The Effects of the Financial Crisis on the Performance of Greek SME's

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Abstract

Small and Medium-sized Enterprises are considered key components of economic growth, income generation, export revenues and employment creation in developing, transitional and high income countries. Their impact as a group is considered to be extremely important. The consequences of the European debt crisis, however, have created a very tough environment for SME's. This paper aims to provide an overview on the subject of SME's, and analyse their role and performance in Greece. The results showed that SMEs account for a lion's share of the enterprises operating in the Greek economy, and that the severe recession has clearly affected their ability to survive. Some positive signs have been presented, but even the slightest recovery seems fragile.

Keywords: SMEs, small sized, crisis, Greece, role, enterprises.

1. Introduction

In the last five years, Greece has been experiencing the consequences of the European sovereign debt crisis, and although several structural reforms have been made, the economic situation remains pessimistic. This has created a very tough climate for a type of business entity that has been characterised as the 'backbone' of an economy, an 'engine of growth', and is regarded as being synonymous to 'innovation and entrepreneurship' in both developed and developing countries: the Small and Medium-sized Enterprises (World Bank, 2013). In addition, it would be misleading to assume that the world economy is based on the large multinational companies. Although it is extremely difficult to calculate the total number of SMEs, it has been estimated that they account for more than 95% of global enterprises and relatively 60% of the employment in the public sector (Edinburgh Group, 2012). Therefore, the current status imposes the study of these companies.
This paper aims to provide an overview on the subject of SMEs and analyse their role and performance in Greece, based on secondary data sources. More specifically it intends to:

i. Analyze the concept and importance of small and medium sized enterprises.
ii. Describe the policy measures that are implemented for the support of SMEs.
iii. Examine the performance of SMEs in Greece for the period 2010-2014.

The study is organized as follows. In the subsequent section the theoretical literature is presented, focusing on the definition, characteristics and importance of SMEs. This is followed by the description of the policy measures regarding the support of SMEs, the issue of financing and the challenges they face. The next session is devoted to analysing the performance of SMEs in Greece for the examined period. The final section contains the concluding remarks.

2. Theoretical Background

2.1 Definition, characteristics and importance

The concept of SMEs is designated with distinct terminology, depending on the country or the institution that reports their statistics (for example the World Bank or the United Nations Development Programme-UNDP) and no widely accepted definition exists (Gibson and Van der Vaart, 2008). The quantitative criteria that constitute a micro, small or medium sized company, vary according to a country's economy and the characteristics of its corporate sector. A common element in most economies is the number of employees, which is usually combined with other determinants (such as the company's assets or revenues). These standards are modified infrequently (ESCAP, 2009).

The upper and lower range limit of the "employee" factor may differ to such an extent that a country may regard an SME, as a company occupying fewer than 300 employees (for example Vietnam), while another (for example Egypt) as an enterprise having 50 employees (Ayyagari et al.,2003;Gibson and Van der Vaart, 2008). For the purposes of this paper the definition of SMEs according to the European Union (EU) is used. Based on the Commission Recommendation 2003/361/EC (European Commission, 2003), which updated the 96/280/EC Recommendation of 1996, the three criteria that determine the maximum values of SMEs are: the number of employees, the company's turnover and the balance sheet total. *Medium* sized companies occupy fewer than 250 employees, have an annual turnover that does not exceed 50 million euro, and their annual balance sheet total does not surpass 43 million euro. In the second article, it is specified that within the broad category, a *Small* company is described as an enterprise that employs fewer than 50 people and whose annual turnover and balance sheet total does not exceed 10 million euro. In the *Micro* category companies have fewer than 10 employees, while their annual turnover and balance sheet total does not exceed 2 million euro. As is appreciated, SMEs are a very heterogeneous group of companies, covering a broad spectrum of business activities, and operate in multiple markets. Furthermore, they feature many different types of organizational culture, entrepreneurial orientation, growth skills, labour force and capital. It should also be mentioned that in many economies, a substantial number of small and micro enterprises are part of the informal sector or the shadow economy (OECD, 2004). Although large firms have a commanding influence on aggregate economic activity, and each small company does not add considerably as a unit, SMEs impact as a group is extremely important (Cull et al., 2006; OECD, 2014). More specifically, although data may differ across economies, SMEs dominance in numbers is indisputable: they account for more than 95% of global enterprises and represent approximately 60% of employment in the private sector.

