



NATIONAL BANK OF GREECE

Strategic Planning and Research Division

Survey of Greek SMEs First half of 2013

Special Issue: Labour Market



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July 2013



Survey: First half of 2013 – Key findings

- The adverse economic environment of the last 5 years has led to a circa 50% decline in the **turnover** of the average SME – a percentage ranging from 40% for the larger enterprises of our sample to 90% for the smaller ones.
- Accordingly, SMEs now account for just $\frac{1}{3}$ of the business sector compared with $\frac{1}{2}$ in 2007, while the larger and more export-oriented enterprises of this category are showing greater resilience. Notably, the turnover of the motor vehicle trade and the construction SMEs has been hit hard (71% and 70% respectively, for the period 2007-12).
- The mild improvement in **business sentiment** for SMEs posted at the end of 2012 became more evident in the first half of 2013. More specifically, SMEs expectations for employment for the next 6 months suggest a trend toward stabilization, while their investment outlook is positive, particularly in the manufacturing sector.
- Against this backdrop, the **business confidence index** shows an upward trend for all sectors, the largest improvement being in the component of the index concerning future demand. Notably, the majority of the larger SMEs state positive expectations, while the services sector shows the biggest improvement.
- Specific segments that stand out for positive findings are export-oriented enterprises, wholesale traders, tourism and freelancers.
- The larger enterprises of our sample comprise the healthier part of the SME segment, as they post a positive business confidence index, rise more effectively to the challenge of tight liquidity and obtain the financing they apply for at a rate of 90% (compared with 30% for the smaller SMEs).
- In terms of **financing needs** of the past 6 months, 41% of SMEs stated that they do not need financing, 26% of SMEs (corresponding to $\frac{3}{4}$ of SMEs that applied for financing) received financing, while the remaining $\frac{1}{3}$ needed financing but have not been able to obtain it (mainly because they have not applied for it and, to a lesser extent, because their application was rejected).



Special issue: Labour Market – Key findings

- As **labour productivity** increases in line with the size of the enterprise and people employed in small enterprises in Greece amount to 60% vs. 30% in Europe, total productivity in Greece is lower than the European average.
- SMEs are proving to be quite flexible as, despite the fact that the economic crisis led to a sharp fall in revenue, they have managed to contain **labour costs** and keep them broadly unchanged as a percentage of revenue. More specifically, the reduction in labour costs by over 50% over the period 2007-12 was achieved primarily through the reduction in the average wage (contributing 28%) and secondly through staff reductions (contributing 25%).
- **Average employment per SME** has decreased by 25% over the past 5 years (40% in small and 23% in medium-sized enterprises), with the largest decline in the construction sector (52%) and the smallest in the services sector (5%). In addition, we note a trend towards part-time employment (and outsourcing, especially in manufacturing) and an average delay in wage payment of the order of 1½ months.
- **Average annual wage** has decreased by 28% over the past 5 years (42% in small and 17% in medium-sized enterprises), with the largest decline in the services sector (47%) and the smallest in manufacturing (11%).
- **Productivity** (adjusted for wages) has contracted by 12% over the past 5 years, with the largest fall in trade (18%), while there was a slight increase in manufacturing (3%).
- About 60% of SMEs consider that the reforms in labour market legislation have been useful.
- It is notable that in a period of severe contraction, 17% of SMEs have opted for **employment growth** over the past 5 years – thereby gaining market share and maintaining their comparative advantage.
- Following the wave of restructuring in the labour market, SMEs indicate **stabilization of employment for the following year**, as just 20% continue to employ surplus personnel (a significantly lower percentage than the 44% that reduced their labour costs by layoffs over the past 5 years). It is also encouraging that only ½ of SMEs state that they will change their labour costs in the coming year (vs. ¾ that changed labour costs in the previous 5 years). However, there is a need for **further reductions in unit labour costs** if Greek SMEs are to become more competitive.



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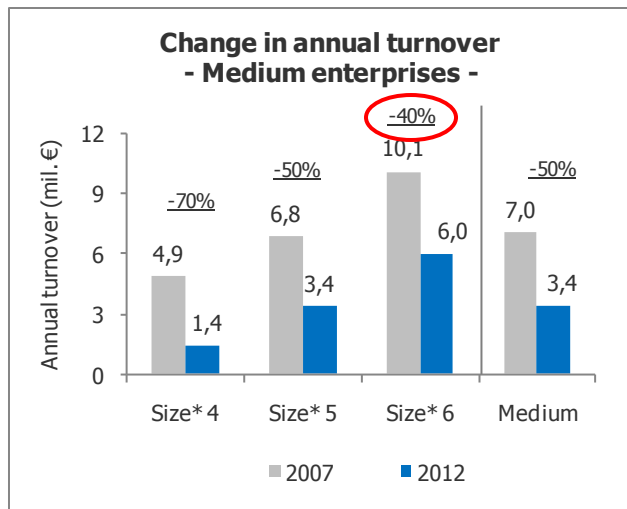
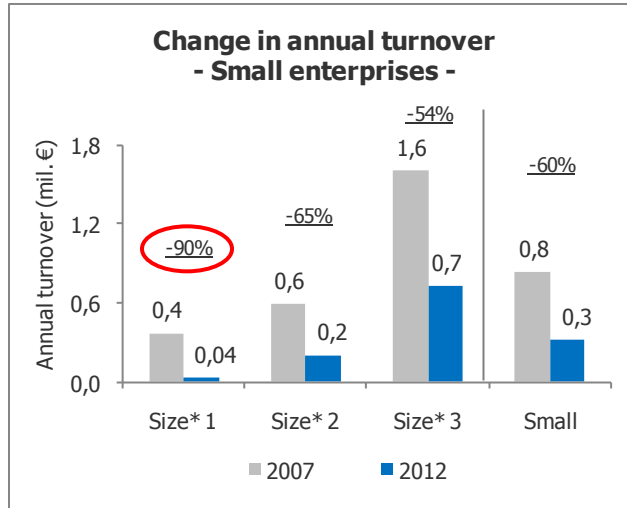
- **Restructuring of business sector**
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RESTRUCTURING OF BUSINESS SECTOR





