years period, however well below the average level of “innovation-driven economies” (2018: 10.1%). Therefore, the data suggests that uncertainty from recent years which affected the level of early stage entrepreneurship, has started to diminish. However, these findings do not appear to be accompanied by a substantial improvement in the qualitative characteristics that affect the viability of these new ventures.
- Two out of five new ventures are family businesses, a percentage that is slightly higher than the average of innovation driven economies.
- **Some 36,5% of early stage entrepreneurs are new entrepreneurs, while the remaining percent is nascent entrepreneurs.** This rate is slightly lower than the average of innovation driven economies (42,6%) and has decreased compared to 2017, a year in which new entrepreneurs outnumbered nascent. **Consequently, the increase of early stage entrepreneurship seems to be fueled mainly by nascent entrepreneurs, which implies a change in expectations and a more favorable economic climate. However, nascent entrepreneurship must be translated into new entrepreneurship in order to yield a real inflow in total entrepreneurship.**
- Taking into consideration the high rate of established entrepreneurs in the country, which in 2018 reached at 10.8% (from 12.4% in 2017), means that **about 16.8% of the population aged 18-64 (1,100,000 people) has some relation with entrepreneurship, either in early or in subsequent stages.** Greece ranks third in total entrepreneurship among innovation driven economies, due to its high ranking position in established entrepreneurship which reflects the high self-employment in the country.

- For the first time, the population of 18-64 year olds is surveyed about the ease of starting a business. Greece ranks last among the examined groups of countries, with only 12% of the population considering starting up a business as an easy process, which contrasts with innovation driven countries where almost 40% report starting a business as an easy process. This highlights the obstacles that are still present for new entrepreneurship in the country. Time-consuming and high-cost procedures, coupled with bureaucracy and overlapping responsibilities among public entities, continue to hinder the development of entrepreneurship.
- **The rate of population that shut down an entrepreneurial venture in 2018 reached 2.8% (approximately 183,000 people). This data from 2018 is lower than the corresponding rate in 2017 (4.8%) and slightly higher than the average of innovation driven economies (2.5%).** The majority of failed entrepreneurs cite 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 on a pure quantitative increase, since high rates of newly established ventures do not necessarily ensure their sustainability.** Rather, fewer businesses can be created in an economy, with better quality characteristics and a more significant multiplying effect on the economy.
- **20.8% of early stage entrepreneurs (about 90,000 people) are necessity driven entrepreneurs, while 48.9% (about 204,000 people) are opportunity driven entrepreneurs.** In comparison with the average of innovation driven economies, opportunity driven entrepreneurship is very low (54.1%), while for the first time in recent years **necessity driven entrepreneurship is also lower (24.1%)**
- **4.1% of people age 18-64 (approximately 267,000 people) state that they were informal investors in another person's business venture in 2018, a rate slightly higher compared to 2017, but lower than the average of innovation driven economies (5.9%).** About 60% of informal investors are close family and about 12.6% informal investors are from the extended family (about 85% in total in 2017). The role of informal investors is substantial considering the problem of accessing to finance in Greece. Therefore, alternative sources of financing a venture may offer a solution, but this does not mean that they can substitute for a country's financial sector.

- **In terms of age, in 2018 the highest participation in early stages of entrepreneurship included the age group 18-24 years old, (11.5% versus 9.5% in innovation driven economies).** In general, lower participation from all age groups is recorded, at least compared to the innovation driven economies, except from the age group of 18-24. **In total, 30% of early stage entrepreneurs comes from the age group of 18-24 years old),** with the average early stage entrepreneur being 36 years old. Note that in recent years, the share of 18-24 year olds participating in entrepreneurship is increasing. Whether this development is positive or not is rather controversial. Although younger generations have passion and dynamism, critics cite the lack of experience, business knowledge and networking that may decrease their chances of success.
- In 2018, the increase of total entrepreneurship comes exclusively from men. The percentage of female early entrepreneurship dropped at **3,8% (about 127 thousand women) from 3,9 % in 2017, while the percentage for men increased to 8,9% (about 289 thousand men) from 5,7% in 2017.** Even in absolute terms, female entrepreneurs declined in 2018.
- **In 2018 41.7% of early stage entrepreneurs had at least a degree of tertiary education, which is a higher share compared to 2017, while another 11% had a postgraduate degree. This means that at least half of early stage entrepreneurs have university education, while the percentage of graduates exceeds 32%.** The increase of entrepreneurship in 2018 was driven predominantly by high school graduates. The encouragement of university educated entrepreneurs should be a constant policy aim, since the relevant literature shows that there is a positive correlation between higher educational levels of the founders and greater survival rate of their newly established business. Furthermore, investors are more likely to assess higher educated individuals more positively in regards to financing.