In the European Union (EU28) they represent 99,8% of all companies (in the non financial business sector) and 66,8% of the total employment (88,8 million people). At the same time, the amount of value added that was generated by SMEs was calculated to 58, 1% representing approximately 28% of the EU GDP (Muller et al., 2014). SMEs are also considered the key components of economic growth, income generation, export revenues and employment creation in developing, transitional and high income countries (Tewari et al., 2013). According to Hallberg (2000) the importance of such companies differs across countries, and even varies in the different stages of development of the same country. Moreover, their contribution to GDP depends on each economy: for the low income countries it has been estimated at about 16% of GDP (the phenomenon of large number of companies that belong to the informal sector occurs) and for high income countries it has been reckoned at 51% of GDP (Edinburgh Group, 2012). These companies strongly promote entrepreneurship, which is a fundamental element of economic growth and job creation (ESCAP, 2009). More specifically, they constitute the most crucial source of new employment positions in Europe, since over four million jobs per year are created in the sector (European Commission, 2013a). The SMEs community is considered to be more competitive, innovative and dynamic (especially start-ups) in relation to larger firms. They are also considered to be more adaptable, resilient, and flexible in terms of reducing cost. Many corporations, selling new products (such as high technology commodities) or services, have their origin in the specific sector, which is regarded as a 'nursery' for talented young entrepreneurs, and also as a 'bridge' between the informal (for example a small family company) and the formal corporate sector. Almost all large corporations began as SMEs (Lukacs, 2005). They can therefore, enhance the transformation of developing countries in many ways (such as moving up the value chain).

SMEs are equally important for promoting the work of women, young people and minorities. In addition, these companies strengthen a country's regional competitiveness, as they mainly use local resources and their profits remain in the region. If they succeed in exporting their products to foreign markets, they become sources of foreign exchange earnings and their contribution to the home country increases (Ayyagari et al., 2011; Robu, 2013; ESCAP, 2014). Furthermore, the strong presence of micro and small enterprises reduces the creation of monopolistic or oligopolistic economies and prevents the larger companies from dominating the market (Savlovschi and Robu, 2011). On the other hand, SMEs are criticised for low survival rates, as many are led to bankruptcy after a short period of time. This is attributed to the fact that some of these companies offer low value added products, poor quality service or short life goods (Hobohm, 2001). But according to Kok et al. (2011) the employment positions that are created by new entrants in the sector, are more than the job losses caused by the death of SMEs. Based on Peters et al. (2014) SMEs are more vulnerable to the business cycle than larger companies.

It should also be noted that the presence of SMEs in a country does not automatically lead to growth or poverty alleviation. Other factors should also be met in order for economic development to occur (ESCAP, 2009).

2.2 Policy measures to support SMEs

Due to their substantial importance, SMEs have received the attention of policy makers all over the world, that focus mainly on their growth potentials (Ayanda and Laraba, 2011; Tewari et al., 2013).