Restructuring of the business sector with significant losses for smaller SMEs...



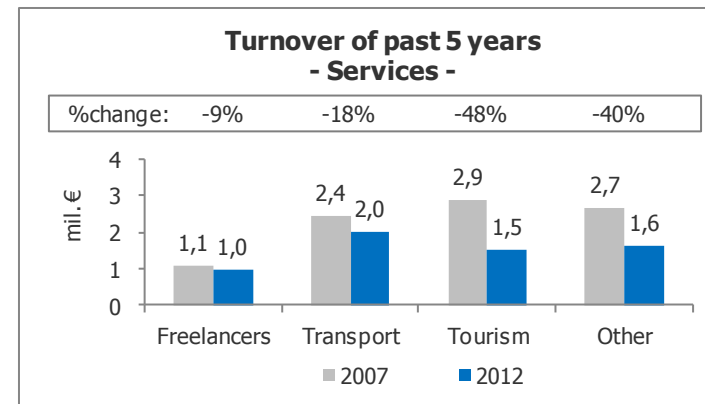
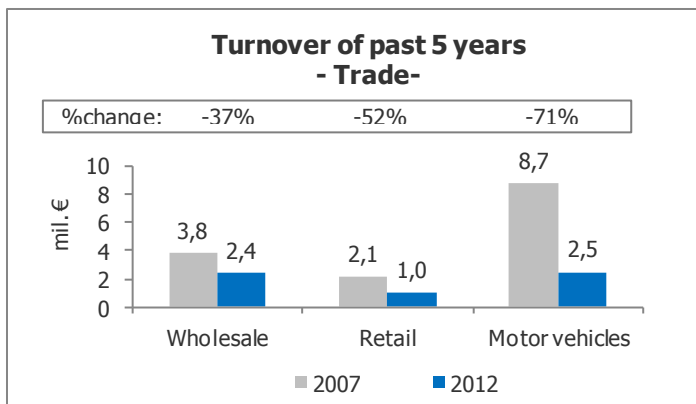
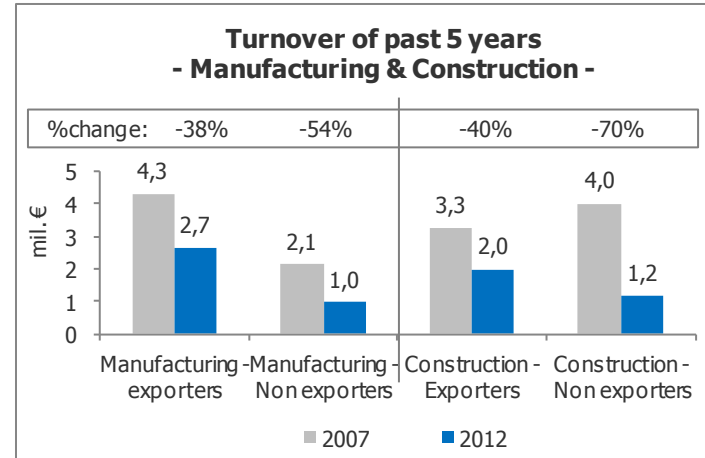
* The size scale of 1-6 in the graphs above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10].

- The adverse economic environment has led **the turnover** of the average SME **to decline** by circa 50% (from €4 million in 2007 to €2 million in 2012), according to NBG's business survey.
- The **divergence between the magnitude of the turnover shrinkage** of smaller and larger enterprises of the size-scale* is remarkable. More specifically, the smaller SMEs with turnover below €100,000 (scale 1 in the graph) lost 90% of their revenue over the past 5 years, vs. 40% for the larger SMEs with a turnover of €5-10 million (scale 6) – thus indicating the importance of size for the resilience of SMEs.
- Note that the near-halving of SME turnover, based on NBG's survey, is verified by available financial data for SMEs over the last 5 years (indicating a drop of about 40% in turnover during the period 2007-12, source: ICAP database). Accordingly, it seems that the economic crisis has led to a **restructuring of the business sector**, with SMEs' share of the sector dropping from $\frac{1}{2}$ of turnover in 2007 to $\frac{1}{3}$ in 2012.



