

National Study of the Business Environment



National Study of the Business Environment
with a focus on the National Innovation Potential in Greece

PREPARED BY:

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1. Introduction – Greece

Greece is a country located at the crossroads of Europe, Asia and Africa. Situated on the southern part of the Balkans, it shares land borders with Albania to the northwest, the Republic of Macedonia and Bulgaria to the north and Turkey to the northeast. Greece has the longest coastline on the Mediterranean Basin and the 11th longest coastline in the world which is composed by the Aegean Sea that spreads out to the east of the mainland, the Ionian Sea to the west, the Cretan Sea and the Mediterranean Sea to the south. It covers an area of 131.957 km², most of it being mountainous.

The Greek economy, having achieved high growth rates until 2008, showed signs of recession in 2009 as a result of the global financial crisis, and from 2010 onwards the recession intensified considerably due to country's fiscal imbalances. The need for consolidation led the country to embark on a trilateral mechanism of financial support, comprised of the EU, the IMF and the ECB. The restrictive income policy and drastic limitation on public expenses during the past five years have had a negative impact on GDP growth, leading to its decrease by 5.4% in 2010, 8.9% in 2011, 6.6% in 2012 and 3.9% in 2013 (constant prices of year 2010). During 2014, the Greek economy returned to positive growth rates of 0.8%.

The public deficit decreased from 15.3% in 2009 to 11.1% in 2010, 10.2% in 2011, 8.7% in 2012, whereas in 2013 was increased by 12.3%. In 2014, the public deficit decreased significantly reaching 3.5% of GDP, while in 2013 and in 2014 a primary surplus was achieved.

A significant improvement in the development trends of economic indicators is expected this year through the acceleration of reforms aimed at the development of a more attractive investment and business environment, including liberalisation of a number of markets, faster licensing procedures, the Investment Law, flexibility in the labour market, and a reduction in the cost of production factors due to the crisis. In 2014, the Greek economy returned to positive growth rates of 0.8%.

Greece is a member of several international organisations. Moreover, its important geographical position offers to the country the advantage of being a political, diplomatic and commercial hub. The country is a member of BIS, BSEC, CCC, CE, EAPC, EBRD, ECE, ECLAC, EIB, EMU, ESA, EU, NATO, UNESCO and other international organisations.

There are 10,7 million inhabitants in Greece, most of them are residents in Athens, the country's capital. Since 1990, Greece has received a large number of immigrants; the majority of them come from the neighbouring countries.

2. Methodology

2.1 Research Goal and Objectives

The main goal of the study is to provide a detailed analysis of the business environment and innovation potential of the country, with an aim to provide good starting point in identification of the main strength and weakness of the country in this area with specific recommendations for their improvement in the future. The study is financed by the EU and the funds of the member countries under the EU Interreg Balkan Mediterranean Program and the project InnoPlatform.

The main objectives of the Study are:

- To assess the current structural environment covering economy, growth, stability, business enabling environment and the socio-economic environment in order to understand the current enabling and or limiting macro environment for innovations in country;
- To assess the innovation potential at macro and micro (organizational level) in order to identify the strengths and weakness of the national economy when it comes to its innovation potential;
- To explore these strength and weakness over specific period of time (2010-2013) in order to understand whether there have been improvements or deterioration and where;'
- To provide a comprehensive analysis and recommendations structured in a way which will enable a range of key stakeholders as policy makers, investors, consultants, analysts and SMEs to make informed decisions.

2.2 Innovation – Definition and Determinants

According to the OECD (Oslo Manual for measuring innovation) four types of innovation are defined: product innovation, process innovation, marketing innovation and organisational innovation.

Product innovation: A good or service that is new or significantly improved. This includes significant improvements in technical specifications, components and materials, software in the product, user friendliness or other functional characteristics.

Process innovation: A new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software.

Marketing innovation: A new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing.

Organisational innovation: A new organisational method in business practices, workplace organisation or external relations.

