Hellenic Organization of Small and Medium sized Enterprises and Handicraft

National Observatory for SMEs

«Status and prospects of the small and medium sized enterprises in Greece»

Annual Report 2006

Summary

ADDRESS BY EOMMEX MANAGEMENT

Everyone acknowledges that Small and Medium size enterprises, with the momentum they display, decisively contribute to **economic growth, social cohesion strengthening, markets' smooth operation and employment increase**.

Under the current globalisation and international competition conditions, Greek SMEs should redefine their entrepreneurial strategy and organization, keeping abreast of the latest economic environment data and should adopt a **new sustainable enterprise model,** covering the current requirements for quality, innovation, incorporation of new knowledge and outward orientation.

The Greek State is planning and applying policies and actions to boost SMEs competitiveness, productivity and innovation in the context of EU priorities which correspond to the Greek entrepreneurial map characteristics and particularities.

In light of the above, the Hellenic Organization for Small and Medium size enterprises and Handicraft (EOMMEX), under the supervision and guidance by the Ministry for Development, is implementing measures and actions aiming at creating, reinforcing, modernizing and informing SMEs from all economic activity sectors.

This broad project encompasses the creation and activities of the **National Observatory for SMEs**, a project falling under the Operational Programme 'Competitiveness', aiming at SMEs systematic monitoring at sectoral, regional and national level and at providing valid and prompt information on issues pertaining to Greek SMEs activity, prospects and development .

This publication intends to fill in the gap deriving from the aforementioned conditions in information and guidance; it includes an abridged presentation of the first **Annual Report** on **'Situation and Prospects for Greek SMEs'** with 2006 as a base year and aims to become established as an institution in depicting SMEs data, indicators, prospects, business activity developments and environment on an annual basis.

We would like to express our appreciation to the competent State Authorities, all bodies and entrepreneurs who offered their help and actively contributed to data collection; if it had not been for their participation, it would not have been possible for this effort to have a successful outcome.

EOMMEX Management is particularly happy to be able to offer valuable services for the benefit of SMEs in the framework of Government policy.

Dr. Eleftherios Skandalis
EOMMEX Managing Director

Georgios Al. Souflias
EOMMEX Board of Directors Chairman

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ABBREVIATIONS

GDERD: Gross Domestic Expenditure for Research and Development

GVA: Gross Value Added

ELKE: Hellenic Centre for Investments

EU: European Union – European Commission

OP: Operational Programme

OP 'COM': Operation Program 'Competitiveness'

NSRF: National Strategic Reference Framework

R & D: Research & Technological Development

RTDI: Research & Technological Development and Innovation

IOBE: Foundation for Economic & Industrial Researches

KETA: Centre for Business and Technological Development

IRC: Investors Reception Centres

SME: Small and Medium size enterprises

NMS: New Member-States

DFI: Direct Foreign Investments

HEPO: Hellenic Foreign Trade Board

ME: Micro Enterprises

GEPS: General Economic Purpose Services

YPAN: Ministry for Development

IMD: International Institute for Management & Development

WEF: Word Economic Forum

OECD: Organisation for Economic Co-operation and Development

INTRODUCTION

The National Observatory for SMEs is inaugurating the elaboration of **Annual Reports on SMEs in Greece**, with 2006 as a base year, aiming at:

- **Collecting and processing information on a national basis,**
- **Systematically monitoring and analyzing the entrepreneurial demography,**
- **Identifying and analyzing the SMEs typical features, tendencies and prospects,**
- **Outlining policies and support measures for SMEs at national, European and International level and**
- **Processing proposals for SMEs more effective competitiveness support and enhancement.**

IDENTITY REPORT

The report methodology consists of:

a. **office research** to track down secondary information sources

b. **quality research** using a representative sample of 35 SME bodies / organisations from all over Greece (chambers of commerce/industry/business) based on the "in-depth interview" method.

c. **quantitative research** using a representative sample of 800 enterprises from all over Greece, stratified per size of business category (0-4, 5-9, 10-49 and 50-249 employees), based on the self-filled questionnaire method.

The 2006 Annual Report includes eight (8) chapters and two (2) thematic units, summarized in this publication.

1. CURRENT SITUATION, DEVELOPMENTS AND TRENDS IN THE SMEs

The main feature of Greece's business map is the absolute dominance of small and medium size enterprises (SMEs). Based on the EU definition and data provided by the National Statistics Service for 2002, approximately **98% of Greek enterprises are small**, not employing more than **10 employees.** Almost all Greek enterprises employ 0-4 persons, 2% of Greek enterprises employees 5 to 9 persons while the remaining 2% employees more than 10 persons (Table 1.1).

Table 1.1: **Number of enterprises per number of employees**

Employee number range	Number of enterprises	Percentage (%)
0-4	844.917	96%
5-9	17.713	2%
10-19	8.588	1%
20-29	2.908	0,4%
30-49	2.335	0,2%
50-99	1.534	0,2%
100 and more	1.323	0,2%
Total:	**879.318**	**100%**

Source: National Statistics Service – 2002 Enterprises Register (homogenous data processing)

It has been calculated that the average number of employees working for Greek enterprises are two (2) and this number is the lowest compared to all EU countries (average EU SME employee number is six (6). The small size of Greek enterprises is reflected in their operating results, since 95% have an annual turnover under 500,000 euros (Table 1.2).

Table 1.2: **Enterprises number and turnover**

Turnover size (in millions of euros)	Number of enterprises	Percentage (%)
(0 - 0,15)	743.817	85%
(0,15 - 0,3)	61.910	7%
(0,3 - 0,5)	28.852	3%
(0,5 - 1,5)	30.123	3,3%
(1,5 - 5)	10.399	1,2%
(5 - 15)	2.867	0,4%
(15 - 50)	1.003	0,1%
(50 - 100)	196	0,02%
100+	203	0,02%
Total:	**879.377**	**100%**

Source: National Statistics Service – 2002 Enterprises Register (homogenous data processing)

According to National Statistics Service data for 2003, the majority of SMEs in Greece (35%) are **trading enterprises** (wholesale and retail) with a turnover representing 43% of the total SME turnover. 11% of all enterprises are industrial enterprises generating 23% of the total turnover and only 2.5% of enterprises are operating in the primary sector (agriculture, fisheries) (see Tables 1.3 and 1.4).

Table 1.3: **Distribution of enterprises and Utilities per economic activity category**

ECONOMIC ACTIVITY CATEGORY	Number of enterprises	% of total	turnover *In million €*	% of total
AGRICULTURE, STOCK FARMING, HUNTING AND FORESTRY	19.388	2%	1.738	0,7%
FISHERIES	1.620	0,2%	598	0,2%
MINES AND QUARRIES	1.155	0,2%	695	0,3%
PROCESSING INDUSTRIES	96.858	11%	56.818	23%
POWER, NATURAL GAS AND WATER SUPPLY	1.235	0,1%	5.249	2%
CONSTRUCTION	103.942	12%	14.501	6%
WHOLESALE AND RETAIL COMMERCE: CAR AND MOTORCYCLE REPAIR / PERSONAL AND HOUSE WARE	311.977	35%	107.746	43%
HOTELS AND RESTAURANTS	104.700	12%	8.256	3%
TRANSPORT, WAREHOUSING AND COMMUNICATION	48.267	5,4%	19.260	8%
INTERMEDIARY FINANCIAL ORGANISATIONS	3.731	0,4%	13.697	5%
REAL ESTATE MANAGEMENT, LEASING AND COMMERCIAL ACTIVITIES	119.345	13%	12.739	5%
PUBLIC ADMINISTRATION AND DEFENCE: COMPULSORY SOCIAL SECURITY	994	0,1%	472	0,2%
EDUCATION	5.079	0,6%	341	0,1%
HEALTH AND SOCIAL WELFARE	3.503	0,4%	722	0,3%
OTHER SERVICES PROVISION ACTIVITIES IN FAVOUR OF SOCIETY AND OTHER SERVICES OF SOCIAL OR INDIVIDUAL CHARACTER	44.332	5%	7.046	3%

ECONOMIC ACTIVITY CATEGORY	Number of enterprises	% of total	turnover *In million €*	% of total
PRIVATE HOUSEHOLDS WITH HOUSE STAFF	32	0%	0,5	0,0%
EXTERRITORIAL ORGANISATIONS AND INSTITUTIONS	18	0,0%	1	0,0%
UNKNOWN BRANCH	27.213	3%	1.451	0,6%
TOTAL:	**893.389**	**100,0%**	**251.331**	**100,0%**

Source: National Statistics Service– 2003 Enterprises Register (data processing)

Table 1.4: **Number of enterprises per employment category**

Legal Form	Number of enterprises	Percentage (%)
SOLE OFFICER COMPANY	721.845	81%
GENERAL PARTNERSHIP	73.498	8%
LIMITED PARTNERSHIP	11.854	1,5%
LIMITED LIABILITY COMPANY	19.665	2%
PUBLIC COMPANY	28.798	3%
JOINT VENTURE	15.211	2%
SOCIETY	5.619	0,5%
MARITIME PARTNERSHIP	752	0,1%
SHIPPING COMPANY	1.011	0,1%
OTHER	15.136	1,7%
Total:	**893.389**	**100%**

Source: National Statistics Service – 2003 Enterprises Register (uniform data processing)

90% of Greek SMEs are sole officer companies, general or limited partnerships and only 5% are public and limited liability companies.

