The White Paper on Growth, Competitiveness and Employment and Greek Small and Medium Sized Enterprises

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ABSTRACT. This paper makes an assessment of the homogenous approach and policy measures towards SMEs, adopted by the *White Paper on Growth, Competitiveness and Employment* and by national policies in Greece. It is demonstrated that there is a key distinction between the structure of competitive, high-tech, highly-specialized SMEs in advanced countries, whose size is determined by the size of the international niche market where they compete, on the one hand and on the other, SMEs in Greece or in other less developed member-states, whose (micro) size is determined by the local markets they serve, while in most cases they do not have the marketing skills/approach to address export markets. Copying successful instruments for SMEs in advanced countries can thus be most dangerous for the less developed countries, since the industrial organization of the typical SME is very different from those SMEs in Northern Europe. Therefore, the effects of policy measures, without further modifications, will be different from those envisioned by the EU policy-makers. Increasing the utilization of assistance by SMEs in less developed member-states is likely to be more effective if the assistance focuses on incentives and services, which support cooperative action in local and foreign markets, rather than on direct SME financing.

1. Introduction

It is widely recognised today, that SMEs represent the «backbone» of the local economies in Europe. *The White Paper on Growth, Competitiveness and Employment* considers that the full promotion of the Internal Market Programme depends on SMEs, which represent the "moving force of growth" and the only possibility to increase the competitiveness of European manufacturing. SMEs contribute to more than two-thirds of employment (70.2 per cent) and turnover (70.3 per cent) in the Union and between 65 to 85 per cent of the total value added.[1]

The economic and social role of SMEs is even more significant in the case of less developed member-states. In Greece, for example, SMEs account for almost the total employment (91 per cent) in the non-primary sector, while in Portugal and Ireland the shares are also very high (82 per cent and 78 per cent respectively).[2]

The White Paper refers to SMEs in a rather general way, without distinguishing them according to their specific characteristics among the countries in which they operate. This issue is examined in the framework of political and social cohesion. National policies in favour of SMEs are in line with EU homogenous policy measures. It is, however, possible that SMEs in Greece as well as in other less developed member-states be structurally very different from those of SMEs' in Northern Europe and therefore, they might require a special approach based on these differences.

The purpose of this paper is to highlight the economic importance and special characteristics of Greek SMEs and to stress the need for a more diversified approach and policy measures to be taken. Section 2 analyses the role of SMEs in the Greek economy, while section 3 discusses some of their particular characteristics, namely average size, natality and mortality rates, productivity and research and development, marketing strategies and relationship to the underground economy. Sections 4 and 5 review the recent EU and national policy measures in favour of SMEs, while section 6 offers some conclusions.

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2. The role of SMEs in the Greek economy

Economic theory suggests that SMEs play a vital role in the economy and more specifically in employment creation. The most recent interest in SMEs derives from the model of flexible specialisation, which succeeded the Fordist model of mass production, which was dominant up to the early 1070s.[3] The flexible specialisation model considers that the special features of SMEs fit in a market offering a vast field of small-scale production and allowing constant innovations and vertical disintegration. The role of SMEs in employment creation derives from the fact that they use labour intensively rather than capital. This hypothesis was tested empirically by Birch (1979, 1987) and Daly, Cambell, Robson and Gallagher (1991). Their results showed that small firms, both in the U.S. and in the U.K., make a disproportionately large contribution to net job creation in the economy. They also showed that small firms contribute to employment irrespectively of the trade cycle, whereas large firms make weak or negative contributions when net job change is negative or low, but make a major contribution when net job change is high.[4]

In an effort to investigate the relative importance of small firms in the Greek economy, we apply four statistical measures: the relative importance of small firms as a proportion of the total number of enterprises, the number of enterprises per inhabitant, the importance of employment in SMEs, expressed as a percentage of the total non-primary employment in SMEs and the importance of self-employed workers expressed as a percentage of the Greek labour force.

In 1990 there were 690,000 enterprises in the non-primary sector in Greece (Table I). Of these, 96.3 per cent employed of 0–9 persons while 3.5 per cent employed 10–29 persons. Only 0.2 per cent of these enterprises employed size more than 100 employees. Table I also shows that in 1990, there were 69 enterprises for every 1,000 inhabitants in Greece.

The comparison of this data with the EU average and with the other two less developed member-states confirms the particular role of micro enterprises in Greece. Greece has the largest number of enterprises per inhabitant among the EU member-states. In the other two less developed member states, Ireland and Portugal, the presence of small enterprises per inhabitant is much less intensified. During the period 1988–90 the number of enterprises per inhabitant increased in Greece, while it decreased in Portugal and in Ireland. The third approach to our assessment of the role of SMEs is based on their contribution to employment (Table II). In 1990, 91 per cent of employees in the non-primary sector were employed in Greek SMEs.[5] More important, the share of micro enterprises in non-primary employment amounts to 61 per cent. This is the largest share among the EU member-states.