In 2007, ministers from around the world acknowledged the need for a cross-government policy to harness innovation as a major driver of productivity that can strengthen economic growth and development. Stronger innovation, combined with new international partnerships, can also help address pressing global issues such as climate change, health, food security and poverty.

2.3 Core Methodology

The core methodology used in developing the National Studies of the business environment focused on the National Innovation Potential is the methodology of the EIS 2017 Framework. The national innovation environment is assessed through four specific categories of factors:

- 1) **Framework conditions**, cover conditions of utmost importance for innovations to flourish in a specific territory. They mainly cover the available resources and input systems as are the available human resources seen as agents of knowledge, the attractive research systems which will enable them to perform, and innovation friendly environment mainly recognized by the accessibility of new technologies and the presence of opportunity driven entrepreneurship.
- 2) **Investment climate**, or the financing of innovative activities covers the factors of financing and support, as well as the investments of companies in research and development activities (R&D) and innovation.
- 3) **Existing innovation activities of companies**, covers factors which determine the behavior of innovators, the existence of business connections and the protection of intellectual property and intellectual assets.
- 4) **Impact innovation** covers the determinants as the impact on employment and the impact on sales through the use of appropriate indicators.

The overall economy, the business environment and the socio-demographic trends affect these categories of factors either supporting or challenging the innovation of the companies. The overall economic and business environment in Greece is assessed through three important structural variables:

1. **Economy, Growth and Macroeconomic Stability**, through the analysis of GDP growth and macroeconomic stability (GDP, debt, inflation, interest rates), structure of employees (agriculture and mining, manufacturing, utilities and construction, services and public administration), as well trade deficit.
2. **Business enabling environment**, through the analysis of the structure of enterprises in Greece (micro enterprises, SMEs, large enterprises), and research and development activities of the business (birth of the enterprises, sophistication of the buyers).

3. **Socio-demographic environment**, through GDP per head of population, population size, population change, population size aged 15-64 years, population density, percentage of urbanization, active labor force movement, education, status employment.

The analysis is based on the use of secondary data coming from officially recognised institutions, predominantly from Eurostat, National statistical offices and other national and international institutions.

3. Economy, Growth and Macroeconomic Stability

At the beginning of 2008 Greece was hit by the international economic crisis which revealed the weaknesses of the Greek economy. By then, Greece had a steady growth rate and it was considered as one of the fastest growing economies in the EU. The financial crisis affected Greek economy activity in two ways: The tightening of banks credit standards for lending to enterprises and households was restricting the supply of loans and the significant weakening of consumer and business confidence and the resulting lower propensity to consume and invest and the higher risk aversion were causing credit demand by both households and enterprises to decline as well. The world economic crisis also had a direct impact on the Greek economy. The decrease in world trade volumes hit the country's exports of goods as well as services, notably shipping and tourism.

3.1 Growth, Inflation and Macroeconomic Stability

In 2015, GDP contracted by just 0.2% despite the uncertainty peaked about Greece's euro area membership, at least in their first phase when the capital controls were imposed. It remained on a downward course during 2016, as compared to 2015. Nevertheless, significant changes were recorded in the second quarter of 2016 both with respect to developments in the main demand components and with reference to the emergence of a positive quarter that perhaps signifies a marginal improvement in economic conditions. For 2016 as a whole, GDP at constant 2010 prices increased by 0.3%, deflationary pressures were contained, employment picked up and unemployment decreased, though still remaining very high.

These developments are a strong indication that the Greek economy has growth potential, which, after remaining idle for so long, stands ready to be tapped into, as soon as the right conditions are in place. Despite the heavy economic and social costs of the crisis, the economic adjustment programmes implemented over the past years have succeeded in addressing chronic weaknesses and structural shortcomings of the Greek economy, thereby facilitating the improvement in the medium-to-long term growth potential. The primary fiscal deficit and the current account deficit were eliminated, exports as a percentage of GDP have significantly increased, recapitalisation and restructuring have taken place in the banking system, resulting in the conclusion that the reforms implemented so far have contributed to an emerging restructuring of the economy towards a new, extrovert growth model.