The World Bank, for example, has been promoting the development of SMEs by establishing clear strategies of interventions, and measuring systems that should provide the indented outcomes and could be used to expand knowledge in the field. As a recognition of SMEs role in the global and regional recovery, it has approved a portfolio of 3,5 billion dollars, in more than 60 countries (World Bank, 2013). Additionally, the 23 million SMEs all around Europe, have inspired the European Union to implement a series of national and regional policies that provide its Member States with initiatives, knowledge, funding and various developing programs (European Commission, 2015a). Ever since 1995, the EU has expressed the need for policy measures that would not aim only at a specific sector, nor be distinct nor be addressed at the minority of SMEs. The Commission's actions should be targeted at the improvement of coordination, transparency and the efficient absorption of EU funds. Another important issue of consideration was the strengthening of entrepreneurship by increasing creativity, and reducing bureaucracy and unnecessary costs (European Commission, 1995). A few years later, the EU established a detailed policy framework regarding the strategic development of SMEs in its Member States, which would ensure an improved response to the needs and challenges that small business face. As a result, the European Charter for Small Enterprises (in 2000) and the Modern SME policy (in 2005) were established. They aimed to support small businesses in many key areas including regulations, legislations, financial issues, skills, online access, e-models and access to internal and external markets (Europa, 2007). These actions ultimately led to the creation of the Small Business Act for Europe in 2008. This approach was another effort to underline (once again) the importance of small and medium sized companies for the European economy.

The Act referred to all enterprises occupying less than 250 employees, which is the 99% of all European companies. By presenting this report, the Commission aimed to achieve an SME friendlier environment according to the 'Think Small First' principle. Based on that rule, the SMEs interests should always be considered at the 'very early stages of policy making'. The Commission's political will was also expressed through a series of other principles such as the provision of 'second chances' in case of bankruptcy, the development of a legal environment that would support commercial transactions, the attestation that entrepreneurship would be rewarded and that challenges could be turned to opportunities. The Act is implemented through the 'SBA Review' which annually presents the evaluation of the achieved progress and sets out future actions. So far, the Commission has taken a number of measures to assist in the progress of acquiring funding, improving SMEs access to international markets, and ease them to respond to the challenges of the crisis (European Commission, 2015b). The latest programme of the EU (Competitiveness of Enterprises and Small and Medium-sized Enterprises-COSME) aimed at improving the competitiveness of SMEs by enchasing financing, through a budget of 25 billion euros (European Commission, 2015). Forstner and Koester (2014) added that in order for SMEs to grow, policy makers should contribute in reducing the ambivalence of investors and loan providers that is caused by an unstable environment.

2.3 Access to finance and further challenges

The financing of SMEs has been a crucial topic for academics and policy makers all over the world (Berger and Udell, 2006). In general, the SMEs community could be described as 'financially frustrated'. Compared to large companies (in both developed and developing countries) SMEs face difficulties in accessing formal finance, which combined with the cost of credit, constrains their operation and growth potentials. This obstacle is exacerbated in times of economic crisis (Beck and Demirguc-Kunt, 2006; Beck et al., 2008; Giovannini and Moran, 2013). The majority of small companies are financed primarily by internal sources (for example the owner's capital and loans, or retained earnings) and secondarily by external sources (financial institutions). Moreover, it has been noted that SMEs with stronger growth possibilities, have better access to external finance (Vos et al., 2007). Based on Beck and Demirguc-Kunt (2006) a country's institutional improvement and financial development could improve the influx of funding for SMEs. They suggested that financing options such as factoring and leasing, systems of credit information sharing, and a more competitive banking structure could contribute in that direction.

Berger and Udell (2006) added that there is a strong relationship between financial structures, government policies and SME credit availability. According to their analysis, government policies influence the structure of the financial institutions as well as the lending infrastructure, which in turn affects the competitive conditions between large companies and SMEs. The financing obstacle is considered to be one of the reasons for the limited presence of SMEs in low income countries (Cull et al., 2006). Furthermore, in the least developed countries, economic deficiencies (for example high budget deficits) or capital shortage impede SMEs access to financing (OECD, 2004). In a finance survey conducted by the European Union (2013b) that included 37 economies (the EU28 and 17 euro area countries), SMEs managers identified 'financing' as the second most important issue, with 'finding customers' being the most pressing need.