The dominance of micro enterprises in non-primary employment is not a short-lived phenomenon. According to the National Statistical Service of Greece (NSSG)[6] between 1978 and 1988 the share of employment in small enterprises (with 0–49 persons employed) increased by 7.6 per cent, while that of large enterprises (50 and over persons employed) declined by 16.5 per cent. During the 1988–90 period, the share of employment in micro enterprises increased by two percentages points. Similar trends were not observed

TABLE I
Enterprises by member state, 1988, 1990

Country	Number of enterprises		Enterprises per 1000 inhabitants	
	1988 *thous. (% EU-12)*	1990 thous. (% EU-12)	*1988*	1990
Greece	*670 (4.6%)*	690 (4.4%)	*67*	69
Ireland	*130 (0.9%)*	130 (0.8%)	*36*	35
Portugal	*640 (4.4%)*	600 (3.8%)	*62*	59
EU-12	*14,600 (100%)*	15,780 (100%)	*45*	49

Source: European Observatory for SMEs (1993, p. 60 and 1994, p. 29).

TABLE II
Employment shares of enterprises, 1988, 1990

	0–9 persons		10–99 persons		100–499 persons		0–499 persons		500+	
	1988	1990	*1988*	1990	*1988*	1990	*1988*	1990	*1988*	1990
Greece	*59%*	61%	*21%*	20%	*11%*	10%	*91%*	91%	*9%*	9%
Portugal	*36%*	34%	*28%*	31%	*16%*	17%	*80%*	82%	*20%*	18%
Ireland	*34%*	28%	*31%*	28%	*18%*	22%	*83%*	78%	*17%*	22%
EU-12	*30%*	32%	*25%*	25%	*15%*	15%	*70%*	72%	*30%*	28%

Source: European Observatory for SMEs (1994), p. 29.

in the other two less developed member-states, Ireland and Portugal.

Following OECD (1992), de Wit (1993) and Storey (1994), we use the share of self-employment as an alternative indicator for the importance of SMEs.[7] In small enterprises, the entrepreneur is usually director and owner and in many cases also a worker. Therefore, there should be a positive correlation between self-employment and the presence of SMEs. According to Table III, by 1989 there were 745,000 self-employed in Greece. This number represents 27.2 per cent of Greece's total labour force and is by far the largest percentage among the EU member-states.[8]

TABLE III
Total number and share of self employment, 1989

Country	Self-employed thous. (% EU12)	Share in total labor force (%)
Greece	745 (4.5%)	27.2
Ireland	118 (0.7%)	13.0
Portugal	585 (3.6%)	17.2
EU-12	16,070 (100%)	12.2

Source: Labor Force Statistics, OECD, 1994 (self employment in the primary sector and family employment is not included).

3. The special structural characteristics of Greek SMEs

We identify Greek enterprises according to their average size, natality and mortality rates, productivity, research and development, marketing strategies and also according to their relationship to the underground economy.

Greek enterprises have the *smallest* average size in the EU. In 1990 Greek SMEs employed an average of three workers, while Portuguese SMEs employed five and the Irish SMEs employed eight (Table IV). This size confirms the dominance of micro enterprises and it has not changed since 1988. The increase in average firm size in Portugal and Ireland reflects the changes which occurred in these countries in view of the Internal Market Programme. In Greece, however, such changes were not observed.

The small average size of Greek SMEs can be explained by factors such as: low GDP per capita, weak orientation towards international markets, low population density and small country size.[9]

The small size of Greek enterprises generates problems, most of which are associated with the *financing* of their investments. These problems are due to the limited equity capital of the small firms, their limited access to capital and in particular access to long term funds and venture capital, arising from liquidity problems due to late payments, which hit SMEs harder than larger enterprises. With regard to bank lending, small firms are disadvantaged relative to large firms by higher interest rates on short-term bank loans.[10] The fact that SMEs have greater reliance on short-term funds is consistent with a lack of demand for longer-term funds, but also with a lack of collateral to provide for long-term loans. A wide

TABLE IV
Average enterprise size, 1988, 1990

Country	1988	1990
Greece	3	3
Ireland	6	8
Portugal	4	5
EU-12	6	6

Source: European Observatory for SMEs (1993, p. 60 and 1994, p. 29).

range of theoretical literature has given answers as to why interest rates for small firms are higher than for large firms, why interest rates do not always reflect risk, why banks seek collateral from SMEs and why banks may prefer low risk and low return customers to high risk and high return customers.[11]

The financing problem of Greek SMEs becomes more pronounced within a *liberalised financial system* and also with an economic environment of *fiscal and monetary restraint*. The policies of financial liberalisation usually have a profound impact on the way in which banks allocate domestic credit. Financial liberalisation consists in the elimination of quantitative and price controls on domestic banking. The allocation of funds becomes more competitive. Furthermore, the relaxation of institutional regulations and restraints makes it possible for large Greek firms to bypass domestic credit crunches by directly borrowing in foreign markets and undertaking liabilities denominated in foreign exchange. In this context, the relative disadvantages of SMEs increase.[12]

On the other hand, programs of fiscal austerity, whose chief purpose is to reduce the deficit of the broader public sector might lead to chronic reductions in public investments and infrastructural projects. The likely effect is a reduction of expansion opportunities for newly established SMEs. Furthermore, increases in forms of taxation, and especially in the social security contributions required from the employer have a relatively higher negative impact on the costs of doing business for smaller firms. Monetary restraints and the maintenance of high interest rates in Greece have been a major problem for small firms. The high cost of finance has compounded the chronic problem of access of SMEs to adequate financing facilities. In an environment of general monetary restraint, the ensuing credit crunch inordinately affects SMEs, which have little or no reputation and no long-standing client relations with banks.