... and asymmetry in the shrinkage of business sectors

- The positive impact of business extroversion during the crisis is reflected in the comparatively smaller decline in turnover of export-oriented enterprises, with the **manufacturing** sector benefiting the most (65% of enterprises export – with a 38% decline in turnover - vs. less than ¼ of **construction** – with a decline of 40%).
- In the **services** sector, freelancers have been least affected (decline of 10% in turnover), despite their smaller size, while tourism is facing the worst problems (decline of about 50%).
- In the **trade** sectors, the motor vehicle trade has been worst affected (down 70%), while wholesale traders present the best picture (down 37%).



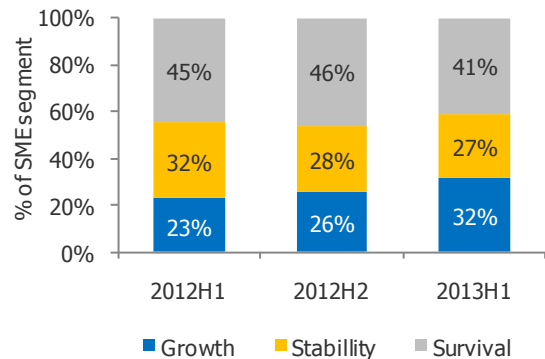
CURRENT ECONOMIC ENVIRONMENT & BUSINESS CONFIDENCE INDEX FOR SMEs: First half of 2013



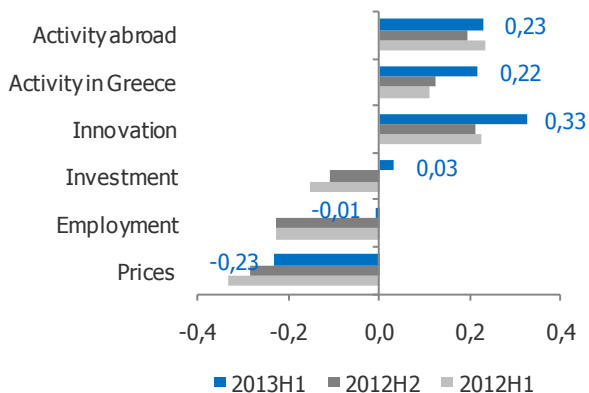


Signs of improvement in business sentiment...

Strategic priority of SMEs



Activity estimates about the next 6 months

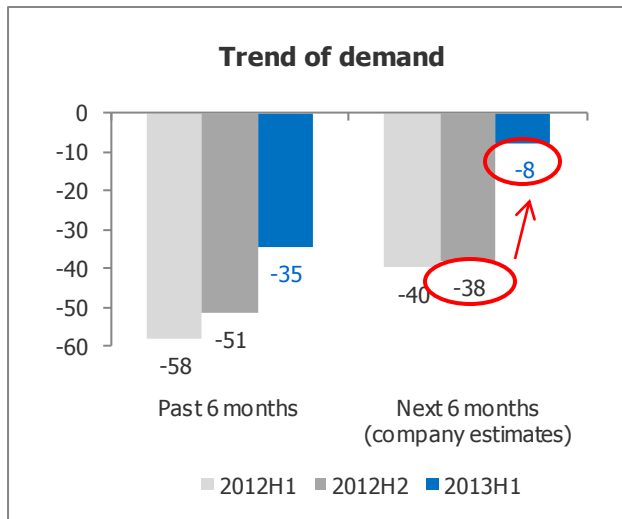
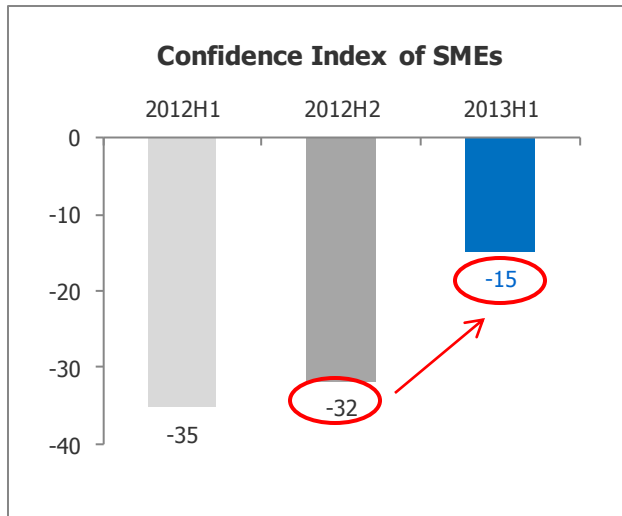


Net balance of answers for increase (+1), stability (0) or decrease (-1)

- The mild **improvement in the business sentiment** for SMEs posted at the end of 2012 became more evident in the first half of 2013.
- The percentage of enterprises whose **strategic priority is growth** is increasing, reaching $\frac{1}{3}$ of the SME sector in H1.2013 (vs. $\frac{1}{4}$ in the previous 2 semesters), while the percentage aiming simply at survival has fallen to 40% (vs. 45% in the previous semesters).
- In addition, **SMEs' estimates for the next 6 months** are significantly improved. Specifically:
 - ✓ Employment shows signs of stabilization after continuous estimates of shrinkage during 2012.
 - ✓ More enterprises estimate that activity in Greece and abroad will increase in H2.2013 (27% vs. circa 22% in H2.2012).
 - ✓ For the first time in the past 18 months, enterprises anticipating an increase in investments in H2.2013 (17% of SMEs) are more than those anticipating a decline (13% of SMEs).
 - ✓ The shift towards innovation appears to be picking up, as 37% of SMEs intend to increase innovation (vs. 30% in H2.2012).