The problem was more intense in Slovakia and Greece. Regarding the sources of financing, 54% used only external sources (slightly fewer in comparison to 2011). According to the same report, the other popular sources of financing were bank overdrafts (39%), leasing, hire, purchase and factoring (35%), trade credit (32%) and bank loans (32%). In the respective survey of the following year, SME managers attributed the reduced access to finance not to the companies' performance, but to the general financial outlook (European Commission, 2014). In 2014, 42% of SMEs managers in Greece mentioned that financing was their most crucial issue (ECB, 2014). It is evident that the current economic situation has brought additional barriers to the problem, as the banks were unwilling to supply SMEs the financing they needed (European Commission, 2013a). Since SMEs are linked to a country's macroeconomic environment, they also had to face the 2009 economic downturn and although they showed sufficient resilience their recovery was slower, compared to large enterprises. They are therefore considered to be in a critical juncture (European Commission, 2014). Besides financing, SMEs face many challenges that could be described as multidimensional. Competition from large multinational firms who want to dominate their market and foreign direct investments in their sector is only a part of them. The technological advances and new trade rules that change all stages of business also affect their growth and performance. Furthermore, SMEs have to comply with increasing standards (for example environmental, technical and labour) in both the domestic and export markets (OECD, 2004).

3. The SMEs in Greece

3.1 The course of SMEs (2010-2013)

According to the European Commissions' SBA Fact Sheet (2011) SMEs account for a lion's share of the enterprises operating in the Greek economy (notably micro companies). The dominance of this size class is evident in terms of employment, number of enterprises and value added, and not just for the examined period. The basic figures are presented in Tables 1,2 and 3. It should be mentioned that due to the limited data available for Greece (SBA Fact Sheet, 2013) the statistics presented in the study are primarily based on the SBA Fact Sheet reports. Greece, in particular has a very high share of SMEs, with large enterprises representing only 0, 1 % of the total number of businesses (Table 1). In respect to employment, Greek SMEs account for a higher proportion of total employment in relation to other European countries, with the exception of Italy, Spain and Portugal. More specifically, in 2010, 85, 6% of Greek employees were working in the sector, which was well above the EU average (67%) for the same year (Table 2). The difference was maintained in subsequent years at about the same level (18%). In terms of value added (Table 3), the contribution of SMEs to the Greek economy also exceeded the EU average (71, 7% versus 58,4% in 2010).

Nonetheless, the (vastly fewer) large companies managed to create a 28, 3% of value added (in 2010) compared to the 35,3% of the micro enterprises, suggesting that the productivity of the later was quite low (SBA Fact Sheet, 2011). Regarding the economic sub-sectors, SMEs in Greece were more concentrated in the trade area (38%) in comparison to their EU peers (30%). In contrast, the proportion of companies active in the services sector was smaller in Greece than the EU average (40% versus 45%). The areas of construction and industry, on the other hand, were close to the EU average (13 and 10 %, compared to 15 and 10% respectively). It is obvious that the SME sector in Greece varies considerably compared to the structure of the European, and it is far more important for the country's economy. Furthermore, according to the European Commissions' reports, most SMEs are concentrated in the Greater Athens Metropolitan Area (SBA Fact Sheet, 2012). In the 2012 report, there was also evidence about the impact of the financial crisis on the Greek SMEs: they had suffered a dramatic decrease. It appears that the total number of SMEs had fallen drastically since 2003, as there were nearly 90.000 fewer companies in 2011 than in 2008 (the last year of the pre-crisis period).

In terms of employment that was reflected in the loss of more than 200.000 jobs. This negative development also applied for the value added data (SBA Fact Sheet, 2012).

Numbers continued to decline in the next year's report as well. Approximately 196.824 of SMEs ceased operating, a total of 571.613 jobs were lost and the value added was reduced by 13 billion euros (Figures 1, 2 and 3). This was attributed to the austerity measures that were implemented (increased taxes, reduction in salaries and pensions), which reduced the purchasing power of consumers, and increased the financial and tax obligations of the Greek companies. The biggest decline occurred in the construction sector, which was substantiated with the steady reduction in the number of building permits that were granted. The same applied for the manufacturing sector that suffered a 20% loss in the number of employees, and a 10% reduction of value added. The only sector with positive numbers and growing signs was energy production. That was mainly attributed to the government support of projects which belonged to the 'green economy' and the operational programme for Competitiveness and Entrepreneurship (2007-13) that encouraged energy efficiency in housing and public buildings projects (SBA Fact Sheet, 2013).