Greek enterprises' spatial distribution is characterised by **heavy concentration in the urban centres**. **35%** of all enterprises are established in **Attica**, where SMEs produce **67%** of their total turnover. This significantly denser presence of SMEs in Attica goes hand in hand with the relatively **higher productivity of employees** (Table 1.5).

Table 1.5: **Number of Enterprises and Utilities per Region and Prefecture**

REGION / PREFECTURE	NUMBER OF ENTERPRISES		TURNOVER *In million €*	
	TOTAL	%	TOTAL	%
GREECE IN TOTAL	**893.389**	**100**	**251.332**	**100**
EASTERN MACEDONIA & THRACE	**43.186**	**4,8**	**6.662**	**2,7**
DRAMA	7.806	0,9	942	0,4
EVROS	10.332	1,2	1.572	0,6
KAVALA	12.994	1,4	1.947	0,8
XANTHI	6.327	0,7	1.259	0,5
RODOPI	5.727	0,6	941	0,4
CENTRAL MACEDONIA	**156.265**	**17,5**	**28.487**	**11**
IMATHIA	10.320	1,1	1.576	0,6
THESSALONIKI	91.729	10,2	20.956	8,3
KILKIS	6.446	0,7	1.117	0,3
PELLA	11.458	1,3	1.246	0,5
PIERIA	11.351	1,3	1.173	0,5
SERRES	14.278	1,6	1.367	0,5
CHALKIDIKI	10.683	1,2	1.053	0,3
WESTERN MACEDONIA	**26.632**	**3**	**2.530**	**1**
GREVENA	3.086	0,3	232	0,1
KASTORIA	6.367	0,7	575	0,2
KOZANI	13.040	1,5	1.428	0,5
FLORINA	4.139	0,5	295	0,2
THESSALY	**54.160**	**6**	**7.490,78**	**3**
KARDITSA	*7.047*	*0,8*	*769*	*0,3*
LARISSA	*20.168*	*2,3*	*3.298*	*1,3*
MAGNISSIA	*17.035*	*1,9*	*2.150*	*0,9*
TRIKALA	*9.910*	*1,1*	*1.273*	*0,5*
EPIRUS	**28.078**	**3,2**	**3.435**	**1,3**
ARTA	*5.117*	*0,6*	*617*	*0,2*
THESPROTIA	*4.067*	*0,5*	*371*	*0,2*
IOANNINA	*13.462*	*1,5*	*1.916*	*0,7*
PREVEZA	*5.432*	*0,6*	*532*	*0,2*
IONIAN ISLANDS	**27.882**	**3**	**2.542**	**1**
ZANTE	*5.631*	*0,5*	*591*	*0,3*
CORFU	*14.458*	*1,5*	*1.356*	*0,5*
CEFALONIA	*4.587*	*0,5*	*415*	*0,2*
LEUKAS	*3.206*	*0,5*	*180*	*0,0*
WESTERN GREECE	**47.324**	**5,3**	**6.088**	**2,5**
AITOLOAKARNANIA	*13.795*	*1,5*	*1.513*	*0,6*

REGION / PREFECTURE	NUMBER OF ENTERPRISES		TURNOVER *In million €*	
	TOTAL	%	TOTAL	%
ACHAIA	*22.895*	*2,6*	*3.466*	*1,4*
ILIA	*10.634*	*1,2*	*1.109*	*0,5*
MAINLAND GREECE (STEREA HELLAS)	**41.997**	**4,7**	**5.622**	**2,2**
VIOTIA	*8.030*	*0,9*	*1.589*	*0,6*
EVIA	*18.241*	*2*	*2.252*	*0,9*
EVRITANIA	*1.204*	*0,1*	*84*	*0,1*
FTHIOTIDA	*11.584*	*1,3*	*1.451*	*0,5*
FOKIS	*2.938*	*0,3*	*247*	*0,1*
PELOPONNESUS	**45.102**	**5**	**5.923**	**2,5**
ARGOLIS	*8.507*	*1*	*1.170*	*0,5*
ARCADIA	*6.707*	*0,7*	*714*	*0,3*
CORINTH	*11.224*	*1,3*	*1.742*	*0,7*
LACONIA	*6.637*	*0,7*	*713*	*0,3*
MESSINA	12.027	1,3	1.584	0,7
ATTICA	**314.231**	**35**	**167.509**	**67**
ATTICA	*314.231*	*35*	*167.509*	*67*
NORTHERN AEGEAN	**17.415**	**2**	**1.997**	**0,8**
LESVOS	*8.234*	*1*	*1.010*	*0,4*
SAMOS	*4.809*	*0,5*	*432*	*0,2*
CHIOS	*4.372*	*0,5*	*555*	*0,2*
SOUTHERN AEGEAN	**38.215**	**4,3**	**4.698**	**2**
DODECANESE	*21.414*	*2,4*	*3.023*	*1,2*
CYCLADES	*16.801*	*1,9*	*1.675*	*0,8*
CRETE	**52.626**	**6**	**8.277**	**3,3**
HERAKLION	*25.121*	*3*	*4.372*	*1,7*
LASITHION	*6.675*	*0,7*	*815*	*0,3*
RETHIMNON	*7.322*	*0,8*	*1.033*	*0,5*
CHANIA	*13.508*	*1,5*	*2.057*	*0,8*

Source: National Statistics Service– 2003 Enterprises Register (uniform data processing)

In all regions, except for Attica, Southern Aegean and Central Macedonia, SMEs are operating primarily in the primary sector. Specialized in the secondary sector are SMEs in Western Macedonia (energy), Mainland Greece (industrial parks in the vicinity of Attica), Central Macedonia and Attica. Finally, tertiary sector SMEs are concentrated mainly in Attica and in the region of Southern Aegean.

Another outstanding feature is the **gender gap** in **entrepreneurial activities**. Only one in four Greeks undertaking an entrepreneurial activity is a woman. As regards

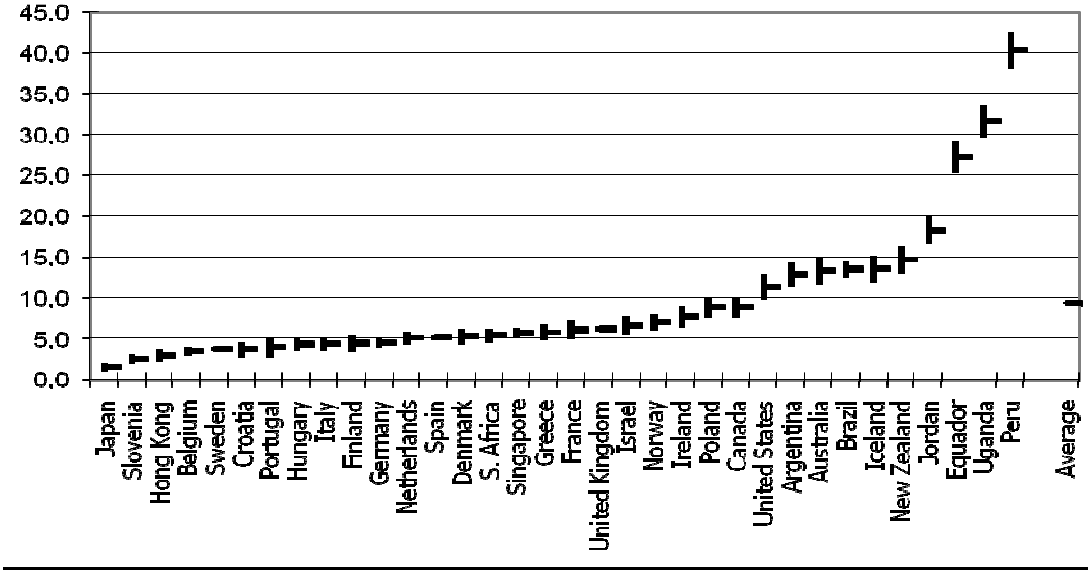
men entrepreneurs, Greece ranks 4th in Europe and above the European average, while in women and despite recent increases, Greece is still lagging far behind the respective averages occupying only the 12th position in Europe. Moreover, according to a relevant research, **individuals taking on entrepreneurial activities in Greece are not very young and belong mainly to the 35-44 age group,** followed by the 45-54 age group. Based on available research data, one in two Greek entrepreneurs (new and existing) is over 45, bringing our country first in Europe in the 45-54 age group. Entrepreneurship in younger ages is at lower levels compared to both the European and international averages[1]. In Greece, the early stage entrepreneurship index is not strongly influenced by the educational level since entrepreneurial skills are independent from an individual's education. The majority of the required **financing** to set up an enterprise is provided **by the entrepreneur** (mainly through personal savings or assistance from close family or professional environment).

It seems, therefore, that there is a positive correlation between income and entrepreneurial ambitions. This, however, does not apply to a higher income, which is not a determinant in taking up entrepreneurial activities but rather a social / cultural impulse to exercise an independent economic activity.