... reflected in the business confidence index



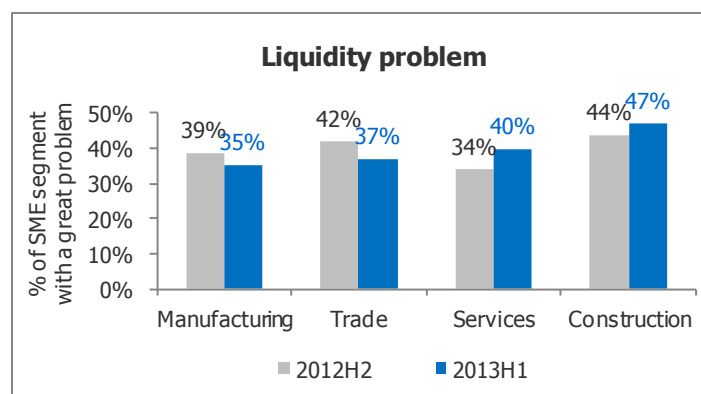
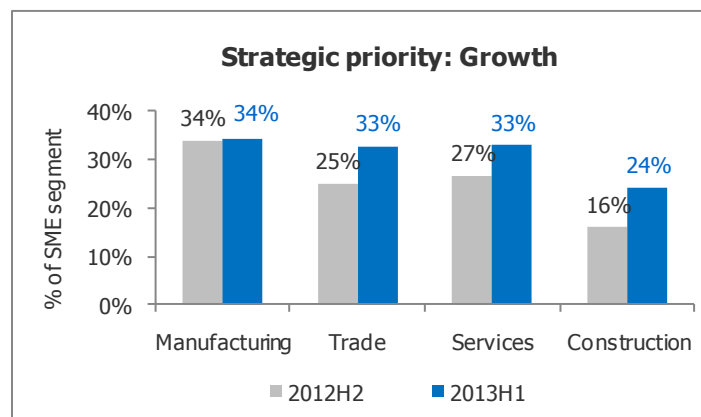
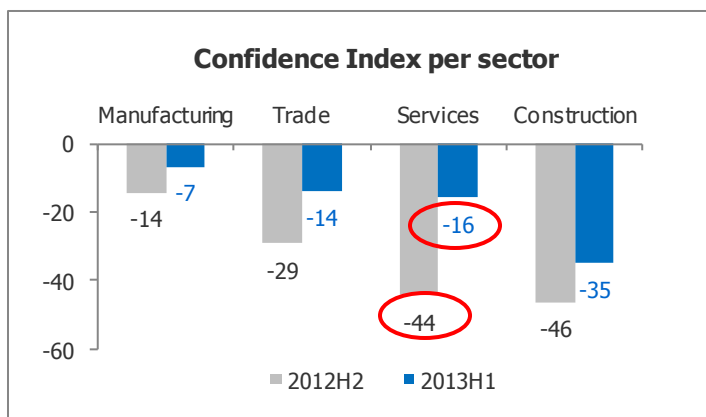
- The business confidence index for SMEs remained at **negative levels** in H1.2013, implying that enterprises with negative expectations are more than those with positive ones.
- However, there was a significant **improvement** vs. H2.2012, as the index increased by 17 points (from -32 to -15), vs. a marginal increase of 3 points between H1 and H2.2012.
- Indicative of the upward trend of the business confidence index are the **estimates regarding demand**, with: i) evaluation of current demand (the trend vs. past 6 months) improving by 16 points; and ii) estimates regarding future demand (activity in the next 6 months) improving even more, by 30 points. More specifically:
 - ✓ 19% of SMEs stated an increase in demand in the previous semester (vs. 13% in H2.2012), while
 - ✓ a further increase is anticipated for H2.2013 by 28% of SMEs (vs. 15% in H2.2012).

* The business confidence index corresponds to the net balance of answers for decrease (-10), stability (0) or increase (10).



Sector variations

- The **business confidence index*** in H1.2013 shows an upward trend for all the sectors under review, with the service sector posting the greatest improvement.
- SMEs across all sectors are shifting to a **growth orientation**, with construction showing the strongest improvement, although it still fails to reach the levels of the rest of the SME sector.
- There has also been an improved **resilience to the crisis**, especially for trade (from 14 to 17 months).
- **Liquidity problems** appear to be moderating for the manufacturing and trade sectors, but worsening for the service and construction sectors.



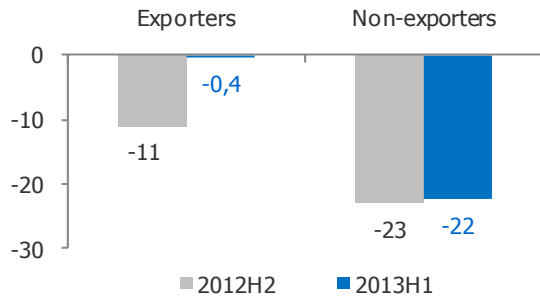
* The business confidence levels are not comparable by sector (only over time), due to different calculation (see p.50).