Some signs of recovery, after the prolonged recession, were presented in 2013, with the downward trend to start slowing down and even showing some positive samples (Figures 1, 2 and 3). But according to a survey that was conducted by IME GSEVEE, which is a Small Enterprises' Institute, 75, 4% of small business managers said that their company's situation worsened in 2013. Data showed that the turnover of 75,8% small companies had decreased. The micro enterprises were hit harder by the crisis and the most affected sectors were retail trade, construction, car and motorcycle repair, real estate, accommodation and food services. The sectors that showed positive signs were mining and quarrying, water supply, sewerage treatment, waste management, and remediation activities. As a result of the downturn, more than half of Greek SMEs had reduced the employees' working hours (or days), and almost half were forced to reduce their salaries. All these facts have led to the conclusion of a fragile recovery. The predictions for 2014 and 2015 were not very optimistic. According to the same report, the SMEs downturn would continue, but to a lesser extent. Employment and number of enterprises were expected to decrease, and the same was presumed for the value added. Nonetheless, if certain macroeconomic circumstances were to occur the aforementioned trends could be prevented (SBA Fact Sheet, 2014).

3.2 Access to finance for Greek SMEs

In 2010, the high share of unsuccessful loan applications (36%) combined with an intense reduction of the provided loans worsened the position of Greek SME managers. Furthermore, the venture capital market investment was also limited. Consequently, there were excessive payment delays which further increased the cost of doing business in the country. In an attempt to compensate this situation, the government provided micro and small companies with low interest loans in order to cope with tax and insurance liabilities, as well as other debt to the government. In 2011, they launched the *Jeremie program* which financed enterprises with investment in venture capital, provided risk-sharing loans at reduced rates and guarantees for loans (SBA Fact Sheet, 2011). In the following report, evidence showed that unsuccessful loan applications dropped to 29%, as banks were extremely reluctant to grant loans (SBA Fact Sheet, 2012). This was an extremely awful development considering that almost 96% of Greek SMEs relied on bank loans as an external source of finance (European Commission 2013a). In 2013, although the government continued to support SMEs, all financing indicators had deteriorated and were below the EU average (SBA Fact Sheet, 2013).

The sovereign debt crisis had left no instrument of financial support intact, and that definitely undermined all their efforts to continue their activity(GSEVEE, 2014). Almost 42% of SMEs in Greece, that were in need of financing could not actually receive it, and some were unwilling to even attempt it (Tzakou-Lambropoulou, 2014). The critical support of European funds should also be mentioned, such as the 1.6 billion euros that were used for Financial Engineering Instruments between 2007-2013 (Reichenbach, 2014). As it is shown in Table 4, all SBA financing indicators (with the exception of interest rates for small and large loans) were below the EU average, proving that the situation had deteriorated (SBA Fact Sheet, 2014). For example, one in three loan applications was rejected or received an offer with unbearable terms. In addition, the days for an entrepreneur to get paid were almost 96 compared to 50 in other Member States. It should also be pointed that the government continued to provide incentives and implementing measures in order to improve liquidity (SBA Fact Sheet, 2014).

4. Conclusion

In light of the current economic climate, Greek SMEs (like all companies) struggle to recover from the crisis, so that they can continue to be the backbone of the economy. But there is no doubt that the severe recession has affected their ability to survive. And after years of declining numbers, even the slightest recovery seems fragile.

Although their mere existence does not automatically lead to growth, their development becomes even more important and almost imperative as a key instrument in poverty reduction efforts. Their role is indisputable. The creation of new and innovative firms in times of crisis and rising unemployment could help face many challenges. Despite the fact that their recovery depends mainly on the country's macroeconomic environment and financial stability, their development could also emerge through policy measures. These actions are not to be fragmented, or serve different goals. Their context should be specific. There should be a long term policy, serving a specific purpose, and with strict monitoring of its implementation. Each country faces different challenges but also has many opportunities. Policy makers should influence entrepreneurs and provide incentives for the creation of new firms, on innovating projects and for existing companies to become more productive and competitive.