Tables V and VI present data on the natality and morality rates of enterprises in manufacturing (NACE 2–4) during the period 1986–91.[13] High natality rates reflect entrepreneurial zeal, flexibility, new employment creation and growth. On the other hand, high mortality rates reflect internal (i.e., organisational) and/or external (i.e. financial) problems of enterprises. Despite the data problems, some conclusions can still be drawn across countries.[14] The figures show a decrease (of 2.5 per cent on average) in the number of new enterprises during the whole period. Within the five year period, 1986–91 the natality rate decreased by 46.4 per cent.[15] The decrease in the natality rate was not reversed even during the growth period 1988–89 when there was a 3.5 per cent average increase of GDP). Ireland also showed a similar pattern for the period 1987–89, while Portugal exhibited increasing rates until 1988. The recessionary period afterwards contributed to the decrease in the natality rate.

TABLE V
Natality rate of firms, related to stock in less developed member-state, 1986–1991

Year	Greece	Ireland	Portugal
1986	2.8%	–	8.8%
1987	2.5%	12.1%	10.8%
1988	2.4%	9.9%	12.0%
1989	2.0%	6.9%	9.9%
1990	1.7%	–	–
1991	1.5%	–	–

Source: European Observatory for SMEs (1993), p. 146.

TABLE VI
Mortality rate of firms, related to stock in less developed member-state, 1986–1991

Year	Greece	Ireland	Portugal
1986	0.2%	–	9.2%
1987	0.2%	10.0%	8.8%
1988	0.2%	10.1%	7.9%
1989	0.2%	7.6%	9.0%
1990	0.2%	–	–
1991	0.2	–	–

Source: European Observatory for SMEs (1993), p. 149.

Table VI provides information on mortality rates during the same period. For Greece, mortality rates seem to be stable at 0.2 per cent, being lower than natality rates. Ireland shows decreasing rates of mortality after 1988, while Portugal exhibits an unstable pattern.

There is no comparable data for the mortality rates distinguishing between small and large Greek enterprises. There is however, a wide range of empirical literature which suggests that small

firms fail more frequently than larger ones. Mata, Portugal and Guimaraes (1995) for example, correlated the size of firms with death rates using data from the Portuguese economy in the 1980s.[16] They found that firm size is a significant (negative) factor of death rates. In a similar fashion, but using data from the U.S. industry, Audretsch (1995) found that highly innovative environments exert disparate effects on the post-entry performance of new entrants.[17] Bulow and Shoven (1978) introduced a model in order to investigate the circumstances under which a firm will be forced to bankruptcy. An asset portfolio with a higher percentage of cash or liquid assets, and a more variable future return increases the circumstances under which a large firm will continue its operations.[18] Dune, Roberts and Samuelson (1989) found that for small U.S. firms, entry and exit is a more frequent phenomenon than for larger firms.[19] Jovanovic (1982) developed a model of dynamic behaviour of an entrepreneur and a bank. Initially, before the individual starts a business, both the individual and the financial institution are ignorant of whether or not the business will be successful. After he becomes an entrepreneur, both the individual and the bank obtain information on success. Individuals who revise their ability estimates upwards tend to expand. Those who revise their ability estimates downwards tend to contract or close. Jovanovic's analysis is important for small new firms. These firms have less precise estimates of their true abilities, since they have not enough experience and knowledge in contrast to large firms. Therefore, the existence of many new firms should be related to increased bankruptcies.

A comparison between mortality and natality rates in Greece leads us to some remarkable results. First, we confirm a positive correlation between natality and mortality rates.[20] Second, we obtain information about the net stock of enterprises. In Greece, the stable pattern of mortality rates in comparison with the decreasing rates of natality leads to diminishing rates in the net stock of industrial enterprises. This trend will create huge obstacles to the absorption of funds from the EU Structural Policies and it will possibly mitigate Greece's convergence efforts.

Table VII presents evidence regarding labour productivity of enterprises in manufacturing for the period 1986–89. The index of productivity used is based on value added per-employee. There seems to be a positive correlation between firm size and labour productivity in Greece. This conclusion is in full accordance with a previous study by the Centre of Planning and Economic Research (1989), regarding labour productivity in manufacture during the late 1970s and the early 1980s. According to this study, per capita value added in enterprises which employ less than 50 persons, was 149 in 1980, whereas per capita value added in enterprises employing more than 50 persons was 392.[21] Table VIII also confirms the lower productivity of micro enterprises. The index used

TABLE VII
Labour productivity (value added per employee) in manufacturing in Greece 1988–1989

Persons employed	1986	1987	1988	1989
10–19	1.45	1.76	2.05	2.40
20–29	1.72	1.89	2.19	2.67
30–39	1.91	1.92	2.27	2.67
50+	2.55	2.87	3.05	4.07
Total	2.26	2.51	3.00	3.52

Source: National Statistical Service of Greece, Annual Census of Industry, 1993, pp. 270–275.