Sector variations

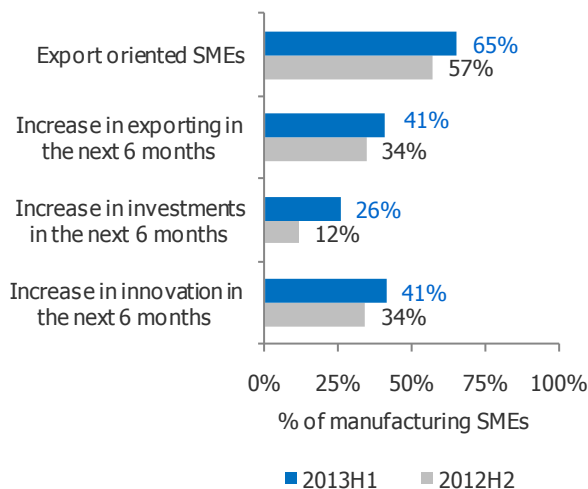
Manufacturing – Export orientation

Confidence Index: Manufacturing



* The manufacturing confidence index corresponds to the net balance of positive and negative answers concerning the level of orders, the level of stock and the estimated trend of future production.

Sector indicators

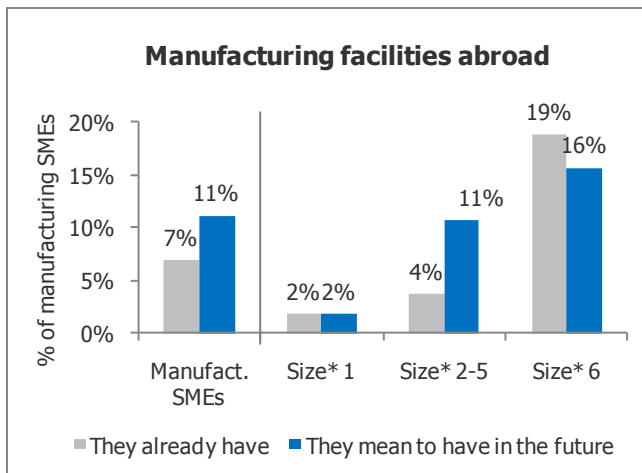
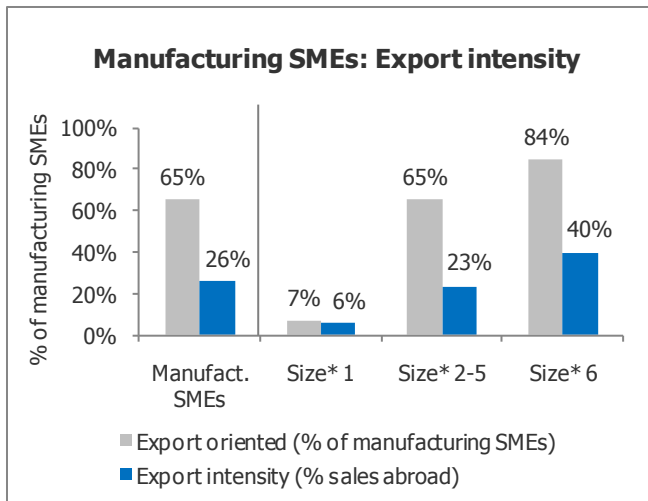


- The **business confidence index** of manufacturing enterprises presented an increase of 7 points in H1.2013 (see slide 11). Note that manufacturing is the only sector where the part of the index concerning the **estimate of future demand** achieves a marginal positive balance, as $\frac{1}{3}$ of industrial SMEs estimate increased demand in the next 6 months (from 23% in H2.2012), vs. 26% estimating reduced demand (from 42% in H2.2012).
- The positive picture arises mainly from the **export-oriented enterprises** of the sector, whose business confidence index reflects relatively stable expectations, while the future demand component is estimated to be on the increase by 40% of exporting SMEs (vs. 20% of non-exporters).
- Alongside increased activity, manufacturing SMEs present **an increased trend for investment** and innovation in the coming semester, which leads to increased capital needs. Specifically, 40% of manufacturers that currently have no loan, contemplate borrowing in the future (vs. 28% of total SMEs without a loan).



Sector variations

Manufacturing – Export orientation



* The scale of 1-6 in the graphs above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).

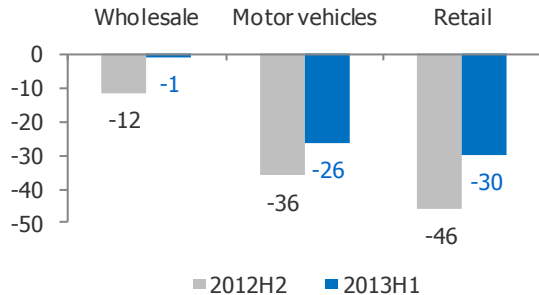
- The strategy of **international activity** has been chosen by 65% of manufacturing SMEs, which enjoy significant advantages during the crisis. The share of annual turnover generated abroad is about $\frac{1}{4}$ on average.
- International business culture is more intense as the **size of the enterprise** increases. Specifically, smaller SMEs with a turnover less than €100K export at a rate of just 7% (and 6% of their turnover), vs. 84% for the bigger SMEs with a turnover of €5 to €10 million (and 40% of their turnover).
- Part of foreign operations originates from **manufacturing facilities abroad**, which concerns 7% of the sector. The size of the enterprise is of importance in this aspect of international orientation as well, with 2% of the smaller SMEs having facilities abroad, vs. circa 20% of the larger SMEs.