During 2016, inflation fluctuated mostly in negative territory, reflecting low demand and declining international oil prices. More particularly, on the domestic demand side, investment activity appears to have been positively affected by the gradual normalisation of economic conditions, as the downward trend exhibited by investment expenditure in the first quarter of 2016 was reversed in the second quarter of the year, with the relevant positive rate of change reaching 7.0%. Overall, the decrease in domestic demand resulted in a negative contribution to GDP growth amounting to -1.5 and -0.9 percentage points, respectively.

3.2 Structure of the Economy

Before the crisis Greece had one of the most restrictive employment protection legislation. Long notice periods, large severance payments, and restrictions on collective dismissals reduced the job reallocation and creation processes. Moreover, the wage bargaining framework, in particular the automatic extension of collective agreements, meant wages could not adjust to firm-specific needs and productivity developments, and that new firms could not gain a foothold from incumbents by lower wage costs. Recent labour market reforms have focused on introducing more flexibility. The minimum wage was reduced by one third in nominal terms at the end of 2011 and a lower wage for vulnerable groups was introduced. The minimum wage setting changed from a bargaining process to being set directly by the government. The ratio of the Greek minimum wage for single workers with no experience to the median wage currently stands well below. Firm-level wage bargaining has become more common, as restrictions to firm-level agreements were lifted.

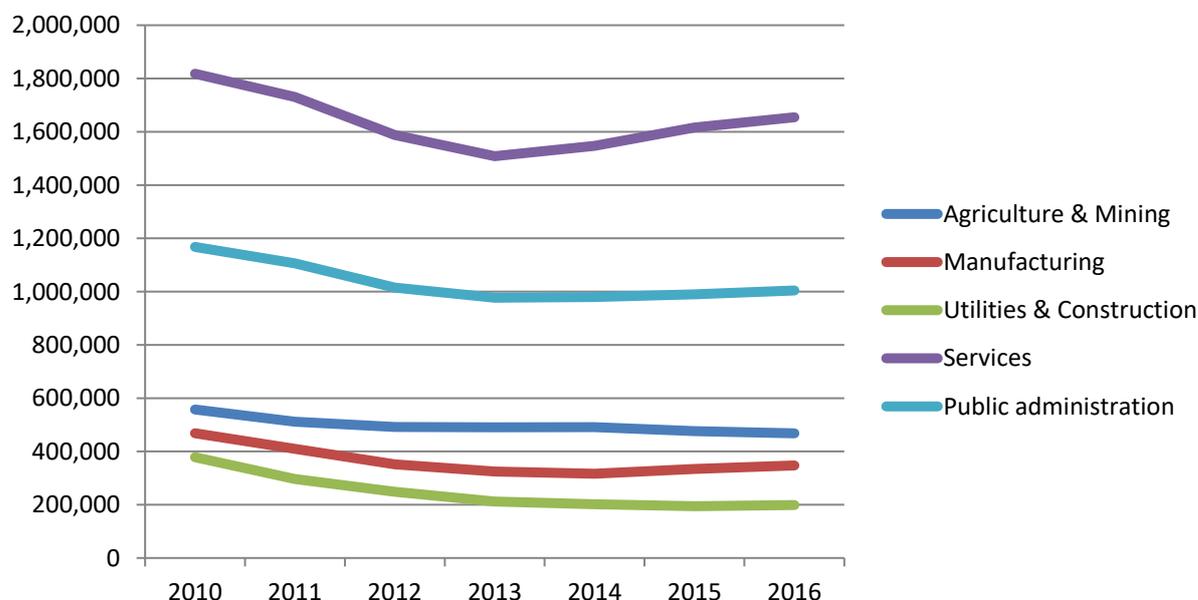


Figure 1-1: Composition of Employment in different sectors (2010-2016)

3.3 Trade Balance

The trade deficit of Greece as seen in Figure 1.1 is a sharp decreasing from the period of 2010, on which the economic crisis hit the country. All employment sectors were well affected, with the unemployment rate growing up rapidly.