TABLE VIII
Labour productivity by sector and size class, 1988 (total of sector is 100)

	Micro (0–9)	Small (10–100)	Medium (100–499)	Large (500+)	Total
Extraction	50	57	101	117	100
Manufacturing	58	82	108	124	100
Construction	73	107	147	142	100
Trade	67	116	177	94	100
Other services	72	107	153	103	100

Source: European Observatory for SMEs (1993), p. 59.

is based on total turnover per employee. In Manufacturing, an increase of persons employed is accompanied by an increase in labour productivity. This is also true for Extraction, while for Construction, Trade and Other Services the medium size (100–499) seems to be the most productive. The implications of these findings for Greece are very important, since 95 per cent of enterprises in manufacturing are micro enterprise.[22]

As far as firm size and research and development is concerned, small firms are supposed to be disadvantaged compared to large firms. According to Schumpeter (1934), research and development requires a relatively sizeable commitment of resources and a commensurate return to make it worthwhile. Thus, only large firms that can attain at least temporary monopoly power, rival imitation, will find innovation attractive.[23] This hypothesis was tested empirically by Scherer (1965),[24] Soete (1979),[25] Bound, Cummins, Griliches, Bronwyn, Hall and Jaffee (1984)[26] and Audretch and Acs (1991)[27] for the U.S. case, Siddhartan (1988) for the Indian case and Giannitsis (1993) for the Greek case.[28] In all these studies, the results confirmed a positive correlation between average firm size and research and development. The findings were robust, regardless of the statistical proxies of the dependent and the independent variables used.

In Greece, a country in which micro enterprises are dominant, the possibilities for research and development are very much limited in comparison with other countries. Greek firms facing huge financial problems, lack of sizeable resources and difficulties in financing their investments cannot support research and developmental activities. This hypothesis can be the basis for understanding of the results of Tables IX and X. Table IX presents evidence on the contribution of firms with more than 50 persons to total expenditures on R&D and Royalties in industry. According to this table, 82.5 and 90.2 per cent of total expenditures in R&D and Royalties were due to enterprises with more than 50 persons in 1989. Table X presents evidence of participation of firms by employment size classes in royalty payments, over the interval 1978–84. The basic observation which is evident from the estimates of Table X is that by far the dominant role in foreign licensing and technology

TABLE IX
Share of manufacturing enterprises with employment more than 50 persons in total expenditures in R&D and royalties

	R&D expenditures	Royalties
1980	67.6%	83.6%
1985	73.8%	85.2%
1989	82.5%	90.2%

Source: Giannitsis (1993), p. 26.

TABLE X
Royalty payments by size class (1978–1984)

Size class (persons)	No. of firms	Percent of royalties	Percent of empl't
1–50	14	2.8	1
51–100	9	4.6	1.7
101–500	48	61.1	29.1
500+	22	41.5	68.2
Total	93	100	100

Source: Giannitsis (1993).

agreements is played by large firms, and in fact by those employing over 100 persons. This is an indication that growth through technological agreements and licensing processes may require a certain minimum size of firm, which can handle organisationally and managerially the incorporation and utilisation of foreign technology.

In addition to the above, Greek SMEs are characterised by a *passivity* as regards their marketing strategy. According to a recent study by Grand-Thornton International-Business Strategies Ltd.,[29] fewer than half of all Greek SMEs are engaged in export activities and very few engage in other forms of entrepreneurial contact with firms in other countries. One in eight SMEs contacted for this study considered merger with another SME as a viable strategy for their development. Another recent study, which interviewed 300 SMEs in traditionally dynamic sectors such as foods, textiles and clothing, found that in these sectors about 63 percent of SMEs are active exporters.[30] The study found that these firms engaged in exports have the profile of "passive, rather than active, seller". Therefore, they leave the initiative for business contact and transaction to their clients. Consequently, the lack of more active marketing strategies constitutes an obstacle

to sustained internationalisation, even in those sectors which are traditionally more externally oriented.

A final structural characteristic is the strong relationship of Greek SMEs with the underground economy. Several studies have shown that the share of the underground economy in Greece is around 30%.[31] The "withdrawal" of a firm to the underground economy can very well represent a survival strategy through the avoidance of taxes, social security contributions and state regulations. The problem is that when a firm is trapped "underground", it is almost impossible to extend its activities to foreign markets, since external trade requires a certain amount and level of official actions and contacts. Thus, it is possible that SMEs which have sought to ensure their survival via underground activity end up facing much higher barriers to expanding their activities compared to firms operating in the formal sector.

The above characteristics of Greek SMEs should not be taken as suggesting that flexible specialisation represents a promising environment for Greece. Flexibly specialised industries fit in highly differentiated markets, offering a vast field of small-scale production and allowing constant innovations and vertical disintegration. The flexible specialisation approach presents important characteristics like small-scale production. However, in Greece the absence of massive investments, internal modernisation and in several cases innovative behaviour, reduces its applicability. The shortening of the life-cycle of new technologies and products, which is observed today, acts as an additional limiting factor to the possibilities of Greek SMEs participating actively in the internationalisation process. Therefore, the adoption of the flexible specialisation approach as a promising environment for Greece entails the danger that Greek SMEs might be left behind in the hypercompetitive era. This seems to suggest that the structure of Greek SMEs is very different from the ideal-typical SME in the European Union.

4. EU Policy measures in favour of SMEs

The EU policy measures are taken in view of the 1992 Internal Market programme and especially the negative effects on SMEs of fuller trade liberalisation within the EU. The basic idea is that SMEs face a greater challenge than large, already well-established firms, which have been operating for many years on a wide European level.