Sector variations

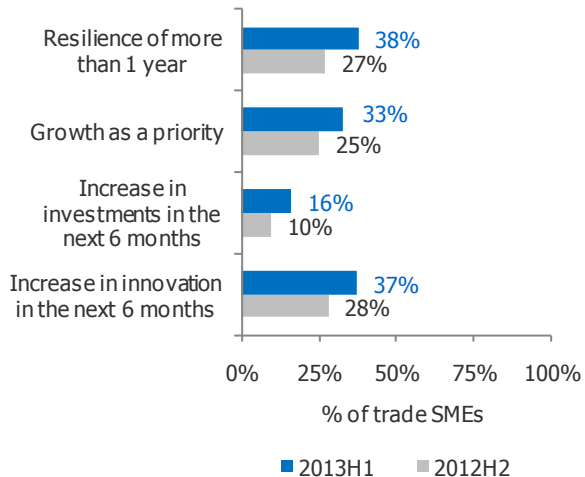
Trade – Wholesale

Confidence Index: Trade



** The trade confidence index corresponds to the net balance of positive and negative answers concerning the level of stock and the trend of past and future demand.*

Sector indicators



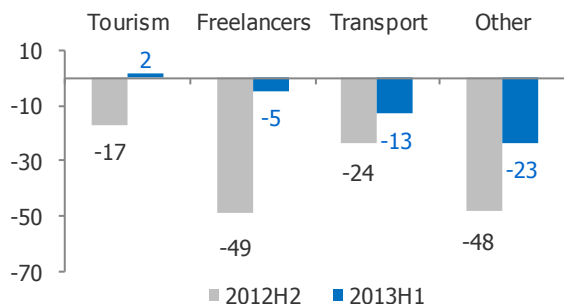
- The **improvement in the business confidence index** of trading enterprises in H1.2013 applies to all trade segments, with retail trade posting the greatest improvement (up 16 points, vs. 10 for the rest of the sector). However, wholesale traders (who are mainly the largest enterprises of the sector) continue to state relatively better expectations, that broadly point toward stabilization, while it is the only trade segment that estimates a pick-up in demand in H2.2013.
- The improved picture of trade is reflected in:
 - ✓ **Bigger appetite for investment** in the coming semester (16% of trader SMEs vs. 10% at the end of 2012) – mainly applying to wholesale and automotive trade.
 - ✓ The **higher targeting of growth**, which comprises the key priority mainly for the wholesale segment (40% of wholesale traders vs. 20% for the rest of the sector), and
 - ✓ The **highest resilience to the crisis** (reaching 17 months in H1.2013 vs. 14 months at the end of 2012). The increased resilience concerns primarily wholesale traders (18 months), while for retail trade SMEs, it barely reaches 1 year.



Sector variations

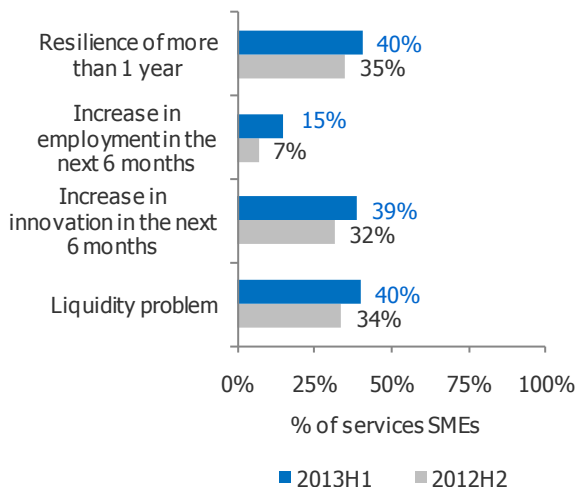
Services – Tourism and Freelancers

Confidence Index: Services



* The services confidence index corresponds to the net balance of positive and negative answers concerning the business situation and the trend of past and future demand.

Sector indicators



➤ The service sector presents the **greatest improvement in the business confidence index** in H1.2013. As regards the various individual sectors, the following deserve special mention:

- ✓ **Tourism** achieves a marginal positive balance of expectations, on the back of a positive hotel segment, 55% of which anticipates an increase in demand in the coming semester. Restaurants, however, have been hit by the negative trend of the previous semester, while 90% of the segment is simply aiming at survival (vs. 25% of hotels).
- ✓ **Freelancers** present the highest increase in the business confidence index (44 points vs. 18 points on average for the other segments), with the increase applying to both current and future demand. However, this specific service segment is facing liquidity problems – with the time gap between collection of receivables and payments to suppliers exceeding 2 months (up from 1 month in the previous two-year period).

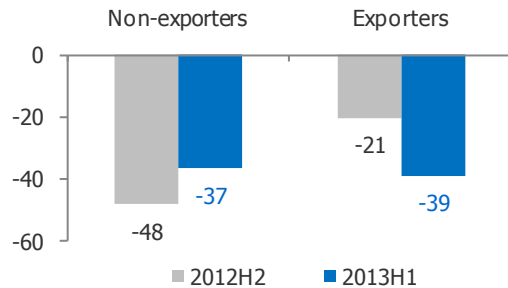
➤ The sector appears to show improvement as regards **resilience to the crisis** and **investment**. **Liquidity problems**, however, remain severe.