Comparative analyses place Greece in the 8th position as regards the share of new enterprises in the total number of enterprises, in the 6th position as regards the total "tendency towards entrepreneurial activities" (above both EU-15 and EU-25 averages). Moreover, Greece is ranking 11th as regards enterprise ‘start-up’ rates and 8th as regards the enterprise net rates (start-ups minus ‘deaths’), at the top of the EU-15 classification excluding Ireland and Luxembourg[2].

[1]Source: Entrepreneurship in Greece 2005-2006, IOBE in cooperation with GEM
[2] Source: ICAP 2006

Diagram 1.1: **Total Entrepreneurship Average Index (TEA 2004) per country**



Source: IOBE – Data processing by GEM

The Greek economy competitiveness until 2006 had been marked by a 5-year declining trend. This downward curve was reversed in 2006 when Greece improved its international rating occupying the 42nd position compared to the 50th in 2005. A significant basis to reverse the reduced competitiveness is the tendency towards entrepreneurship and the high rate of SMEs creation in Greece[3]. Entrepreneurship in Greece is very much an 'Necessity Entrepreneurship', while the High Potential Entrepreneurship and Corporate Entrepreneurship Indicators (reflecting the innovatory character of businesses) are low [4].

According to comparative European-wide analyses, our country comes: 1st in self-employment, 7th in open capitalization of enterprises (listing on the stock-exchange), 8th as regards the share of new enterprises in the total number of enterprises, 6th as regards the total "tendency towards entrepreneurial activities" (above both EU-15 and EU- 25 average), 11th in enterprises 'start-up' rates, 8th as regards the enterprises net rates (start-ups minus 'deaths'), at the top of the EU-15 classification excluding Ireland and Luxembourg and 18th as regards venture capital to GDP ratio. Moreover, Greece is ranking last in venture capital lending terms, 13th in the e-public service to e-business ratio (ahead of Netherlands and Luxembourg), 3rd from the end in total cor-

[3] Source: Operational Programme 'Competitiveness' 2007-2013
[4] Source: IOBE-GEM

porate taxation factor (ahead of Germany and Italy) and the total R&D expenditure expressed as GDP % and last in the turnover rate generated via e-commerce [5].
Greek SMEs are not considered competitive, with the exception of enterprises operating in sectors such as alternative tourism and transport or producing specialized products. According to the above mentioned research, the major competitiveness issues for Greek SMEs, in the opinion of body representatives, is the limited exploitation of scale economies, the lack of specialization and the absence of long-term planning.

With regard to Research and Technological Development (R&D), SMEs lag seriously behind their European counterparts in connecting entrepreneurship to innovation and in adopting ICT. The outcome is that our steadily increasing labour productivity does not sufficiently contribute to GDP rise. Greece's global performance is poor: It ranks 23rd in EU-25 (followed by Malta and Latvia) and 15th in EU- with regard to innovation performance with only 6 out of 24 indicators near the European average. Greece's weaker points are broadband penetration, life-long learning, corporate investment, venture capital, high tech exports, employment in intermediate and high tech processing, production of new products and, last but not least, patenting. At the same time, Gross Domestic Expenditure for Research and Development (GDERD) expressed as GDP rate was only 0.62% in 2003 and 0.61% in 2004, registering a steadily declining trend since 1999 though not in absolute expenditure terms. Finally, the productive sector's participation in R&D expenditure is very low (steadily 30%), with half of all research activities undertaken by universities while only 28% of the R&D investment is financed by the industry compared to 70.5% financed by the Public Sector. Slightly positive tendencies are unveiled by recent measurements: Increase of corporate R&D expenditure and a slightly increasing trend in corporate participation in the global R&D expenditure[6].

Despite the fact that 73% of the companies declaring to have research expenses are small, the majority of intra-corporate expenditure comes from big and medium size enterprises. This lagging has a predominantly regional dimension: Two of the thirteen Greek regions (Attica and Central Macedonia) take the lead in all sectors with Attica hosting 58% of total Gross Domestic Expenditure for R&D, 76% of corporate expenditure, 62% of public research institutions and 44% of universities and higher education institutions and Central Macedonia hosting 14.5% of total Gross Domestic Expendi-

[5] Source: WEF (World Economic Forum) Report, IMD Study in the World Competitiveness Yearbook 2006
[6] Source: Operational Programme 'Competitiveness' 2007 - 2013

ture for R&D, 10.5% of enterprises, 11% of public research institutions and 19% of higher education institutions [7].

The problem becomes more acute with regard to connecting human resources, innovation and entrepreneurship: Corporate research personnel increased slightly in 2001 compared to 1999 only to drop again in 2003. Half of the total 57,000 research and technical personnel are researchers. At the same time, enterprises' innovativeness and outward orientation are below the EU average. This fact reflects the defensive strategy followed at branch level, especially by declining branches with limited capacity as regards product and service mix renewal. Moreover, contribution to new knowledge generation, as a main coordinate of corporate strategies, is very limited and stagnant.

Generally, the main outline factors of the wider environment in which Greek SMEs operate are classified in 4 major categories: Political, economic, social and technological (Table 1.6).

[7] Source: Operational Programme 'Competitiveness' 2007 - 2013

Table 1-6: **Analysis of the POLITICAL - ECONOMIC - SOCIAL AND TECHNOLOGICAL ENVIRONMENT OF GREEK SMES**

Political Environment	**Economic Environment**
Recognition of SMEs role and significance in national economic development SMEs support becomes the focus of development strategy – Implementation of active SMEs support policies at national and European level Inability to implement policies aiming at the reduction of administrative charges imposed on SMEs (red tape, regulatory environment).	Stable macro-economic environment Family businesses represent the majority of businesses Greek enterprises are small SMEs face hard competition SMEs competitiveness and outward orientation is low compared to both international and European standards Entrepreneurship is driven by necessity and not by business opportunities Enterprises are concentrated in big urban centres. Entrepreneurship is oriented towards the end consumer (its character is shallow) Low productivity Small in-flow of Foreign Direct Investment High dependence on structural fund resources Increased numbers of self-employed entrepreneurs
Social Environment	**Technological Environment**
Low entrepreneurship among specific population groups (i.e. women) Low impact of entrepreneurship on employment Entrepreneurship is for older people (over 45 years old) Greek society has a controversial position with regard to entrepreneurship. Tendency to "demonize" entrepreneurship.	Lack of innovative products and services Low rate of investment in R&D Limited integration of new technologies in production processes Lack of R&D interconnection with the market.

2. SMEs CONTRIBUTION TO THE GREEK ECONOMY

SMEs play a key role in Greece's productive fabric and in shaping the Greek economic fundamentals. As regards individual economic branch contribution to the economy, the tertiary sector holds a leading position in terms of employment and Gross Value Added (GVA), followed by the secondary sector (Tables 2.1 and 2.2).

Table 2.1: **SMEs composition (%) in employment and Gross Value Added per sector**

Employment	1998	2001	2004	2005
PRIMARY SECTOR	18,0	16,1	12,5	12,4
SECONDARY SECTOR	23,3	23,0	22,4	22,4
Mines and Quarries	0,5	0,5	0,3	0,4
Processing industries	14,5	14,1	13,1	12,8
Electricity and Natural gas	0,9	0,9	0,9	0,9
Construction	7,4	7,5	8,1	8,3
TERTIARY SECTOR	58,7	60,9	65,0	65,2
Wholesale & Retail	16,8	17,2	17,5	17,8
Hotels and restaurants	6,2	6,6	6,4	6,8
Transportation and warehousing	6,1	6,3	6,2	6,2
Financial institutions	2,3	2,6	2,6	2,6
Others	27,3	28,2	32,3	32,3
Gross Value Added (GVA)	2000	2001	2004	2005
PRIMARY SECTOR	5,4	5,3	4,2	3,9
SECONDARY SECTOR	20,0	20,9	19,5	18,7
Mines and Quarries	0,4	0,4	0,4	0,3
Processing industries	9,8	9,9	8,6	9,2
Electricity and Natural gas	2,0	2,3	2,2	2,1
Construction	7,8	8,3	8,3	7,0
TERTIARY SECTOR	69,1	68,5	72,1	73,6
Wholesale & Retail	11,7	12,0	12,3	13,0
Hotels and restaurants	8,7	9,4	9,6	9,9
Transportation and warehousing	8,0	7,0	8,4	8,0
Financial institutions	5,1	4,1	3,6	4,0
Others	35,7	36,0	38,1	38,7

Source: Operational Programme 'Competitiveness' 2007 – 2013 (National Statistics Service)

Table 2.2: **Sector evolution over time**

	1999	2000	2001	2002	Total growth	change
MINES AND QUARRIES	1,7	2,0	2,2	1,8	35,3%	8%
PROCESSING	68,7	68,8	67,5	67,7	23,5%	-1,4%
ENERGY	6,4	5,7	5,4	5,5	7,0%	-14,6%
CONSTRUCTION	23,2	23,5	24,9	25,0	35,0%	7,8%
TOTAL					**25,28%**	

Source: Operational Programme ' Competitiveness' 2007 – 2013 (National Statistics Service)

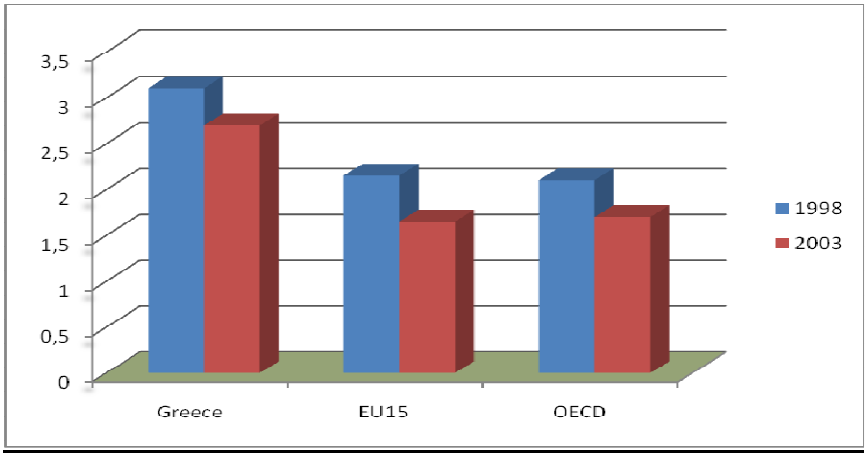
The Greek economy must turn to higher value added branches and upgrade the value added derived from the so-called "traditional" sectors.