The obstacles for SMEs are considered to be the following: (a) Financial, especially in view of the modernisation and take-off needs entailed by the Single Market project. European SMEs are considered to be undercapitalised. Due to a fiscal discrimination against risk capital they have problems accessing bank loans at reasonable rates and fast-growing companies are hampered by the absence of European capital markets for SMEs. (b) In comparison to large firms, SMEs also have a serious handicap due to lack of sufficient information as regards such issues as public procurements, EU programs and other EU policies linked to the Single Market program. (c) Also, because of their limited size, SMEs often employ inadequately trained personnel, which cannot keep up with new technologies and/or the EU decision-making process. SMEs do not have the incentives to invest in training, because they cannot provide an internal labour market, like those found in larger enterprises, through which employees may seek promotion and career advancement within the enterprise. This handicap should affect the smaller enterprises more.[32]

Since the late 1980s, the promotion of SMEs has constituted an explicit Community goal which is supposed to complement the national governments efforts. The basic principles of the EU policy measures were outlined by a Commission Programme in 1986. This policy led to the formation of a special "SME Task Force", which was to be replaced in 1989 by a whole Directorate General (DG XXIII) dealing with Enterprises, Commerce, Tourism and Co-operatives. At the same time, a plan for the promotion of the development of SMEs was adopted and it was financed with 110 million ECU for the period 1990–93. In 1991 a new Council Decision reviewed the 1989 programme and increased the amount earmarked to it from 110 million ECU to 135 million ECU. This was followed by the Council Decision of 14 June 1993 on a Multi-annual Programme of Community measures to intensify the priority areas and to secure the continuity and consolidation of policy for SMEs. This was accompanied with a budget of 112.2 million ECU to Enterprise Policy for the period 1993–96.

The Integrated Programme, which was adopted by the Commission in 1994,[33] sets out the overall framework of the Community Enterprise Policy. Its objective is to pull together various initiatives into an overall framework to ensure their coherence and visibility, and to propose a closer partnership between all parties concerned with the development of SMEs – at Community, national and regional levels – with a view to enhancing the convergence and effectiveness of these measures.

The Commission *White Paper on Growth, Competitiveness and Employment* proposed a complementary strategy to help enterprises and particularly SMEs, in order to ensure the proper mobilisation of economic operators for growth competitiveness and employment. The exact policy measures according to the *White Paper*, can be classified as following:[34]

1. *Financial Support*: seed capital funds, global and subsidised loans by the European Investment Bank (EIB), guaranty schemes by the European Investment Fund (EIF), European capital markets and specific financing for Objective 1 regions, such as the SME Initiative.[35]

The seed capital scheme is a measure whose objective is to make capital available to new businesses and to improve the quality of seed stage projects. Projects eligible for support are usually those with a relatively long development phase, often involving new technology.[36]

EIB global loans are provided through financial intermediaries operating at national, regional or even local level. The loan packages are used to support small and medium-sized investments made by SMEs. Subsidised loans are also distributed through financial intermediaries. The loans are targeted on job-creating SMEs and attract an interest subsidy of 2% per year for 5 years. The maximum loan amount is 30,000 ECU per new job created.[37]

The EIF provides guarantees to financial institutions in order to support medium- and long-term investment, although it is envisaged that shareholdings may also be taken in particular enterprises specialising in SME financing. Guarantees are normally limited to 50% of the investment cost and are priced according to the perceived risk.[38]

The European capital markets are oriented towards small but rapidly growing European companies and enable them to raise the external equity capital they need in Europe, without restoring to an American listing.

The SME initiative targets SMEs in the industrial and service sectors in Objective 1 regions.[39] The SME Initiative is linked with all the enterprise actions under the Integrated Programme in favour of SMEs and the Craft Sector and uses the methods and procedures of the Structural Funds.[40]

2. *SME co-operation*: BC-net, BRE, Europaternariat, Interprise Euromanagement and subcontracting measures.

The BC-NET and the BRE are networks of consultants and intermediaries, which assist SMEs to find partners at regional, national, Community and international level. The networks identify potential partners in response to a specific offer of co-operation that may cover all sectors of activity, thus opening the way for all types of co-operation (financial, commercial, industrial and technological).

Europaternariat is a bi-annual business meeting event, whose purpose is to encourage regional development. It aims particularly to stimulate development of less-favoured regions within the Community, or those suffering from industrial decline, within the overall framework of the EC's regional policy.

The Interprise program is a series of business meeting events. These are designed to support local, regional and national measures throughout the Community, which aim to stimulate direct contact between businessmen in order to develop co-operation agreements between SMEs. Although the objectives and methodology of Interprise are similar to those of the Europaternariat programme, the scale is larger, involving industrial and developed regions.

Euromanagement is an intervention using consultants who apply a common methodology to assist SMEs in areas which are critical to their survival or development.[41]

Co-operation between small and large firms is promoted through support for subcontracting by providing statistical information on subcontracting, by publishing a Practical Guide to the Legal Aspects of Industrial Subcontracting and by decentralising the interconnection and inter-oper-

ability of subcontracting exchanges and databases in Europe.

3. *SME Information*: assistance to SMEs by providing information has been implemented since 1986 and has led, since 1990 to the creation of the Euro-Info Centres. As information centres with a European outlook, the Euro Info Centres (EICs) are the preferred partners of SMEs who wish to make the most of opportunities offered by the European market. Organised in a network based in all member-states, their approach is pro-active and decentralised, which allows them to given pertinent answers to SMEs' queries.