4. Business environment

As it is difficult to assess the business enabling environment in one economy in absolute terms, the world uses specific methodologies that allow comparative analysis between nations. The comparison enables a relative assessment. In the concerned case the methodology used for assessing FYROM's business enabling environment is:

- Doing Business Report of the World Bank which provides information on the legal and regulatory environment in the country,
- The structure and type of the business sector which provides information on the profile of the businesses which successfully operate in the country;
- The nature of the demand existing at the market as the demand drives innovations – investigated through the byer sophistication index.

4.1 Ease of Doing Business

It is an integrated survey of experts which ranks 190 economies, covering 11 dimensions of business. These dimensions consist of: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation.

Greece is ranked 67th for the Ease of Doing Business, getting the lowest rank from all the others partners. Specifically, the Former Yugoslav Republic of Macedonia is ranked 11th, Bulgaria is 50th, Cyprus ranked 53th and Albania 65th.

According to the Ease of **Starting a Business**, Greece gained two positions from 2016 and ranked 56th. The last 5 years, the country made starting a business easier than the past years by creating a unified social security institution, by lowering registration costs and by introducing a simpler form of Limited Liability Company and abolishing the minimum capital requirement for such companies. The changes decreased the number of procedures for starting a business from 5 to 4, and also decreased by a very small amount the required days from 13 to 12.5. These changes made more difficult to do business.

In the category of **Dealing with Construction Permits**, the country's rank fell to 58. The changes that had been made resulted to the reduction of the time required to

obtain a construction permit by introducing strict time limits for processing permit applications at the municipality. These changes increased the number of procedures from 17 to 18, and also increased the cost of warehouses value from 1.8% to 2%.

In **Getting Electricity**, Greece ranked 52^h, gaining 5 places. The changes made increased the procedures from 6 to 7, and also decreased the required time from 51 to 55 days. No changes had been made to the dimension of **Registering Property**, where Greece in ranked in the 141th position, which requires 20 total days for the procedure to be completed. Also no charges were made in **Getting Credit** and in **Protecting Minority Investors** (Rank 82 and 42 respectively). In **Paying Taxes** the country ranked 64th, but kept at the same levels as 2016 when the country made paying taxes more costly by increasing the corporate income tax rate., with a small increase on total tax rate from 50.7% to 51.7%.Furthermore, In **Trading across Borders** Greece ranked 29th and in **Enforcing Contracts** 133th, and kept at the same levels as 2016, but in **Resolving Insolvency** the recovery rate was decreased from 35.6 in 2016 to 33.6, with the country's ranking been 52th.

Overall, Greece was kept at the same level as 2016 with small changes but with positive prospects for further improvement in the near future.

Doing business – Rank (ranking from 190 economies)		Value	Value
		2016	2017
1	Starting a business	54	56
2	Dealing with construction permits	60	58
3	Getting electricity	47	52
4	Registering property	144	141
5	Getting Credit	79	82
6	Protecting minority investors	47	42
7	Paying Taxes	66	64
8	Trading across borders	27	29
9	Enforcing contracts	132	133
10	Resolving insolvency	54	52

Doing Business Reports (2016 & 2017)

4.2 Structure of the Businesses Sector

The private sector in Greece suffers from weighty and complex regulations and from the lack of a coherent and systematic approach to rule-making. The SGP seeks to improve the business environment by improving the quality of regulation, promoting external competitiveness, and strengthening competition. The EU-funded Public Administration Reform Operational Programme 2007-2013, which sought to systematically introduce better regulatory procedures and practices, seems to have lost momentum.