3. CURRENT PROBLEMS AND CHALLENGES FACED BY SMEs

The typical, long-term SMEs problems, according to relevant research in Greece, are the following:

a) Lack of business opportunities,
b) The family-based character of financing business,
c) The difficulties of the so-called “family businesses” to evolve,
d) Administrative problems impeding the operation of newly-founded enterprises (Graph 3.1 and Table 3.1),
e) Lack of efficient SMEs support mechanisms and structures,

Diagram 3.1: **Market regulation indicator. Administrative hurdles faced by newly founded enterprises**



This indicator is based on a scale from 0-6 from less to more regulated markets.
Source: Operational Programme ‘Competitiveness’ 2007 – 2013 (data processing undertaken by the Global Entrepreneurship Monitor)

Table 3.1: **Administrative charges[1] as a GDP percentage (%) in EU-15 member-states.**

COUNTRY	ADMINISTRATIVE CHARGES
United Kingdom	1,5
Sweden	1,5
Finland	1,5
Denmark	1,9
Ireland	2,4
Belgium[2]	2,8
France	3,7
Germany	3,7
The Netherlands	3,7

COUNTRY	ADMINISTRATIVE CHARGES
Austria	4,6
Spain	4,6
Italy	4,6
Portugal	4,6
Greece	6,8

[1]Administrative charges imposed on businesses by the regulatory environment [2] Belgium and Luxembourg

Source: Bank of Greece - Governor's Report 2006

The main challenges faced by Greek SMEs during the next programming period relate to the adoption of a new sustainable small and medium size enterprise model, corresponding to current requirements in quality, innovation, new knowledge integration and openness. The main orientation points of Greek enterprises should be the following: **Penetrating new, bigger markets, improving inflows from "smaller" enterprises, increasing the production capacity, cost reduction, partnerships and appropriate networking.**

Furthermore, a modern and competitive SME must have the following characteristics:

- Investment in both capital and human resources, constituting the natural cradle of new skills and knowledge,
- Implementation of international standards and modern organisation, operation and management methods,
- Setting up of new access, information and product distribution networks,
- Connection with new knowledge production bodies, innovation poles and R&D institutes,
- Turning to new innovative products, new services and new domestic and foreign markets,
- Adopting a green attitude and having a corporate social responsibility orientation.

Greek SMEs relatively low competitiveness compared to their European counterparts seems to be connected to the underlying conditions of the Greek business environment. One in two Greek SMEs tries to defend itself against sales reduction by shrinking its production, while only one in four attempts to respond aggressively, using product upgrading and new product launching and marketing. On the contrary, one in two European SMEs responds aggressively by upgrading its production capacity, while only one in three adopts a defensive attitude.

Differences in SMEs strategy in every country are, in practice, expressed through differences in their investment orientation and especially technological investments. According to primary, experimental research data for the period 2000-2003, **41% of Greek SMEs having invested in technology,** turned mainly towards **simple computerization** of their administrative functions, while only 19% invested in advanced technological equipment and new production technologies. Yet fewer enterprises

(**10%**) **have invested in product planning technologies**, which require advanced know-how and training.

According to the research, 4 out of 10 very small SMEs and up to 6 out of 10 bigger SMEs applied during the last four year period for participation in one of the national or European financing programmes. 50% of the applicants were successful.

4. POLICY MEASURES IN FAVOUR OF SMEs

Policy field selection is a function of the Revised Lisbon Strategy targets and of the SMEs Chart. Based on the above, **Greece should focus its national policy on six national policy fields: Business environment improvement, reinforcement of entrepreneurship and openness, technological innovation and research, information society, sustainability and human resources** (Table 4.1).

Table 4-1: National Policy fields for Greek SMEs based on the Revised Lisbon Strategy targets and the SMEs Chart.

	LISBON TARGETS	INTERVENTION AREAS BASED ON THE SMEs CHART	POLICY FIELD (GREECE)
1.	**1.1.** BUSINESS ENVIRONMENT IMPROVEMENT: ESTABLISHMENT OF AN ENTERPRISE / REGULATORY ENVIRONMENT **1. 2**. ESTABLISHMENT OF EFFICIENT AND INTEGRATED FINANCIAL SERVICES	**1.**Taxation and financial issues **2.**Education and training for entrepreneurship **3.**Cheaper and faster business launching – simplification of the procedures required to found an enterprise **4.**Improved legislation and regulations	BUSINESS ENVIRONMENT IMPROVEMENT:
2.	**2. 1.** SINGLE MARKET LIBERALISATION AND INTEGRATION **2. 2.** ENTERPRISE NETWORK SUPPORT	Drawing more benefits from the single market	REINFORCEMENT OF ENTREPRENEURSHIP AND OPENNESS
3.	R&D, INNOVATION	Reinforcement of small enterprises technological capabilities	TECHNOLOGICAL INNOVATION AND RESEARCH
4.	GUARANTYING ACCESS TO THE SOCIETY OF INFORMATION TO ALL THE CITIZENS	Improvement of access to direct internet connection	SOCIETY OF INFORMATION
5.	ENCOURAGING SUSTAINABLE DEVELOPMENT		SUSTAINABILITY
6.	SOCIAL EXCLUSION	Availability of capabilities	HUMAN RESOURCES

Source: EuropeanProfiles (uniform data processing)

According to the measures classification included in Community Initiatives, Sectoral and Regional Programmes per policy target and medium used, 354 measures have been implemented in Greece in favour of SMEs. By way of example, a total of 64 actions aimed at improving the business environment have been implemented, in the framework of Community Initiatives, Sectoral and Regional Programmes. 37 out of these 64 actions aimed at infrastructure improvement or development (18 in the framework of the OP COM, 17 in the framework of Regional Operational Programmes, 1 in URBAN, 1 in Information Society); 23 actions with support operations (6 in OP COM, 4 in ROPs, 2 in INTERREG, 4 in EQUAL Community Programme, 4 in OP Initial Vocational Training Programme (EPEAEK); 3 of these 64 actions have been implemented in the framework of Micro Enterprises (ME) and SMEs financing support mechanisms development by launching new financing tools (all 3 in the OP 'COM') and, last, 8 actions were aimed at information and sensitization activities. Moreover, a total **134 actions** have been focused **on reinforcing entrepreneurship and openness.** 104 of these 134 actions were implemented by means of financial grants (27 OP 'COM', 57 in the Regional Operational Programmes, 13 in the Information Society, 6 in INTERREG and 1 in LEADER+), 12 actions focused on the establishment of enterprises (3 in the OP 'COM', 2 in the Regional Operational Programmes, 2 in URBAN and 5 in the OP Initial Vocational Training Programme (EPEAEK); 10 actions were implemented through support operations (7 in the Regional Operational Programmes, 2 in INTERREG and 1 in URBAN). Last, there was one training action (OP Initial Vocational Training Programme) and 7 actions for information exchange and sensitization actions. Finally, actions related to **Technological Innovation and Research, Information Society development, sustainability support** and **human resources improvement** have been examined in detail (Table 4.2).

Table 4.2: **National Policy Measures and Instruments to strengthen SMEs**

INSTRUMENTS / OBJECTIVE	INFORMATION	INFRASTRUCTURE	FINANCIAL AID	SUPPORT SERVICES	FINANCIAL TOOLS	EDUCATION-TRAINING	BUSINESS CREATION	FUNDING FOR PERSONNEL	TOTAL
IMPROVING BUSINESS ENVIRONMENT	8	37	-	23	3	-	-	-	71
STRENGTHENING ENTREPRENEURSHIP AND OUTWARD ORIENTATION	7	-	104	10	-	1	12	-	134
TECHNOLOGY INNOVATION AND RESEARCH	2	9	5	15	-	-	1	-	32
INFORMATION SOCIETY	4	6	1	7	-	7	1	5	31
SUSTAINABILITY	5	1	5	34	-	-	-	-	45
HUMAN RESOURCES	6	1	-	2	-	31	-	1	41
TOTAL	**32**	**54**	**115**	**91**	**3**	**39**	**14**	**6**	**354**

Source: European Profiles (uniform data processing)

Furthermore, successful implementation of the OP “COM” (Operational Programme “Competitiveness 2000-2006”) is expected to lead to the creation of approximately 70.000 new jobs, and the operation of the projects funded within its framework are set to create approximately 28.000 new jobs.