4. *Other Forms of Support*: many other measures are covered such as:[42] (a) adaptation and greater flexibility of EU competition (ADAPT programme) (b) research and technology, focused measures (MINT – adaptation of new technologies-, RACE – telecommunications-, BRITE – flexible material technologies-, ESPRIT – information technologies-, CRAFT – Co-operative Research Action For Technology-, fourth RTD Framework Programme, (c) training of employees (LEONARDO), etc.

5. Greek policy measures in favour of SMEs

Greek policy measures are in full accordance with the above policy measures. They include investment subsidies, financial incentives, mutual guarantee schemes and a variety of support service i.e. infrastructural facilities such as information on sub-contracting, on public procurement contracts, on partnerships and co-operative arrangements among SMEs. The institutional base of these policies is the Hellenic Organisation of SMEs (HOSME). The principal tools used by HOSME are the following: (a) Investment subsidies in the form of grants, which help defray part of the cost of new investment projects.[43] (b) Financial incentives in the form of subsidisation of loans and loan guarantees have also been important tools of support for SMEs.[44] (c) HOSME provides information on sub-contracting, public procurement contracts, partnerships and co-operative arrangements among SMEs as well as certain legal aid services towards these goals. (d) The Hellenic Industrial Development Bank provides support services, especially to medium-sized enterprises, through the construction and operation of industrial parks in various regions in the country.

6. An assessment of the EU policy measures

The EU policy measures can be further divided into two methodological categories: *Financial assistance* (seed capital funds, global and subsidised loans, guarantee schemes and SME Initiative) and *micropolicies* (SME co-operation and SME information) to weave the economic and social (internal – i.e. structural – and external framework.

Unlike the first category, the second one represents a new approach fully embodied in the *White Book*, aiming at promoting specialisation and complementarity, and creating common externalities. These externalities can establish competitive advantages in the open market, e.g. quality control, research activity, international assistance, finance. A variety of European examples (Germany, Northern Italy, Southern France, Catalonia) shows that SMEs can be competitive if they are induced to specialise their activity within a framework of industrial co-operation, given by an informal network of relations at territorial level. This represents a new approach, which is completely different from the classical (monetarist or Keynesian), centralised, burocratic intervention of financial.[45]

An effort to assess the effectiveness of the EU policy measures in EU member-states is presented in Table XI. It includes five indices, three of which relate to SME financing, one to SME co-operation and one to SME information. It is obvious that in the less developed members-states (Spain, Portugal, Greece and Ireland) the effectiveness of the financial policy measures in favour of SMEs is the lowest. The average of the three financial measures is 11 for Greece, 19 for Portugal and 33.67 for Spain and Portugal.

What the estimates of Table XI seem to suggest is that best practice policies lie in the direction of incentives and services, which support co-operative action in local and foreign market. Increasing the utilisation of assistance of SMEs is likely to be more effective if the assistance focuses, in the first instance, on intermediaries which generate co-operative and information networks, rather than

TABLE XI
Policy measures in favor of SMEs

Country	(1)	(2)	(3)	(4)	(5)	(6)
Belgium	72	97	2	57.00	40	15
Germany	16	100	4	40.00	4	30
Denmark	57	99	0	52.00	3	8
Spain	16	82	3	33.67	8	26
France	32	100	5	45.67	7	32
Italy	64	100	3	55.67	14	29
Netherlands	20	100	2	40.67	2	8
UK	4	100	3	35.67	9	22
Greece	16	17	0	11.00	4	13
Ireland	20	80	1	33.67	18	6
Portugal	36	21	0	19.00	45	12

(1) = index of the value of per capita loans by the EIB 1990–1994.
(2) = % of utilization of the Community Initiative (up to 31.7.1995).
(3) = number of seed capitals 1995.
(4) = average of financial measures.
(5) = index of per capita co-operation projects BC-Net.
(6) = number of European Information Centres up to the end of 1995.
Source: Louri (1996), p. 8 and own calculations.

directly on SMEs themselves (i.e. through financial measures). It is more effective to help and develop business assistance services, multiple complex relations and networks to provide for consultancy and information services to SMEs. Special attention should be paid to improving the functioning of existing intermediaries rather than creating new ones, and to the establishment of network links between them on a regional, national or Community level.

In other words, the estimates in Table XI suggest that there is a key distinction between the structure of competitive, high-tech, highly-specialised SMEs in advanced countries, whose size is determined by the size of the international niche market where they compete, on the one hand and on the other, SMEs in Greece or in other less developed member-states, whose size is determined by the local markets they serve, while in most cases they do not have the marketing skills/approach to address export markets. Copying successful instruments for SMEs in advanced countries can thus be most dangerous for the less developed countries, since the industrial organisation of the typical SME is different. Typically it is a family business, with immediate priorities in production and finance, rather than marketing and technology.[46]

Greek SMEs are structurally too different (*too small*)[47] from the ideal-typical SMEs which exist in the heads of the EU policy-makers. The effects of policy measures, without further modifications, will be different form those envisioned by the EU policy-makers. Thus, the less organised and technologically less advanced enterprises located in the less developed areas, sustained by an inappropriate institutional infrastructure (agencies, financial institutions, consultants and various other services), gain much less advantage from EU policy measures and especially from its financial support measures.