Characteristics of the entrepreneurial ventures

- **At the sectoral level, the percentage of new ventures in the primary sector during 2018 increased to 7.9% (from 4% in 2017).** On the contrary, new entrepreneurial activities in manufacturing remain stable at 24.9% (24.% in 2017), while entrepreneurial activities that focus on the consumers still dominate.
- **Almost three out of five 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 51.3%. However, 10% state that everyone will consider their products innovative from only 3.9% in 2017 (18.8% in innovation driven economies).** At the same time, 20% of new entrepreneurs reports

that they use completely new technologies/procedures for the production of goods/services (16% in 2017). **Although the majority (54.7%) of early stage entrepreneurs enter markets with strong competition**, there is an 11.4% that state that they are entering a completely new market (from 3.2% in 2017).

- Almost 68% of the early stage entrepreneurs report that they employ, **at the time of launching, 1 to 5 people (founders not included), while those that employ more than six persons decreased to 9.1% (11.7% in 2017)**. These new ventures are mostly micro firms that actually provide employment only to their founders. **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**. In addition, 22% of entrepreneurs state that these new ventures will create more than 5 jobs; a development that can be seen as a significant boost to employment expectations.
- **Only 23.7% of early stage entrepreneurs responded that they sell their products strictly to the domestic market, compared to 45% in innovation driven economies**. Note that 27.5% of entrepreneurs state that more than ¼ of their turnover comes from abroad, slightly more than the average in innovation driven economies (24.3%). However, part of this extroversion is due to the tourism and related activities.

Cultural and Personal perceptions with regards to entrepreneurship

- **The percentage of the population observing promising opportunities for starting a business increases to around 19% (from 13.7% in 2017). However, this the lowest percentage worldwide**. It seems that economic uncertainty still constitutes a significant burden for Greek entrepreneurship in 2018.
- **Some 46.4% of the population (from 43.4% in 2017) – independent of whether they are involved in entrepreneurship or not- stated that they have the knowledge, skills and experience required to start a business**. This rate is 82.5% in the case of early stage entrepreneurs, indicating high level of confidence in Greece. At the same time, **Greece has among the highest rates of the fear of failure factor; although, an upward trend has been reported all over Europe during recent 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 2018, it reached at 68% of the population, from 70.4% in 2017.

- **About 65% of Greek citizens state that entrepreneurship is a desirable career choice, while 67.7% 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.

National experts' survey

According to the results of survey among national experts on entrepreneurship issues, 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 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, which could be considered as positive evidence, since it is associated with strong entrepreneurship momentum. **The main obstacles in business activity in Greece stem from 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 the inefficient operation of public bodies supervising the establishment of new businesses still represent significant obstacles in business creation.

Important issues that also hinder the entrepreneurship in the country are associated with difficulties in accessing finance, high entry barriers, and the prevailing, ambiguous culture on entrepreneurship.

According to experts, the main motives for entrepreneurship include the upgrading of business environment actions and strategies that support entrepreneurship with targeted initiatives for entrepreneurs, developing the educational level, and modernizing infrastructure (roads, water, gas and electricity supply networks, telecommunications networks) and creating spaces (industrial zones, business parks) for the installation of businesses that facilitate the licensing procedures. **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.**

According to the experts, the three main factors that affect entrepreneurship in Greece are:

- National policies and strategies for the support of entrepreneurship, through public private programs, as well as special actions for young entrepreneurs, women and unemployed people
- The common rules of domestic market, related to the competition and the market entry barriers are reduced to enable new and small businesses to compete effectively and gain momentum.
- Primary and secondary education. The improvement of the education system in Greece, to include relevant knowledge and skills for the development of sustainable business activities.

Finally, regarding the composite index, the National Entrepreneurship Context Index (NECI), which assesses the business environment in the country, Greece occupies one of the last positions in the rankings, highlighting a poor business friendly environment and the importance and need for policies that will encourage and support entrepreneurship in the country.

The role of the structural characteristics of the financial system in entrepreneurial development perspective

The main purpose of current chapter is to examine the possible effects of the financial stability, the presence of foreign banks and the degree of concentration of the banking system on entrepreneurship in Europe in the period of 2005-2011. For the first time in the relevant literature, GEM data at the level of entrepreneurs and World Bank data at the country level are linked in order to answer this specific research question. Econometric analysis has shown that the presence of foreign banks seems to enhance the likelihood of perspective of new business ventures. This interesting finding may indicate that the presence of foreign banks facilitates the raising of funds and, also, confirms that in many countries foreign banks are important sources of financial intermediation. In contrast, a greater financial volatility arising from non-performing loans seems to have stronger negatively impact on the development perspective of European business ventures. In an environment of financial instability, banks are facing capital adequacy problems which are automatically associated with a limited business lending to businesses and / or an increase in borrowing costs. This restricts the business financing and thus the development perspective of business initiatives. Finally, an increase in concentration in the banking sector is also an important obstacle to the development perspective of new business ventures, since a limited competition among the larger banks is likely to increase interest rates and borrowing costs for new business initiatives, impeding potential growth of businesses.