Sector variations

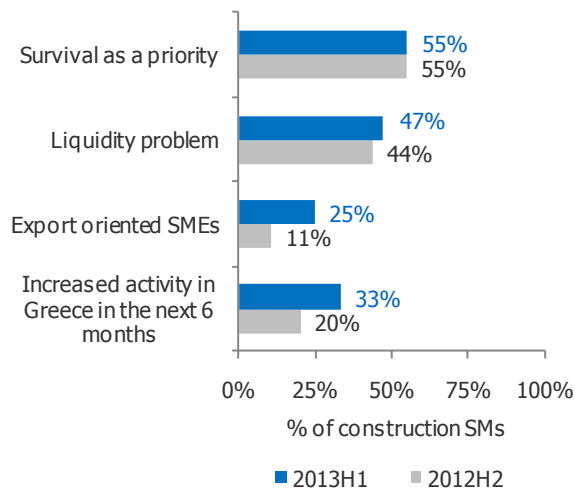
Construction – Activity in Greece

Confidence Index: Construction



** The construction confidence index corresponds to the net balance of positive and negative answers concerning the current backlog and the estimated trend of future demand.*

Sector indicators

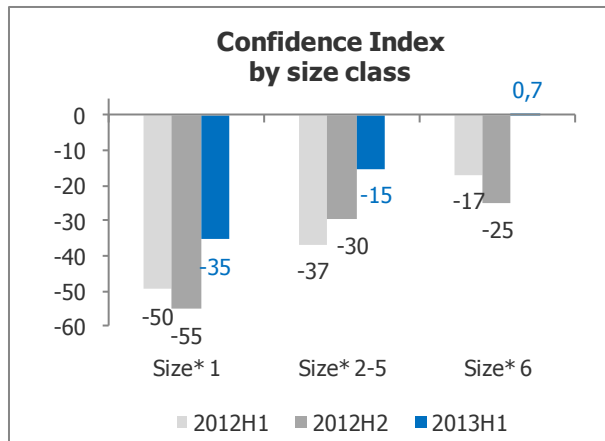


- It is notable that the **export-oriented** construction SMEs appear to be losing their advantage (partly reflecting the recession experienced throughout SE Europe), as insufficient orders in H1.2013 have affected $\frac{3}{4}$ of the sector's exporters (same as those with just a domestic focus) vs. less than $\frac{1}{2}$ in H2.2012. This development led to a deterioration in the respective business confidence index by 18 points.
- Against this backdrop, the improvement in the business confidence index of construction SMEs concerns enterprises that operate exclusively **within the domestic market**, as reflected primarily in an anticipated stabilization of employment in H2.2013 (20% anticipate a reduction vs. 40% in the previous semester).
- Overall, construction is the sector facing the worst **problems**, as:
 - ✓ More than half of the enterprises continue to focus on survival (vs. 40% for the other SMEs),
 - ✓ The estimated resilience to the crisis remains circa 1 year (vs. 17 months on average for the other SMEs),
 - ✓ 40% of construction enterprises consider customer attraction as their main problem (vs. 25% on average for the other SMEs).



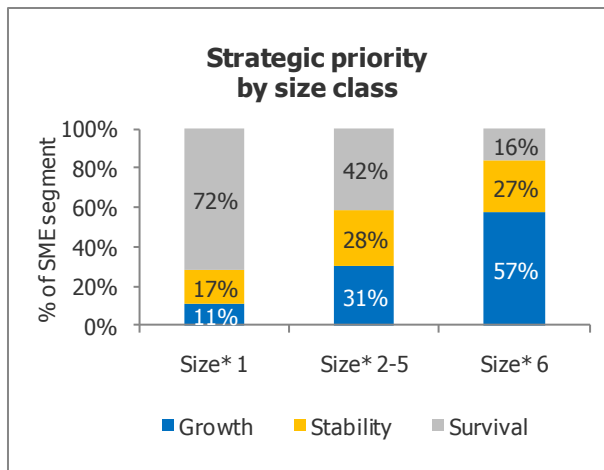
Variation by size

Confidence Index



* The business confidence index corresponds to the net balance of answers for decrease (-10), stability (0) or increase (10).

- The **expectations of enterprises** become increasingly positive as their turnover increases, as is reflected at the level of the business confidence index.
- Note that most of the **largest SMEs** (scale 6 in the graph) state that the business climate is improving.
- Accordingly, turnover volume positively affects the **strategic priority of enterprises**. Specifically, 60% of the largest SMEs (size 6) aims at growth, vs. merely 11% of the smallest SMEs (size 1), circa $\frac{3}{4}$ of which are pursuing survival policies. As regards SMEs in between (size 2-5), the situation is more balanced, with 40% of the enterprises struggling to survive and the remainder standing between stability and growth.