Tables and Figures

Table 1: Number of enterprises by size class (2010-2013)

	2010			2011			2012			2013		
	Greece		EU27	Greece		EU27	Greece		EU27	Greece		EU28
	Number	Share	Share	Number	Share	Share	Number	Share	Share	Number	Share	Share
Micro	719.952	96,5%	92,1%	703.648	96,6%	29,6%	513.780	96,7%	92,3%	629.811	96,2%	92,4%
Small	22.832	3,1%	6,6%	21.586	3,0%	20,6%	14.978	2,8%	6,5%	21.669	3,3%	6,4%
Medium-sized	2.893	0,4%	1,1%	2.649	0,4%	17,2%	2.301	0,4%	1,1%	2.464	0,4%	1,0%
SMEs	745.677	99,9%	99,8%	727.883	99,9%	67,4%	531.059	99,9%	99,8%	653.944	99,9%	99,8%
Large	563	0,1%	0,2%	399	0,1%	32,6%	378	0,1%	0,2%	423	0,1%	0,2%
Total	746.240	100,0%	100,0%	728.282	100,0%	100,0%	531.437	100,0%	100,0%	654.367	100,0%	100,0%

Source: SBA Fact Sheet 2011-2014

Table 2: Number of persons employed by enterprise size class (2010-2013)

	2010			2011			2012			2013		
	Greece		EU27	Greece		EU27	Greece		EU27	Greece		EU28
	Number	Share	Share	Number	Share	Share	Number	Share	Share	Number	Share	Share
Micro	1.447.218	57,6%	29,8%	1.338.671	57,1%	29,6%	916.074	54,5%	28,9%	1.130.794	55,2%	29,1%
Small	438.792	17,5%	20,4%	404.290	17,2%	20,6%	282.808	16,7%	20,2%	398.503	19,5%	20,6%
Medium-sized	264.428	10,5%	16,8%	255.492	10,9%	17,2%	227.958	13,6%	17,3%	227.832	11,1%	17,2%
SMEs	2.150.438	85,6%	67,0%	1.998.453	85,2%	67,4%	1.426.840	84,8%	66,4%	1.757.129	85,8%	66,9%
Large	362.055	14,4%	33,0%	346.200	14,8%	32,6%	255.413	15,2%	33,6%	290.547	14,2%	33,1%
Total	2.512.493	100,0%	100,0%	2.344.653	100,0%	100,0%	1.682.253	100,0%	100,0%	2.047.676	100,0%	100,0%

Source: SBA Fact Sheet 2011-2014

Table 3: Value added by enterprise size class (2010-2013)

2010				2011			2012			2013		
	Greece		EU27	Greece		EU27	Greece		EU27	Greece		EU28
	Billion €	Share	Share	Billion €	Share	Share	Billion €	Share	Share	Billion €	Share	Share
Micro	27	35,3%	21,6%	23	34,2%	21,2%	17	34,6%	21,1%	16	33,1%	21,6%
Small	16	20,6%	18,9%	14	21,2%	18,5%	9	18,1%	18,1%	11	22,5%	18,2%
Medium-sized	12	15,8%	17,9%	10	14,8%	18,4%	8	16,3%	18,2%	8	16,5%	18,3%
SMEs	55	71,7%	58,4%	47	70,2%	58,1%	34	69,0%	57,4%	35	72,1%	58,1%
Large	22	28,3%	41,6%	20	29,8%	41,9%	15	31,0%	42,6%	13	27,9%	41,9%
Total	77	100,0%	100,0%	67	100,0%	100,0%	49	100,0%	100,0%	48	100,0%	100,0%