4.3 Buyer Sophistication

An important factor in creating and staying in country for companies is the market. Depending on the demand and the world's feedback on the variety of products it offers, it innovates, differentiates and develops. This improves its production line as well as strives to reduce the cost of its materials to become competitive. This is why we will analyse the buyer's sophistication index, with a view to understand how innovative businesses are affected. If the specialization index is high, it suggests a market suitable for innovative businesses. On a scale of 1(low) to 7 (high), it indicates unsatisfactory buyer sophistication.

The buyer sophistication index for Greece measured through the World Bank indicates that in 2010 the indicator was 3.56 and reached the lowest value of 3.27 in 2013. Since then, the indicator started growing again and reached the value of 3.38 in 2016. It's worth mentioning that before economic crisis hit Greece, the buyer sophistication index had reached the value of 4.12 in 2007. Every buyer is looking for the minimum price, which limits the innovation activities of SMEs, and leads them to cheap and poor quality products.

5. Socio-demographic environment

The analysis of the socio-demographic environment investigates the social and population trends in the country and how they affect its overall business attractiveness and serve as potential drivers of innovation in enterprises. The analysis is focused on several factors of interest: GDP per capita and population trends, active population size, its employment status and education.

5.1 GDP per capita and Population trends

Since Greece entered the economic crisis, the real GDP growth per capita had fallen significantly. That is the main cause of the country's low ranking in comparison with the other EU member states. From 2008, the GDP of Greece started falling sharply and by 2010 it had already reached the negative scale, reaching its peak point at the economical year of 2012. Doing business in Greece is very tough cause of the very high taxing rates.

As the GDP per capita remains in very low rates, as mentioned before affects the buyer sophistication index. Due to the lowest rates of GDP in Greece in 2012, the buyer index rates also reached the lowest value in the same year. But since then there is a positive growth which also is observed at the levels of the real GDP.

The GDP per capita might also be decreasing due to the size of the population. The number of population that leaves the country with the purpose of finding new business opportunities had started rising the last 5 years. Also the trend of immigration in the country has been climbing rapidly, with almost 800 thousand people, according to recent data from Eurostat, coming to the country.

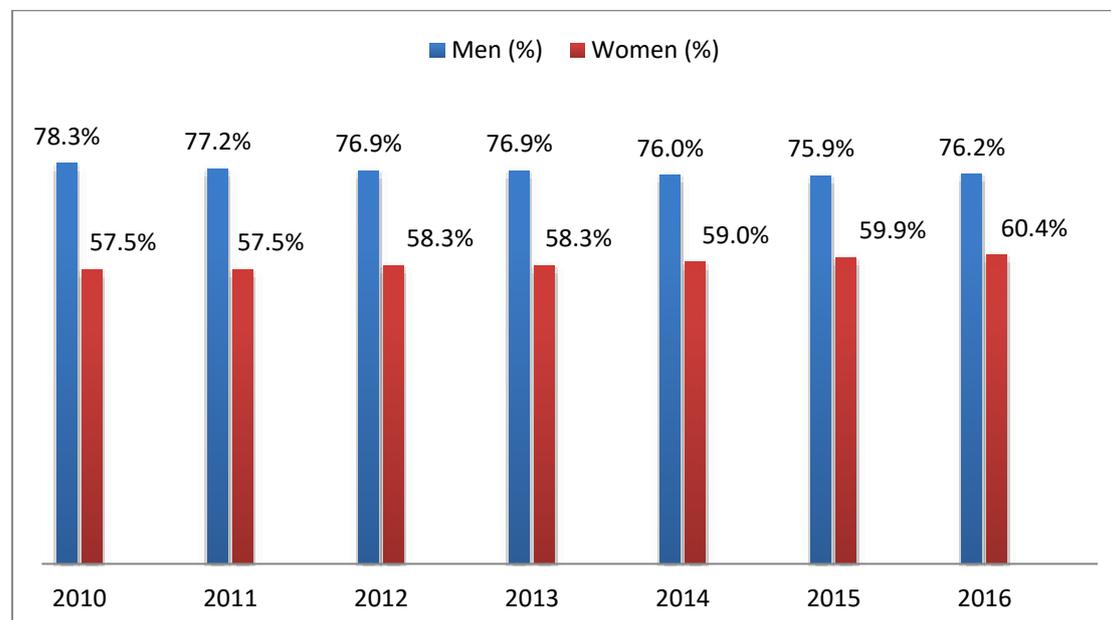
Socio-demographic indicators for Greece								
		2010	2011	2012	2013	2014	2015	2016
1	GDP per capita PPS (EUR)	20.30	18.6 ^p	17.3 ^p	16.5 ^p	16.4 ^p	16.3 ^p	16.2 ^p
2	GDP growth (%)	-5.5	-9.1	-7.3	-3.2	0.7	-0.3	-0.2
3	Population size (millions)	11.119	11.123	11.086	11.003	10.926	10.858	10.783
4	Change in population (%)	0.5	-0.4	-1.5	-1.6	-2.0	-2.7	-2.4
5	Population aged 15-64 (million)	7.381	7.349	7.279	7.180	7.088	7.011	6.934
6	Population density (persons per km ²)	85.0	84.1	83.6	83.0	82.5	81.9	
7	Degree of urbanisation (%)	2011 – 2015 average 68%						
p – projections Source of data: Eurostat								