As to State aid, development law 3299/2004 is the main instrument for strengthening SMEs. According to the available data of the Ministry of Economy and Finance, 1.241 proposals of a total budget of 2 billion euros were approved in the period 2004-2006, and the approved funding stood at 820 million euros. The number of jobs to be thus created is estimated to reach 6.500. Out of the approved investments, 60% concerned manufacturing, whereas 30% concerned tourism. The region of Crete ranks first in terms of number of approved investments (264), followed by Central Macedonia (140) and Western Greece (119). SMEs were also strongly supported by the OP “Information Society”. Finally, SMEs received significant funding through the Regional programmes.

Some of the most important political initiatives and institutional interventions that have been undertaken through the course of previous years to boost competitiveness among SMEs are the **tax reform**, by which corporate tax rates are gradually being reduced by 1/3 during this 3 year period, and the **Public-Private Partnerships** (Act 3389/2005), creating the framework for the wide implementation of services and the undertaking of utilities projects in collaboration with and co-funded by the private sector. Also, the Act (3325/2005) on **the licensing of Processing undertakings** and **the bill on the licensing of enterprises in the sectors of Commerce and Services** strengthen entrepreneurship and enhance business competitiveness, just like the **“one stop shops” provided by Chambers**, in the government bill on the **General Trade Register** and the promotion of the **Industrial Regions** network expansion.

On the basis of the **National Reform Programme for Growth and Jobs (2005-2008)**, a series of horizontal policies and measures for strengthening competitiveness among SMEs have been designed for the following programming period (2007-2013), such as increased participation of SMEs in the National Strategic Reference Framework (NSRF) 2007-2013 through design and implementation of measures adapted to their special needs and prospects, and implementation of a special assessment scheme for the impact of legislation on SMEs within the promoted assessment system for the impact of legislation on economy and enterprises.

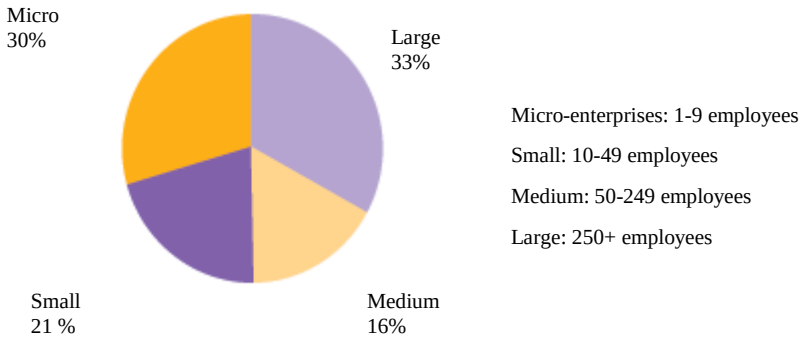
As to specific areas of economic activity, **Industry** constitutes a vital part and continues to play a key role to the economic growth of Greece given that, apart from its contribution to the productive sector, it is linked with and supports the Services sector de-

velopment. The structural changes in economy, the enlargement of the European Union, the opening of world markets and the strong competition from third countries pose new challenges and opportunities for the Greek industry. Finally, it is noted that **tourism** is a "leading" sector for the country's development policy due not only to our comparative advantage (natural and cultural wealth and tradition in hospitality) but also to tourism's multiple interaction with other sectors. The benefits are multiple for the national economy, whereas the effects at a regional and local level are important for many areas of the country. The policy on **tourism** aims at upgrading, expanding and enriching the tourist product through structural interventions within a long-term (10 years) strategy.

5. DEVELOPMENTS IN SMEs BUSINESS ENVIRONMENT AT A EUROPEAN AND INTERNATIONAL LEVEL, OPPORTUNITIES-PROSPECTS FOR GREEK SMEs

SMEs' contribution to growth and employment all over Europe is crucial. Some 25 million SMEs constituting 99% of all European enterprises employ approximately 95 million people, providing 55% of the total number of jobs in the private sector (chart 5.1).

Chart 5.1: **Business Classification in Europe**



Source: Observatory of European SMEs, Flash No 196. The survey was conducted from November 17th to December 15th, 2006 on a sample of 16,339 SMEs in EU-27.

An illustrative example is that, in 2003, SMEs in EU-19 employed 57% of the total number of employees and 82% of the private sector employees. Respective figures for the USA were 43% and 89%, whereas in Japan, SMEs accounted for 38% of the

country's total number of employees and 57% of the private sector employees. (Table 5.1)

Table 5.1: **SMEs structure in USA, Japan and EU**

	Micro-enterprises	Small	Medium	Total	Large	Total
USA						
Number of enterprises (thousand)	19.988	1.009	167	21.164	59	21.223
Employees (thousand)	27.872	20.061	15.660	63.593	55.042	129.635
Employees per enterprise	1	20	94	3	1.119	6
JAPAN						
Number of enterprises (thousand)	-	-	-	4.690	13	4.703
Employees (thousand)				25.601	12.676	38.277
Employees per enterprise				5	975	8
EU						
Number of enterprises (thousand)	17.820	1.260	180	19.270	40	19.310
Employees (thousand)	55.040	24.280	18.100	97.420	42.300	139.710
Employees per enterprise	3	19	98	5	1.052	7
Europe (19-2003)						
Number of enterprises (thousand)	17.820	1.260	180	19.270	40	19.300
Employees (thousand)	55.040	14.280	18.100	97.420	42.300	139.710
Employees per enterprise	3	19	98	5	1.052	7
Dominant size	Medium					

Source: Observatory of European SMEs, SMEs in Europe2003, VOL.7, 2003

Each European enterprise provides an average of 7 jobs—a number varying from 3 in small enterprises to over 1.000 in large ones. There are also great discrepancies between countries. An enterprise employs on average 2 people in Greece, 3 people in Italy and Lichtenstein, whereas 10 people in Ireland, Luxembourg and the Netherlands. Micro-enterprises enterprises employ a hundred times more people than medium size enterprises, namely 55 million employees, whereas medium enterprises offer employment to 18 million people. The diversities become even more apparent when it comes to the turnover or the added value per enterprise. The diverse internal environment of SMEs in the EU has been intensified after the enlargement adding 6 million enterprises, the majority being small and micro-enterprises and providing 72% of total employment (Table 5.2).

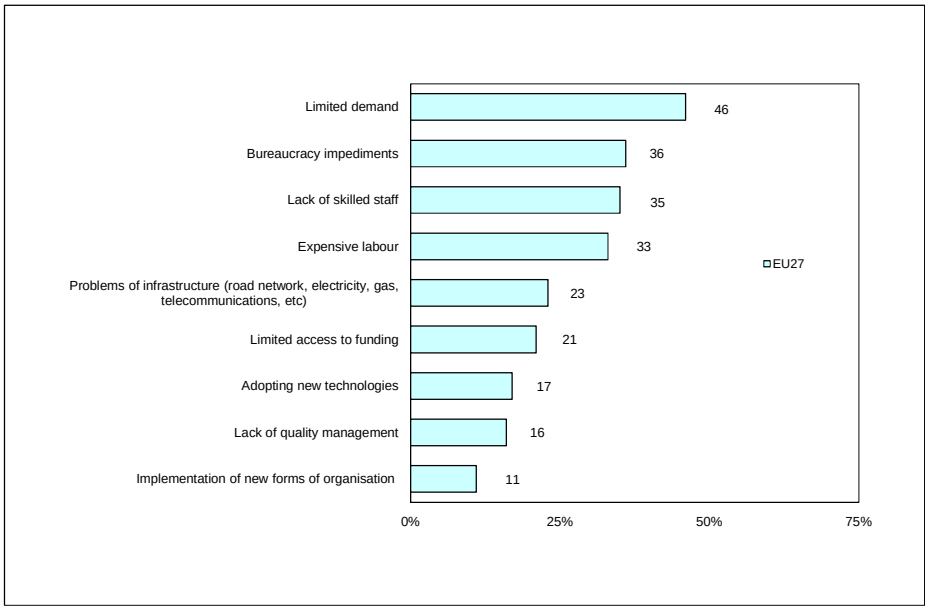
Table 5.2: **Turnover and number of employees per size of SME**

		2005 Turnover (thousand €) / enterprise	2005 Number of employees / enterprise
	EU27	1.724	7
Size of SMEs	1-9 employees	1.151	4
	10-49 employees	3.657	20
	50-249 employees	16.847	100
	250+ employees	205.901	1.278
Economic Sector	Industry	1.828	10
	Construction	1.382	7
	Commerce	2.685	6
	Hotels – Restaurants	685	8
	Transport - Logistics	1.290	7
	Financial Services	1.521	5
	Real estate	1.145	6
	Health & Welfare	404	7
	Other Services	2.003	7

Source: Observatory of European SMEs, Flash No 196.