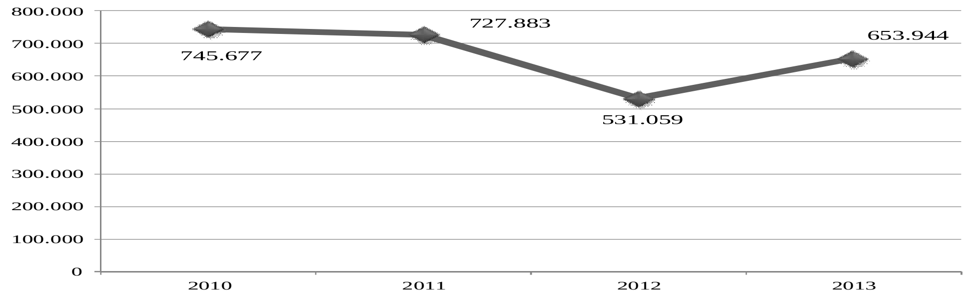
Source: SBA Fact Sheet 2011-2014

Table 4: Access to finance indicators

Indicators	Greece	EU average
Strength of legal rights index in 2014 (0-10,2014)	4	6,82
Venture capital investments (percentage of GDP,2012)	0	0,04
Bad debt loss (percentage of total turnover, 2013)	9,9	3,83
Total amount of time it takes to get paid (days,2013)	95,67	50,76
Cost of borrowing for small loans relative to large loans (percentage, 2013)	11,37	23,82
Willingness of banks to provide a loan (percentage of respondents that indicated a deterioration, 2013)	51	24,6
Access to public financial support including guarantees (percentage of respondents that indicated a deterioration, 2013)	20,6	17,3
Rejected loan applications and unacceptable loan offers (percentage of loan applications by SMEs, 2013)	33,9	14,4

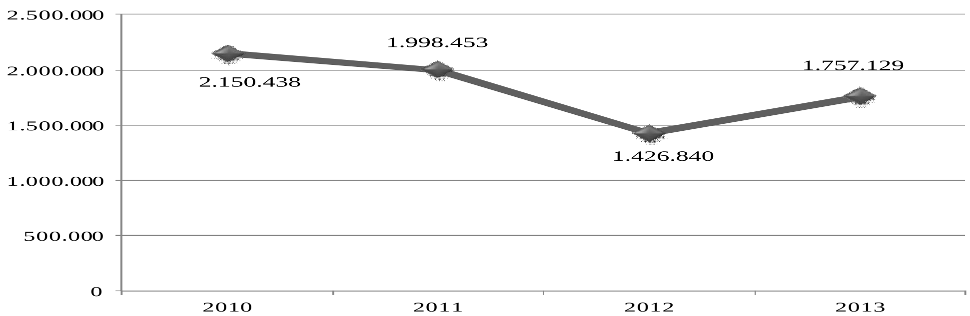
Source: Small Business Act, 2014

Figure 1: The Course of Greek SMEs (in number of enterprises)



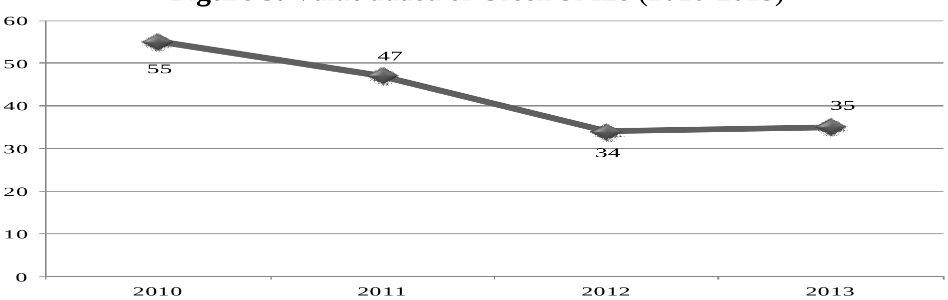
Source: SBA Fact Sheet 2011-2014

Figure 2: The Course of Employment in Greek SMEs



Source: SBA Fact Sheet 2011-2014

Figure 3: Value added of Greek SMEs (2010-2013)



Source: SBA Fact Sheet 2011-2014

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