5.2 Working Population: Employment status and Education

The active labour force aged 15-64 years in Greece, before the global economic crisis of 2007 was on high levels. In the beginning of the crisis recession, the trend starting dropping significantly in comparison with the previous years and with the EU countries. The population distribution started to outperform to the urban areas. More than half of the country's population and almost 2 of 3 residents, live in the urban areas which is a positive figure regarding the innovation processes and the enterprises capacity. In conclusion, there is low employment rate and high unemployment rate, including the reduced skills required.

The last 2 years are characterized from the effort to reduce the unemployment rates. The rate started increasing since 2007 but after reaching its peak point in 2013, it continues to remain in a steady but also high line compared to the other EU countries.

According to the National Statistics Office the bigger amount of the working population for 2016 is owned by the population with an education level of upper secondary. It is followed by the ones who have a university degree. A significant amount is also owned by the population with primary and lower secondary background.



6. Innovation Potential

The status of the innovation activities in the national innovation environment cover analysis of the behavior of the innovators, the existence of business linkages, and the IPR and intellectual assets. The analysis covers a trend analysis which takes into account the developments in the general environment when explaining the situation in the country.

6.1 Description of the National Innovation system

The main providers of the national innovation system in Greece are higher education institutions such as universities and Technological Education Institutes, public research centers and enterprises, while the activity of non-profit organizations is small.

6.2 Framework conditions

The framework conditions of the national innovation environment cover analysis of the:

- *Available human resources*, by analyzing the number of doctors of science, the population aged 25-34 years with tertiary education and the analysis of lifelong education.

- *Attractive research systems*, through international scientific publications, top-ranked publications and foreign students at doctoral studies.
- *Innovation-friendly environment*, through broadband penetration and entrepreneurship driven by opportunities

6.2.1 Available human resources

The country's performance in Education, with the exception of participation in Lifelong Learning, is close to the EU average²⁷, while in the field of higher education, a significant concentration of students is recorded. This dimension is particularly critical for research and innovation strategy as all tertiary students create a significant role of young researchers. Greece's performance in early school leaving has been steadily decreasing since 2008 and is relatively better than the EU average. Also, despite the efforts made in recent years to organize the lifelong learning system, the participation rate of people aged 25-64 in lifelong learning programs in Greece remains relatively low. For most indicators, Greece is below the EU average, mainly in the business sector, in venture capital investment and doctoral candidates from non-EU countries. Greece is above the EU average in international scientific publications, innovation sales and SMEs with innovations in marketing and organization. However, the country's performance in innovation is improving over time. After a slowdown in 2010, innovation performance has since risen again and in 2013 the innovation index reaches a new peak. However, distance from the EU is widening.