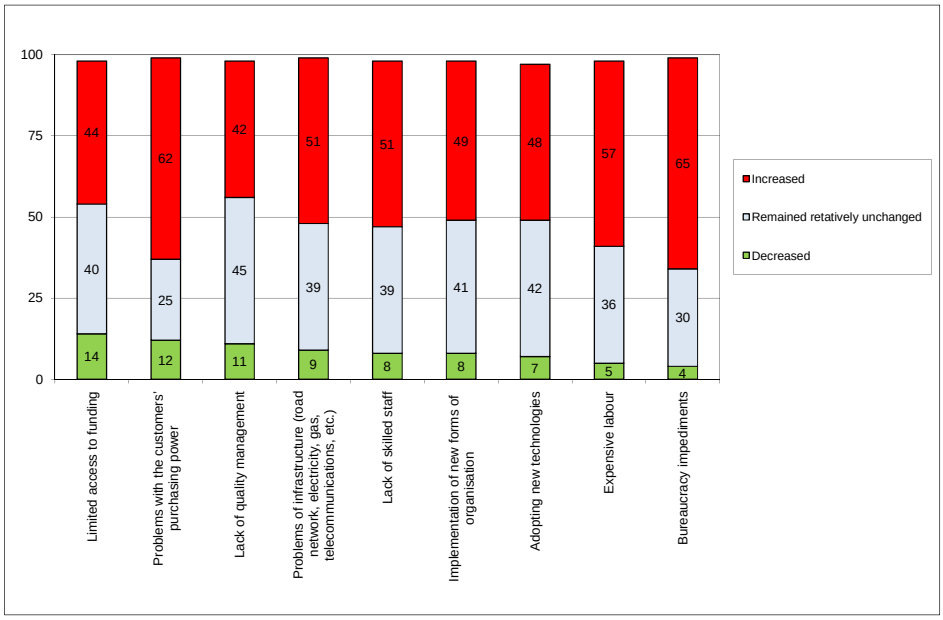
The structure of SMEs in the new countries of the EU presents similar attributes to the ones of the Mediterranean countries, namely small size, large number of self-employed persons, small early-stage capital. Of course, this data should be considered along with several other traits of these countries, such as low labour cost, low taxation, etc. Although they are important to national economies, according to a recent Eurobarometer survey (2005-2006), SMEs face serious restrictive factors limiting their growth, such as: limited purchasing power of the consumers, excessive administrative arrangements, lack of skilled staff, overregulated business environment, lack of knowledge of the foreign markets, hence import taxes and lack of capital (Chart 5.2, Chart 5.3)

Chart 5.2: **Business Activity Impediments (reference years 2005-2006)**



Source: Observatory of European SMEs, Flash No 196.

Chart 5.3: **Progress of Business Activity Impediments (2005 – 2006)**



Source: Observatory of European SMEs, Flash No 196.

Finding and recruiting the right personnel seems to be the biggest challenge for European SMEs. This is clearly illustrated by the fact that 5% of posts remained vacant last year (2006 data). As to business performance, according to a Eurobarometer survey (2005), a SME has an average turnover of approximately 1 million Euros. Turnover per employee differs among economic sectors and ranges from 59 thousand Euros in the Health sector to up to 405 thousand Euros in Commerce. Business performance appears visibly improved in 2006, especially in the new member-states (12% increase of the early -stage capital since 2005). At a pan-european level, the average increase was 10%.

The Common European Market offers important opportunities for the development of SMEs business activity (Table 5.3, Table 5.4, Table 5.5).

Table 5.3: **SME structure in Europe-19**

	Micro-enterprises	Small	Medium	Total	Large	Total
Number of enterprises (thousand)	17.820	1.260	180	19.260	40	19.310
Employees (thousand)	55.040	24.280	18.100	97.420	42.300	139.710
Employees per enterprise	3	19	98	5	1.052	7
Turnover per enterprise (thousand €)	440	3.610	25.680	890	319.020	1.550
Added value per enterprise (thousand €)	120	1.180	8.860	180	126.030	540
Export share in turnover (%)	9	13	17	12	23	17
Added value per employee (thousand €)	40	60	90	55	120	75
Share of labour cost in the added value	57	57	55	56	47	52

Source: Observatory of European SMEs, SMEs in Europe 2003, Vol. 7, 2003

Table 5.4: **Data on SMEs in Europe (19) per economic sector**

	Number of enterprises (thousand)	Employees per enterprise	Dominant SME size	Added value per employee	Profitability	Export orientation
Mining Industry	50	38	Large	112	-1	-2
Craft Industry	2.250	16	Small-medium	81	-3	-12
Construction	2.280	6	Micro	96	0	-1
Wholesale Trade	1.510	6	Micro	96	-1	1
Retail Trade	3.740	5	Micro	96	-2	0
Transport	1.040	10	Large	76	-10	-1
Production Services	4.310	6	Large	69	-10	-2
Personal Services	4.140	5	Micro	83	0	-1
Non-primary Private enterprises	19.310	7	Micro	74	-9	-4

Source: Observatory of European SMEs, SMEs in Europe 2003, Vol. 7, 2003

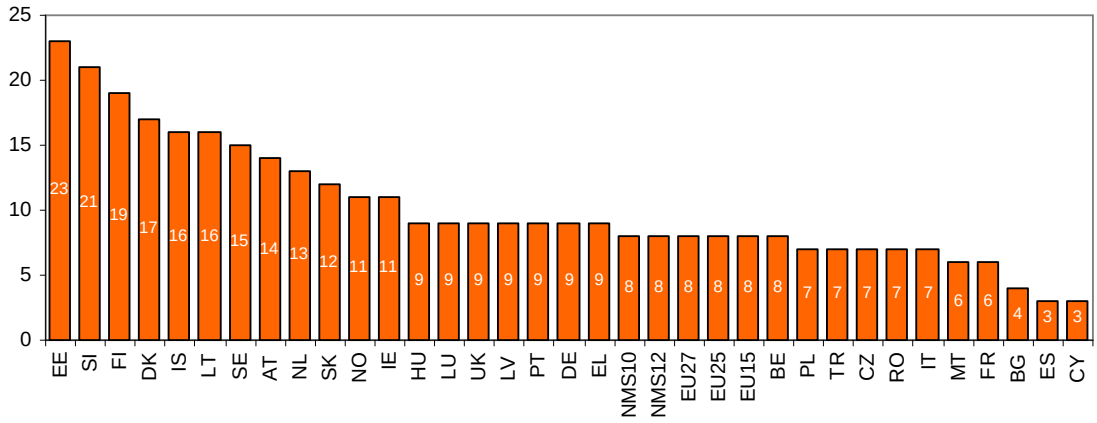
Table 5.5: **Indicators of Micro-economic Competitiveness**

	Indicator of micro-economic competitiveness		Business Strategy and Activity		Quality of business environment	
	2004	2006	2004	2006	2004	2006
USA	1	1	2	1	2	2
Finland	2	2	7	9	1	1
Germany	3	3	1	2	5	4
Sweden	4	12	5	7	6	14
United Kingdom	6	6	8	6	4	8
Denmark	7	4	9	4	3	3
Japan	8	8	3	3	11	10
Netherlands	9	9	6	8	9	8
France	12	11	10	10	16	11
Belgium	14	16	11	12	19	17
Austria	16	10	14	11	17	9
Ireland	22	19	22	16	22	20
Spain	26	25	25	25	27	26
Estonia	27	26	34	33	24	25
Slovenia	31	32	27	27	33	35
Italy	34	38	26	28	43	39
Czech Republic	35	27	31	29	37	27
Portugal	33	30	42	39	31	28
Lithuania	36	41	37	41	35	41
Slovakia	39	39	41	47	39	48
Hungary	42	30	48	40	38	32
Greece	41	40	40	42	42	40
Turkey	52	51	44	38	55	51

Source: Global Competitiveness Report 2004, 2006

Globalization of markets constitutes European SMEs' modern growth component. As to the globalization of European SMEs, three different factors are being studied in a relevant survey conducted by the Observatory of European SMEs: exports, inputs (intangible, energy, capitals, etc.) purchased abroad, business holdings abroad. The survey findings show that a great number of European SMEs does not **export** at all. In total, almost one out of ten enterprises has export earnings. Unlike small and "open" markets that report a higher rate of export earnings (e.g. Estonia 23%, Slovenia 21%, Finland 19%), SMEs in large markets report too low export rates, e.g. Spain 3%, France 6% (Chart 5.4).

Chart 5.4: **Rate of enterprises (%) with export earnings (2005)**



Source: Observatory of European SMEs, Flash No 196.

The general trend shows a 12% increase in the SMEs export value in 2006 from 2005. As to **inputs (intangible, energy, capitals, etc.) purchased abroad**, 12% of inputs used by SMEs is purchased abroad. It is clear that the bigger the size of the economy, the lower is the input rate purchased abroad. Only 5% of SMEs report earnings from **holdings abroad**, through subsidiary or joint-venture companies. The main reasons leading enterprises to do business abroad are: proximity to final customers and/or other important business parties (e.g. suppliers), lower labour cost, lower taxation and fewer regulatory hurdles.