What is needed is not an instrumentalization of modern technological means to save traditional relations, but the instrumentalization of traditional social and economic networks for the creation of interfaces between local and central structure, small business and large firms.

7. Conclusion

This paper makes an assessment of the homogenous approach and policy measures towards SMEs, adopted by the *White Paper on Growth, Competitiveness and Employment* and by national policies in Greece. Micro enterprises, which account for around 96 per cent of the total number

of enterprises, play a significant role in Greek economic and social life. Among the EU member-states, Greece has the largest number of enterprises per inhabitant, the largest share of micro enterprises in non-primary employment and the largest share of self-employment in the total labour force. Moreover, Greek SMEs exhibit distinct characteristics: the smallest average size in the European Union, decreasing birth rates, very low levels of productivity and research and development, passivity as regards their marketing strategy and very close ties with the underground economy. The differences between Greece and Ireland are obvious, while less obvious but unquestionable between Greece and Portugal.

The *White Paper on Growth, Competitiveness and Employment* refers to SMEs in a rather general way, without distinguishing among them according to their characteristics. The two basic policy measures towards SMEs are financial assistance (seed capital funds, global and subsidised loans, guaranty schemes and SME Initiative) and micropolicies (SME co-operation and SME information) to weave the economic and social (internal – i.e. structural – and external) framework. The Greek experience, has shown that financial assistance measures are ineffective. This is due to the fact that Greek SMEs are too different form the ideal-typical SMEs which exist in the developed EU member-states. Therefore, the effects of policy measures, without further modifications, will be different from those envisioned by the EU policy-makers. Increasing the utilisation of assistance by SMEs in less developed member-states is likely to be more effective if the assistance focuses on incentives and services, which support co-operative action in local and foreign markets, rather than on direct SME financing.

Notes

[1] See EU Commission (1993a), p. 78.

[2] Following Eurostat, the European SME-sector is taken to comprise enterprises – except agriculture, hunting, forestry and fishing – employing less than 500 employees. Within the SME sector the following broad size classes are distinguished: micro enterprises: 0–9 employees, small enterprises: 10–99 employees and medium enterprises: 100–499 employees.

[3] According to Lyberaki and Pesmazoglou (1994), the renaissance of interest in SMEs is not new. There is considerable historical evidence of two centuries, originating from Proudhon's idealized and utopian craft communities, continuing with Russian populists, who considered SMEs to be an "alleged alternative to capitalism", adopted by neo-populists in development theory with the dominant theoretical discussions from the "appropriate technology" and "small is beautiful" and ending up in the discussion around the informal sector. See Lyberaki and Pesmazoglou (1994), p. 1.

[4] See also Storey (1994), p. 173, for a detailed review of this empirical literature.

[5] These data concern employment in the non-primary sector. In 1988 the share of employment in industrial SMEs employing less than 50 persons was 82 per cent. See NSSG, Census of Industry in 1988 (National Statistical Service of Greece).

[6] See National Statistical Service of Greece (NSSG), Census of Establishments (1988).

[7] See OECD (1992), p. 155, de Wit (1993), p. 367 and Storey (1994), p. 26.

[8] Of the 745,000 self-employed persons in Greece, 152,700 or 20.5 per cent are self-employed in manufacturing only. This is the largest share – besides Portugal (with 21.3 per cent self-employed) – in the European Union. In Ireland the respective share is only 9.6 per cent. See OECD (1994).

[9] See the European Observatory for SMEs (1994), pp. 29–30.

[10] The higher rates are due to the fact that in the presence of market imperfections, banks face greater risks, since SMEs do not have enough collateral. Therefore, they will be unable to obtain access to funding, even if their projects bring higher returns than those of larger firms. Empirical analysis in the U.K. case is included in Cressy (1992, 1992b).

[11] See Hillier and Ibrahimo (1993). Arrow (1963, 1968), Stiglitz and Weiss (1981) and Akerlof offered explanations as to why banks, instead of raising interests rates, prefer to ration credit.

[12] Since 1985 Greece has been following policies of financial liberalization.

[13] Credible data regarding natality and mortality rates of Greek enterprises are not available. The only official data are included in the European Observation for SMEs (1993). They refer to manufacturing enterprises without distinguishing according to their size. The natality rate is defined as the ratio of new enterprises to the existing stock of enterprises, while the mortality rate is defined as the ratio of closures to the existing stock. The Greek data regarding mortality rates are by no means comparable to other countries, as they concern only bankruptcies, which form a minor part of the mortality of enterprises.

[14] There are differences in definitions, mainly as regards to mortality.

[15] In 1986 the natality rate reached 2.8 per cent, whereas in 1991 it only reached 1.5 per cent.

[16] See Mata, Portugal and Guimaraes (1995), p. 459.

[17] In industries where innovative activity and especially the innovative activity of small firms plays an important role, the likelihood of new entrants' of surviving over a decade is lower than in industries where innovative activity is less important. See Audretsch (1995), pp. 456–457.

[18] See Bulow and Shoven (1978), p. 454.

[19] See Dune, Roberts and Samuelson (1989), p. 495.