6.2.2 Attractive research systems

Research expertise is the result of the number of publications and reports in the scientific areas of activity of all the agencies in the country. Of particular importance is the impact index, which compares the impact of a publication on the impact of publications worldwide in the same scientific area. For the year 2012, the publications of Greek institutions amounted to 11,138, accounting for 2,31% of all EU publications. Greek publications have been on a long-term course with the exception of the years 2010 and 2011. It is worth mentioning that Greece has very good performance in terms of production of scientific publications per million units spent on RTDI. However, the number of references in Greek publications is also upwards. As for the relative impact index, it was 5.23 for 2008-2012, while for all EU countries, to 5.7013, reflecting the influence of Greek publications worldwide and narrowing the gap rapidly and approaching the global average.

6.2.3 Innovation-friendly environment

Greece's efforts to mobilize the key economic players through the development of research and innovation support infrastructures and financial support for research in the public and private sectors have led to an improvement in the country's performance. However, based on

the average of innovation performance, Greece's performance is lower than the EU average, making it part of the moderate innovation countries (Moderate Innovator).

By the results of the research on innovation in Greek enterprises, the majority of companies are innovative in marketing and business organization. Innovative processes are being developed by 25.6% of enterprises, while 19.5% are developing innovations in products, either goods or services. The expenditure-intensity ratio fell to 0.80% in 2013 from 0.67% in 2011, mainly due to the country's GDP decline. This performance, however, lags behind the EU average²⁷, which is 2.02%. Expenditures recorded in 2013 were increased both relative to 2011 and in relation to 2007. It follows from the above that, primarily, research activity is carried out in higher education institutions and research centers, while the business sector conducted 34.2% of the survey, with the corresponding average in the EU²⁷ accounting for about 63.0%.

Over time, there is a focus on the research interest of Greek actors in ICT as opposed to areas related to quality of life (life sciences, biotechnology, biomedical research) and competitive and sustainable development (industrial and manufacturing technologies, including aeronautics) with all European participations.

6.3 Investments

The Investments environment or the finances for the innovation activities cover analysis of the Finance and support and Firm investments in R&D and innovation activities.

6.3.1 Finance and support

In the new programming period, a strong emphasis will be placed on leveraging private investment in national public funding from the Public Investment Program. The Agri-Food, ICT, and Life Sciences-Health and Medicines sectors accounted for the largest share of public RTD funding according to the data detailed for these sectors. Critical factors for the prioritization of these sectors are the significant performance both at business and export level as well as at the research level, the volume of investments in E.T.A.K in the world, which can give opportunities to integrate Greek innovations enterprises in international value chains as well as networking opportunities of the Greek research community with European and international scientific networks.

The existence of significant potential in the field of research, technological development and innovation provides the prerequisites for fully supporting the productive potential in its transition to a new model with the main characteristics of high domestic value added, extroversion, synergy utilization and production knowledge-intensive activities. Greece has a strong scientific potential, high-level research structures and activities, a critical geopolitical position and preconditions for a high quality of life. The most important chapter in the country and on which it will be based is the people, the scientific potential and, in particular,

the young scientists who excel internationally, as shown by all indicators of scientific quality assessment.

6.3.2 Firm Investments

6.4 Innovation activities

The status of the innovation activities in the national innovation environment cover analysis of the behaviour of the innovators, the existence of the business linkages and the IPR and the intellectual assets

6.4.1 Innovators

The category of Innovators includes the total number of SMEs that are introducing product or process innovations. Greece in 2015 took the 16th place within the EU ranking with 22 thousand Innovator SMEs. Since 2010, the total number of SMEs in Greece was steadily decreasing.

There are many SMEs introducing marketing or organisational innovation. Greece is ranked 13th within the EU for 2015, and has the best place in comparison with the rest Balkan Med partners.