As to domestic competition, 60% of SMEs "feel" that competition has been intensified over the last period (2005-2006). In response to the increasing competition, enterprises implement strategies aiming at improving the quality of products, diversifying products and intensifying marketing actions. The survey shows that the bigger the size

of an enterprise, the higher the likelihood to capitalize income from innovation. However, 37% of SMEs report no income from new or improved products.

Creation of new enterprises and innovation development are the main tenets of the Lisbon Strategy (Table 5.6), revised in 2005 to Growth and Jobs Strategy.

Table 5.6: **Lisbon objectives compared to USA and Eastern Asia**

	EU-25 Average	USA	EASTERN ASIA	EU-25 average compared to the USA	EU-25 average compared to Eastern Asia
Information Society	4.58	5.63	5.41	-1.05	-0.83
Innovation and R&D	4.24	6.01	5.23	-1.78	-0.99
Market Liberalization	4.92	5.21	5.13	-0.29	-0.21
Business Networks	5.36	5.72	5.96	-0.36	-0.59
Finance	4.59	5.97	5.54	-0.37	0.06
Business environment	4.40	5.21	5.11	-0.63	-0.52
Social Exclusion	5.05	4.58	4.87	-0.18	-0.47
Sustainability	4.84	5.26	5.02	-0.21	0.03
Total Score	4.84	5.45	5.28	-0.61	-0.44

Source: The Lisbon Review 2006 .Measuring Europe's Progress in Reform. World Economic Forum

In order to assess progress made in this direction, indicators measuring enterprises' survival rate are being studied. Romania, an EU-member since the beginning of 2007, is the country with the highest rate in the setting up of enterprises, whereas Switzerland is the country with the lowest rate. The highest rate of opening businesses in 2003 belongs to the sector of construction (11%), whereas services (9%) have a higher rate than industry.

In the modern globalised environment, enterprises should always introduce new products and services and develop their business strategies to meet market requirements, in its turn resulting in the need to constantly adjust organisational structures and business procedures. Innovation requires new administrative procedures, new instruments, new information systems, training, new values and, at the same, effective integration of all the aforementioned parameters.

Europe is less attractive to enterprises that wish to invest in R&D due to the fragmentation of Public Research. Private sector is expected to participate in the increase of

R&D expenditure by two thirds (3% of EU's GNP). Enterprises in the EU increased their total R&D expenditure by more than 5% in 2006; still, respective increase was higher for companies outside the EU. At the same time, performance is lower in terms of transforming scientific knowledge and discoveries to patented inventions, especially inventions needed by high-tech industries.

Participation of SMEs in Research and Technological Development for the period 2002-2006 was funded by the 6th Framework Programme for Research, Technological Development and Demonstration (2002-2006), (6th FP-RD). In this framework, SMEs had the opportunity to participate in the thematic area of the special Programme "Integrating and Strengthening the European Research Area", the objective being to allocate 15% of the budget, that is at least 1,86 billion €, to SMEs. For the following period 2007-2013, R&D is funded by the 7th FP-RD and the Competitiveness and Innovation Framework Programme (CIP), (2007-2013). SMEs are the main beneficiaries of these programmes, since they are acknowledged as an important source of business skills and innovation and contribute to economic and social cohesion. In addition, the 7th FP for research and technological development pays particular attention to SMEs through Programmes such as "Cooperation" (some 32 billion €), "Ideas" (some 7.5 billion €), "People" (some 4.7 billion €), "Capacities" (some 4.3 billion €).

Taxation is generally high in the EU, and tax rate differs from country to country. An illustrative example is that the tax rate reaches 51% in Sweden, whereas in Romania it is 28%. Therefore, although enterprises may benefit from an enlarged economic area and a single currency, corporate tax is not harmonized at Community level. The EU is seeking to simplify customs procedures, mainly through the implementation of an electronic system allowing enterprises to have access to an electronic customs environment, without printed forms.

Rapid changes in the modern business landscape at a national and international level call for an integrated adjustment of SMEs, in order for them firstly to survive and then achieve a long-term sustainable growth. **Perhaps the biggest challenge for Greek SMEs is to benefit from their active participation in the common European and international market**. Following the last EU enlargement, the European market counts more than 450 million consumers. This huge potential creates profitable prospects for SMEs that will abandon their traditionally local character and develop their outward orientation. Enterprises should constantly seek to be informed on possibilities and opportunities to enter international markets, especially markets that still have a significant growth potential (e.g. Eastern Europe). **The competitiveness programmes promoted by the 4th CSF and EU's structural policies, as well as the**

important institutional reforms promoted by the State in order to strengthen the wider business environment and competitiveness in the Greek economy constitute a great opportunity for SMEs. SMEs ought to redefine their business culture according to the new business environment, to abandon the traditional operation model and embrace modern forms of development.

6. THE EUROPEAN POLICY NEW GUIDELINES ON SMEs

The Lisbon Strategy constitutes a "point of reference" for European policies on competitiveness. This Strategy focuses on creating the Knowledge-based Society, completing the internal market, ensuring a favourable business environment, boosting employment thus enhancing social cohesion and strengthening sustainable growth and environmental protection.

Also in 2000, in order to give small enterprises of the EU the opportunity to play their role in achieving the Lisbon objective, the leaders of member-states adopted the European Charter. Within this framework and on the basis of the open method of coordination, member-states were invited to take measures on ten main areas in order to support small enterprises. These areas involve: (1) Education and training for entrepreneurship, (2) Cheaper and faster start-up, (3) Better legislation and regulation, (4) Availability of skills, (5) Improving on-line access, (6) More benefits out of the Single Market, (7) Taxation and financial matters, (8) Strengthening the technological capacity of small enterprises, (9) Successful e-business models and top-class small business support, and (10) Developing a stronger and more effective representation of small enterprises' interests at Union and national level.

The Report from the Commission to the Council and the European Parliament on the implementation of the European Charter for small enterprises announced on February 2005 examines in more detail the progress made in **three priority areas**, which were selected out of the Charter's ten areas. Emphasis was placed on the measures' effectiveness on the basis of **interaction between education and entrepreneurship**, **better regulations** (notably impact assessment and bankruptcy law), and **lack of skills** (notably measures to make up for the lack of skilled technicians and engineers). Study of progress in the area of entrepreneurship education, particularly secondary education, shows that although entrepreneurship education has a horizontal dimension, the first necessary step is to create "official" links between the different areas of public administration, mainly the Ministries of Finance and Education, with the aim to draft a comprehensive strategy. Even though there are some good examples (an interesting example would be Austria, where there's a systematic use of practice firms in secon-

dary vocational education), active promotion measures have so far been taken on a limited basis. Insufficient provision of specific training to teachers remains a problem.

Member states are gradually revising educational and training policies and making them more responsive to current and anticipated structural changes in the labour market. Apprenticeship systems are updated, made more attractive (France) and more responsive to market needs (Austria). Moreover, technical education is strengthened and informal education is increasingly being formally recognized. The importance of lifelong learning is often underlined, though few countries have outlined a comprehensive system to promote it. New learning possibilities, e.g. e-learning and clustering of training provision, are only explored in a few countries such as Ireland, Slovenia and the United Kingdom.

Apart from the efforts of individual member states, the European Commission adopts in its turn Multiannual Programmes for Enterprises and Entrepreneurship, as a mechanism for strengthening strands of the European Charter on SMEs, which along with the aid granted through the Structural Funds, allow member states to apply policies and implement interventions in order to meet the commitments set out in the Charter and the Lisbon Resolution.

Best practices in respect of the Charter implementation constitute a major reservoir of knowledge. Within the framework of efforts to detect and discuss best practices, focus for the period 2006-2007 was placed on the three following areas: (a) Cheaper and faster start-up, notably by the creation of “one-stop shops”, (b) Improved on-line access to administrative services (e-Government), (c) Taxation. Apart from best practices, an additional instrument for implementing the European Charter is the multiannual Programme for enterprise and entrepreneurship (MAP) 2001-2006, which for the said period has a budget of 512 million € for financial instruments.

The successor Competitiveness and Innovation Programme (CIP), approved in October 2006, aims at helping innovative, high growth SMEs in their early and expansion stage of development to access appropriate financial instruments. Its budget is **3,621.3** million €, out of which **60%** for the programme **“Entrepreneurship and innovation”**, **20%** for the programme **“Information and Communications Technology Policy Support” (ICT)** and **20%** for the programme **“Intelligent Energy – Europe”.** The CIP will combine Community actions in the areas of SME entrepreneurship, industrial competitiveness, innovation, development and use of ICT, environmental technologies and intelligent energy.

In order for actions to be taken in favour of small enterprises and entrepreneurship, the Council adopted the **"Green Paper on entrepreneurship in Europe"**. According to the Paper, a concerted approach is required by all entrepreneurship policy makers, due mainly to its horizontal nature. Exchange of experiences between member states is also considered necessary, since performance varies and the effectiveness of policy measures is significantly influenced by the different national and regional framework. The **Action Plan for Boosting Entrepreneurship** adopted in 2004 provides a strategic framework for enhancing entrepreneurship and contains 5 strategic areas for entrepreneurship in Europe: Boosting entrepreneurial culture, Encouraging more citizens to become entrepreneurs, Steering enterprises towards growth and competitiveness, improving the flow of funding for SMEs.

