

Medium and small enterprises in Greece
Executive summary
Part A: Contribution to the economy, developments and challenges
Facts & Figures

A. Medium and small enterprises in Greece

1. Consistent presence in the economy: SMEs are important pillars of entrepreneurship and the economy as a whole at both the European and national levels. In Greece, they constitute 99.9% of all enterprises, covering a wide range of activities and industries. They account for about 19.3% of GDP and 87% of employment in enterprises.

2. SMEs operate in a business environment that remains adverse and they face many challenges. Chief among them are:

- Access to Finance, including access to working capital, investments, financing costs.
- Over-taxation through direct and indirect taxes, as well as social security contributions.
- Difficulty in expanding their customer base, especially in foreign markets.
- High compliance costs as bureaucracy, and legislative and regulatory burdens are disproportionate for smaller enterprises.
- Unfair competition and problematic oversight mechanisms particularly with respect to tax evasion, undeclared work, illegal imports, etc.

3. Greek SMEs remain behind their average European competition: Despite their large number, their performance is significantly below the EU average which makes them vulnerable and relatively unable to effectively contribute to Greece's productive transformation and become the backbone of the economy. Specifically:

- **Fragmentation and the large number of micro-enterprises hinders competitive advantage:**
 - Greece has the highest SME density in the EU, but they are mostly small-scale.
 - Very small enterprises constitute around 96.9% of the total, compared to only 93% in Europe.
 - Small and medium sized enterprises only account for less than 3% when EU average is about 7% and rising.
- **Large number of SMEs but low productivity:** Productivity per worker in Greek SMEs is about 50% of the European average. Indicatively it is € 20,000 in Greece, € 28,000 in the EU-28, € 38,000 in Italy, € 52,000 in Ireland, etc.
- **Limited technological focus:** A 40% decrease in the number of medium-high tech SMEs has been observed during the economic crisis, a disproportionate reduction within the EU. Their rapid recovery is a prerequisite if Greece is to avoid becoming a low added-value economy.

Growth policies should aim to reverse these competitiveness deficits, and help Greek SMEs converge with the EU.

4. But also have positive characteristics:

- **Innovation remains relatively unexploited:** Although Greece generally lags in the EIS (European Innovation Scoreboard), SMEs' performance in innovative products and processes is near the EU average (29.6 against 30.6 in the relevant EIS index).
- **There is a shift from B2C to B2B sales, production networks and value chains:** 12.4% of SMEs have already developed partnerships, compared with 12%, 10.3% and 4.8% in Ireland, the EU and Italy respectively. Innovative Greek SMEs invest in business networks, and B2B products and services.

Growth policies should aim to build on these comparative advantages.

5. Employment has suffered: SME employment declined from 2.39 million workers in 2008 to 1.79 million in 2014. Hard-hit sectors include Clothing & Leather goods (-57%), Timber, Wood products and Paper (-50%) and Construction (-48%).

B. Characteristics of SMEs that withstood the crisis

1. Size, resilience and contribution to the economy go together. Although the crisis appears to have affected medium-sized enterprises the most, they continue to make the largest contribution to the economy (in terms of value added per company) among SMEs. The productivity ratio between medium and small enterprises is 7 to 1 while the ratio between medium and very small enterprises is 140 to 1.

Thus, micro-enterprises (96.9% of the total) account for about 9.3% of GDP, while small and medium enterprises (3% of the total) generate around 10% of GDP.

2. Job creation in value-driven activities.

- **High employment in micro-enterprises has proved unsustainable.** 87% of workers in Greece are employed in SMEs. 68% are employed in micro-enterprises, 19% in small enterprises and only 13% in medium-sized enterprises.
- **Medium enterprises maintained their productivity.** *Apparent productivity* (value added per employee) in medium sized enterprises is about 40% higher than in small ones and about 178% larger than micro-enterprises (€ 39,000 vs. € 14,000, despite the high employment). Similar figures are observed for most sectors.

3. Adaptability and resilience through economies of scale: While medium-sized enterprises turned the crisis into opportunity, smaller ones did not show similar reflexes.

- Despite the larger decline in the number of medium-sized enterprises (-33% vs. -21% of the micro ones), added value per medium-sized enterprise per employee remained stable (at € 39,000). For small ones it decreased by 12.5%.
- Medium-sized enterprises increased profit margins in 2012-2014, by up to 35%.
- Small and micro enterprises were forced to squeeze profits, by as much as 50% over the same period.

4. Consistently improving their extroversion: Although most Greek SMEs are importers, there was increased export activity in medium-sized enterprises. Between 2010-2014, the increase was 40% (from € 4bn to € 5.6bn) which also contributed to a reduction in the SMEs' trade balance deficit of SMEs (from € 15.7 billion to € 10.6 billion).

5. Manufacturing SMEs contribution to the economy remains consistently higher: The highest value added per enterprise is recorded in manufacturing (4 times higher than services).

6. Technology-intensive manufacturing SMEs are recovering faster: Only SMEs in high technology sectors managed to increase (marginally) their added value after 2010 (84 vs. 83 units in the relevant index). All other sectors sharply declined.

7. Continuous improvement in corporate skills with modern governance structures and efficient processes and quality assurance schemes. Without them, only 30% of family businesses survive after the second generation, 13% after the third generation and 3% after it.

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