The total number of SMEs innovating in-house are 26 thousand in Greece, which ranks the country 12th within the EU for 2015, and gaining the best place in the rank in comparison with the rest Balkan Med partners.

6.4.2 Linkages

The Innovative SMEs collaborating with others measures the knowledge shared between public research systems and private enterprises. Greece gained for 2015 the 9th place in the EU ranking.

The public-private co-publications per million populations describes the cooperation between the public and the private sector, with publication. For 2015 Greece was ranked 22th, followed by Cyprus.

The private co-funding of public R&D expenditures describes the cooperation between the public and the private sector. Greece was ranked 13th for 2015 in the EU ranking.

6.4.3 Intellectual Assets

Greece occupies the last positions among the 27 EU countries in the EU industrial designs and patents (ICT). The efforts made in the past to upgrade the role of intellectual property cannot yield as long as companies have not incorporated into their strategy the production of new knowledge. In addition, Greece's inability to improve its intellectual property performance is aggravated by the current competitiveness crisis of the Greek economy, which is exacerbated by the prolonged economic downturn. In the PCT patent application, Greece was ranked in a very low position, 30th for 2015.

The trademark is obtains a high value on the business sector. It constitutes the quality and the origin on the service or the product. Greece is ranked 27th in the EU ranking for 2016.

The design of application is the key in the appearance of a product. Greece is ranked 25th for 2016.

6.5 Impact from the innovation activities

The impact from the innovation activities covers analysis of employment and sales impacts.

6.5.1 Employment impact

In the category of employment in knowledge and of intensive activities, the number of the employed persons are included. Greece is ranked 25th in the EU ranking for 2015.

Also the employment in fast-growing enterprises has an important role, but for this there are no data to show.

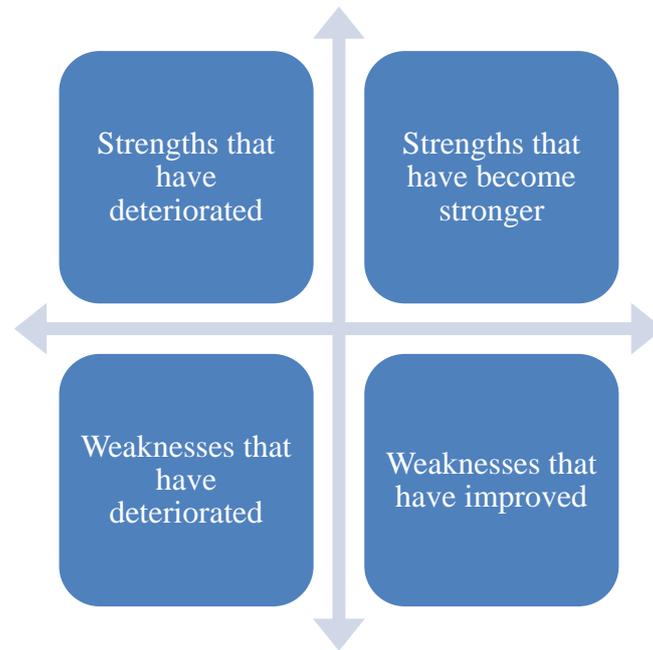
6.5.2 Sales impact

The category of the exports of medium and high technology products describes the technological competitiveness. Greece is 34th for 2015 in the EU ranking, with a very low position.

The exports of knowledge-intensive services measures in same way the economic results from innovations, with the purpose of exports. Greece is 22th in the EU ranking, for 2015, dropping 5 places from the previous year.

Sales of new-to-market and new-to-firm innovations suggests the turnover of enterprises with new products or new firms. Greece is ranked 9th in the EU ranking in the 2015, gaining 5 positions from the previous year.

7. Strengths and Weaknesses



8. Conclusions and Recommendations

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Appendixes

National Study of the Business Environment



Interreg 
Balkan-Mediterranean
INNOPLATFORM

InnoPlatform project is co-funded by the European Union
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