The Actions financed by the structural funds during the period 2007-2013 focus on strengthening competitiveness through the development of innovation and knowledge-based economy, which will help SMEs in particular and encourage entrepreneurship boosting. Another instrument for strengthening European SMEs is the European Social Fund (ESF). For the period 2007-2013, ESF will link funding to policies that will contribute to increasing employment and strengthening economic and social cohesion in the framework of European Employment Strategy.

Each member state's best practices for strengthening SME competitiveness, productivity and innovation are considered by the European Council an important source of knowledge and a significant contribution to each country's effective implementation (planning, implementation, monitoring, assessment) of actions to benefit SMEs.

7. SMEs NECESSARY ADJUSTMENT TO NEW DEVELOPMENTS

Enterprises small size often leads to low production capacity and difficulty to operate in the enlarged "internal market" of the EU-25 and the Balkans, limited exploitation of the economies of scale in production and marketing, limited opportunity for highly investing in new technological equipment, incapacity in monitoring developments in domestic and foreign markets and difficulty in accessing the banking system, which is intensified by the non-development of alternative financial instruments.

The fact that the majority of Greek SMEs uses own funds instead of bank loans or other investment funding brings out the **weak investment support** provided by the Greek institutional framework to SMEs, the Greek financial system's inflexibility and its inability to meet SMEs' specific needs. At the same time, Greek SMEs exploit no more

than 3% of the Community and national programmes for technological development and training, whereas other regional economies of the EU exploit 20%.

According to the technology readiness index (a competitiveness sub-indicator), Greece suffers a serious shortfall, occupying the 46th place out of 117 countries, thus being the last among the countries of the EU-25. Some significant factors influencing this index are **the insufficiently developed legal framework on the use of information and communications technology, as well as the low rate of computer and internet users in Greek enterprises**. An illustrative fact is that a large number (49%) of Greek SMEs employing less than ten (10) people do not use computers, while 66% of the computers are not connected to a network.

The **low rate of ICT penetration** to Greek SMEs results in the inability of the Greek economy to exploit new technologies and become competitive. Finally, **innovative entrepreneurship** is one of the areas in which **Greece** shows **mixed performance**. So, while Greece occupies one of the last places in terms of internal innovative activity and co-operations for innovation and innovative products, the most recent Eurostat survey on enterprise innovation (Innovation Scoreboard, 2006) shows that it ranks second in terms of innovation expenditure (% on sales). The rate is 3% for Greece, whereas 3.5% for pioneering Sweden and an average of 2% for the EU-15 member states. However, the survey findings on **venture capital investment activity** for 2005 are disappointing, since Greece ranks **last** among the 18 EU-25 member states for which there are available data. Total venture capital investment was no more than 0.06% of the GNP in 2005, whereas the average EU-16 reached 14%.

It is underlined that **works and policies initiatives that have developed into best practices** at a European level in the areas of single market, support of enterprises and e-business can prove useful to our country as well. The conclusion drawn from recording best practices at a European level and following-up the existing situation in Greek SMEs is that Greek small and medium-sized enterprises **need to turn to technologies that will offer solutions to their organisational and operational problems**. SMEs also need to use an integrated approach in matters of information technology, so that modernisation begins by the crucial areas of organisation, and each application that follows links and operates seamlessly with the existing ones. Furthermore, each application should integrate all business departments. What the majority of Greek SMEs need is a **modern, consolidated operation, with access to detailed and authoritative information**. It is also necessary to have a long-term plan to renew information applications used by the enterprise, which will be directly linked to the

wider business strategy. Also important is the **integration of all information systems** of the enterprise into a single platform to maximize their effectiveness.

At the same time, Greek SMEs should **invest in new skilled labour** as well as in training of the existing staff, by taking advantage of the ongoing sponsored seminars. Finally, it should be noted that all the above cannot be implemented individually and independently, but need to have the support of the competent government entities for strengthening and encouraging entrepreneurship through an action plan including policies, measures, appropriate regulations, grants, instruments and convergence with European best practices.

8. POLICY PROPOSALS TO SUPPORT SMEs

The proposed policies objective is twofold: on the one hand to support SMEs to effectively deal with their weaknesses, on the other hand to help them "entrench" their competitive advantages. The proposed actions refer to three wider areas:

a) actions aiming directly at strengthening SMEs,

b) horizontal actions aiming at strengthening Greek SMEs' business environment (e.g. infrastructure, entities supporting SMEs) and

c) horizontal actions aiming at a wider social cohesion and upgrading.

The benefits from implementing actions of case (a) have a direct impact on SMEs, whereas actions of cases (b) and (c) have indirect, although widely shared, benefits, but are very important to the sustainable growth of SMEs and of the Greek economy in general.

9. THEMATIC UNITS

9.1. *ENTITIES SUPPORTING SMEs*

In Greece, there are currently over 100 entities supporting SMEs, their main objective being to provide services to enterprises. These entities can be divided into six categories: **chambers, industrial organizations, professional federations, industrial federations, industrial associations and other entities**. The general support services provided by the aforementioned entities mainly regard: providing general information to their members, providing consulting services, mediating for national and Community financial aid, implementing specialized actions to strengthen SMEs com-

petitiveness, such as SME internationalization, strengthening their export orientation, implementing research, cultivating entrepreneurship, representing economic groups to the State and the relevant social partners and mediating for the adoption of policy measures strengthening entrepreneurship.

In spite of the accumulated experience on the operation of these entities, the existence and maintenance of many supporting entities without always distinct responsibilities has been found to create confusion among enterprises users, resulting to them losing their trust. The involvement of many different entities in SME support actions results to enterprises being ignorant and confused as to which entity they should apply to for help, insufficient exploitation of available help resources, overlapping of the services offered by these entities in terms of information of the public, inability to conduct policies, high cost and time-consuming procedures for SMEs.

According to the answers given during a survey conducted within this exhibition on how important SMEs think is the work being done for their support by the different entities, EOMMEX and exhibition entities present the best picture with some 50% positive or very positive views, followed by the Ministry of Development with 42% positive views, whereas trade unions are left behind, with no more than 18% positive views among entrepreneurs.

During the period 2000-2006, SMEs were strengthened through the Priority Axis (PA) 1: Improvement of Business Environment of the Operational Programme “Competitiveness”, which set as its key objective to create regional entities supporting business activity, notably SMEs of the Manufacturing and Tourism Sector. The COP created an additional network of support entities, its components being the KETA (Business and Technology Development Centers), the KYE (Investors Reception Centers) and the Observatory for SMEs, having as key objectives to inform and cultivate entrepreneurship, monitor SMEs’ competitiveness, individually support and create a unit of business advisors, organise the provision of business services, mediate for and exploit financial instruments, support internationalisation and export orientation. Within the framework of the new programming period 2007-2013, it is considered necessary to cluster entities and develop synergies under the form of a single network. This translates into reorganisation and merging of the overlapping entities, adopting the logic of strategic development planning, strengthening of SMEs’ ties with the existing infrastructure that generates know-how, and foresight development (use of benchmarking methods). This conclusion was drawn after an exhaustive study of the Greek and the rest European experience.

9.2. *SMEs OUTWARD-ORIENTATION AND INTERNATIONALISATION*

According to the special quantitative research findings, some important factors in strengthening Greek SMEs' outward-orientation and internationalisation are: access to know-how and technology, access to extra production capacity and access to capitals. However, access to capitals is not considered one of the major factors, with the exception of some SMEs, notably in the fields of biotechnology where access to funding through licensing agreements or long-term supply agreements (programming agreements) with large multi-national companies constitutes an increasingly significant incentive.

It is also underlined that, despite the fact that big companies can operate in many markets, entering the international market is a big step for smaller enterprises. SMEs are having trouble to penetrate international markets for many reasons, such as linguistic and cultural obstacles, differences in the regulatory and legal environment, etc. Moreover, most SMEs are not informed on specific opportunities fit for them. **Nevertheless, access to world markets may provide small enterprises with a number of business opportunities**, such as focusing on larger and new niche markets, exploiting scale and technology advantages, upgrading technology capacity, improving spread of risk, reducing and breaking the cost—R&D expenditure included, and finally, in many cases, accessing financial aid.

Obstacles and difficulties that keep SMEs from accessing world markets deprive businesses and domestic economies from significant profits. Many of these obstacles originate at the level of the national economy, institutions and general infrastructure. Competition policy, regulatory and legal framework, telecommunications infrastructure, policy on R&D and education are some of the factors determining whether SMEs are prepared for globalization or not. Other obstacles may also involve intellectual property, political risks, corruption and rule of law issues.

The proposals on cultivating an outward-orientation and internationalising SMEs include: improving SMEs' access to information about networking opportunities, increasing SMEs' participation to research networks and technology markets, supporting the emergence and maintenance of innovative clusters, promoting best practice policies which support business innovation and cluster development, enhancing SMEs knowledge on matters of intellectual property, facilitating the use of the intellectual property system by promoting the development of cost-effective mechanisms for application and resolution of intellectual property disputes, limiting impediments that keep SMEs from accessing world markets and, last, facilitating the understanding of international value-chains and of the way SMEs can benefit from them.