[20] Theoretically, Johnson and Parker (1994) explain this

positive correlation. They distinguish between three types of effects operative in these interrelationships: the "multiplier", the "competition" and the "Marshall" effect. According to the first, births of new enterprises cause future births or deaths cause future deaths. The opening of a new outlet, for example, may enhance the overall attractiveness of a shopping area to customers and might act as a magnet for other retail ventures. A retail death, on the other hand, might reverse this picture. The competition effect occurs when births (deaths) cause future births (deaths). The arrival of a competing shop in an area might lead to the demise of the shop or shops due to insufficient demand. The "Marshall" effect is that death of a firm will ultimately occur because of age, even if there is no change in the competitive environment in which the firm operates.

[21] In more detail, this study outlined the following correlations between labor productivity and firm size in 1980: 0–4 persons: 105, 5–9 persons: 146, 10–19 persons: 188, 20–29 persons: 240, 30–49 persons: 254, 50–99 persons: 392, 100+ persons: 412. Similar correlations were observed for 1975.

[22] The low labor productivity of micro enterprises contributes to the decrease in total labor productivity of the manufacturing sector in Greece. This is evidenced by OECD (1993) "Economic Surveys, p. 14, and Liargovas (1993), pp. 32–35.

[23] See also Penrose (1990), p. 426, Amendola and Bruno (1990), p. 424, and Kamien and Schwartz (1975), p. 12. Piore and Sabel (1984), on the other hand, argue that small firms – in contrast to large firms – have the advantage of flexible methods of production and of adaptation of technology. This allows them to have multiple applications and continuous inventions with low cost.

[24] Sherer (1965) for example, on a survey of the 500 largest U.S. industrial corporations found the number of patented inventions increases less than proportionately along with firm size.

[25] Soete (1979) found that in American firms involved in research, expenditures for R&D increase more than proportionately with firm size.

[26] Bound, Cummins, Griliches, Bronwyn, Hall and Jaffee (1984), in a survey of 1,492 U.S. enterprises, found that the number of patents increases more than proportionately with the increase in size in smaller enterprises and almost proportionately in larger ones.

[27] Audretch and Acs (1991), in a survey of 1,695 U.S. firms, found that the relationship between the number of patents and size of firms depends on the technological environment. In high technology industries, there are decreasing returns. In low technology industries, there is some evidence of increasing returns. The contrast between high technology and low technology groups reflect the fact that in high technological opportunity industries, only relatively increments to existing knowledge are required to innovate, while in low technological industries an innovation requires a firm to invest in a substantial addition to the stock of existing Knowledge. See Audretch and Acs (1991), pp. 743–744.

[28] Droukopoulos and Thomadakis (1994) performed correlation tests between firm size and per cent of royalties. Their correlation coefficients appeared negative in the case of SME presence, and positive and significant with respect to larger establishment presence in the sector. Their basic conclusion was that ". . . technological and organization globalization of SMEs appears non-existent". See Droukopoulos and Thomadakis (1994), p. 36.

[29] See Droukopoulos and Thomadakis (1994), p. 50.

[30] University of Piraeus (1992).

[31] See for example Vavouras and Koutris (1991), Nagreponti-Delivanis (1991) and CPER (1995). According to the last study, the underground economy in the manufacturing sector was very high (78 per cent of the value added of the manufacturing sector in 1988). See CPER (1995), p. 63.

[32] Mobility in the SME sector is external, involving a move to another SME and necessarily implying the loss of any investments made by the enterprise in the employees who leave.

[33] See EU Commission (1994a).

[34] See EU Commission (1993b), p. 78f.

[35] A problem with all the financial support measures is that they represent "up front" supports. It could be important to balance this front-loaded approach with other incentives which are more back-loaded, for example schemes whose payoffs are contingent on performance, be it profitability, export activity, product innovation, or even simply contributions to employment.

[36] In addition to seed capital, the Funds also provide support services such as financial planning, advice on further sources of finance, market analysis and business strategy development.

[37] To be eligible, a SME must have net fixed assets of no more than ECU 75 m and up to 500 employees. See EU Commission (1995).

[38] See European Commission (1994b), p. 2.

[39] It is considered that SMEs in the less developed regions have to bear higher 'costs' than those in more developed regions in order to adapt to the situation and to benefit from the Single Market, because of the low competitiveness of their products, their low technology, as well as their low level in management and organization skills and inadequate institutional infrastructure. Because of the limited capacity of the local markets and distance from the important trade centers, they have to bear increased transport, communication, distribution and sales promotion costs to compete in the faraway markets.

[40] To be eligible for support, an enterprise must have fewer than 250 employees and a turnover currently below ECU 40 million. See EU Commission (1994a).

[41] See EU Commission (1994a), p. 34.

[42] See EU Commission (1994a).

[43] These apply to enterprises and/or investments whose size lies below a certain limit. The criteria for the level of the subsidy provided (which can range from 15 to 60 percent of initial capital expenditure) include adoption of new technology, export potential, employment and geographic location.

[44] The criteria for this form of support are similar to those employed for investment subsidies, but also include checks on credit-worthiness.

[45] See Bianchi (1994), p. 10.

[46] See Tsipouri (1994), p. 14.

[47] The operational definition of SMEs in Greece is based on a cutoff point of 50 employees; this implies that establishments or firms employing more than 50 persons are considered

"large" in the Greek context, whereas firms of such size may well be classified as of "small" or of "medium" size in other more advanced economies.

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