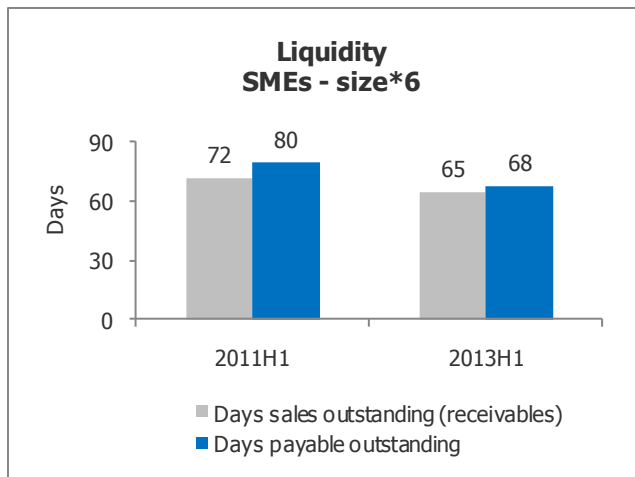
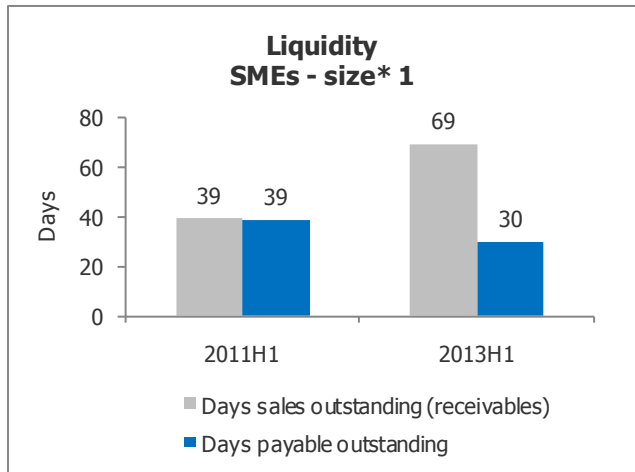


* The scale of 1-6 in the graph above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).



Variation by size

Liquidity



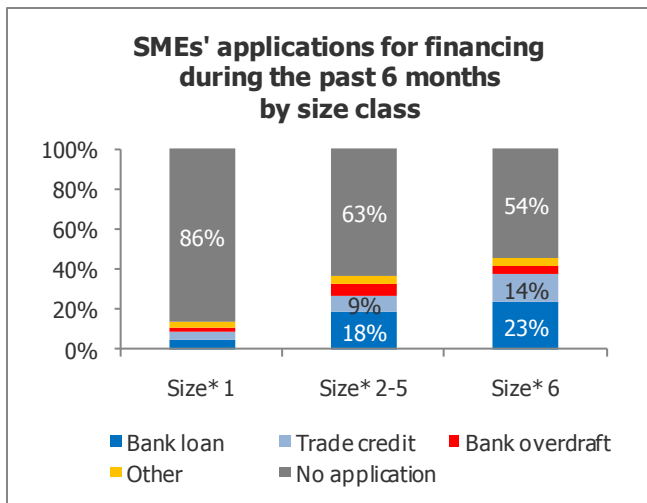
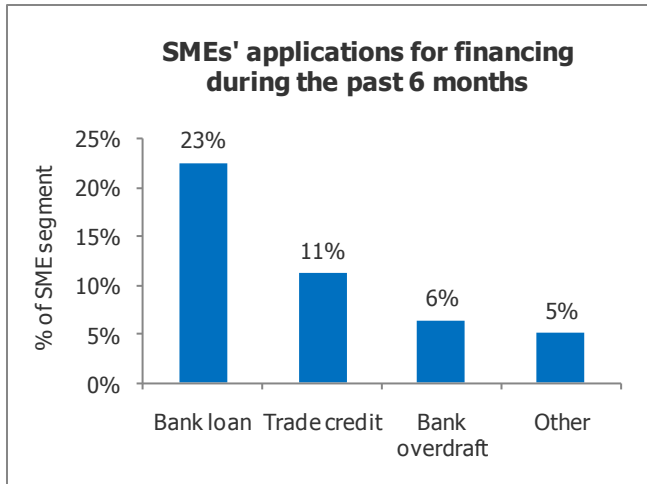
* The scale of 1-6 in the graphs above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).

- About 40% of SMEs are facing severe **liquidity problems** (i.e. circa 50% of small vs. 30% of medium-sized enterprises).
- The pressure on small enterprises as regards liquidity is reflected in the cash gap (**the time gap between collection of receivables and payment of suppliers**). Specifically, focusing on the smallest and largest categories of SMEs, we can infer that:
 - ✓ The largest SMEs (size 6) manage to keep relative balance between the collection of receivables and payment of suppliers, both at circa 70 days – roughly the same as over the previous two years.
 - ✓ By contrast, the smallest SMEs (size 1) are not as balanced as in the past two years – with receivables dates growing significantly longer and payables dates growing shorter, causing the cash gap to grow to circa 40 days.



Variation by size

Financing applications**



- 35%** of SMEs **sought financing** in the previous semester. Specifically:
 - ✓ 23% of SMEs applied for a bank loan,
 - ✓ the needs for trade credit were fewer (applications were filed by 11% of the SMEs),
 - ✓ while 11% of SMEs sought other types of financing.
- The **size of the enterprise** appears to affect the decision as to whether or not to seek financing. Specifically:
 - ✓ Although smaller SMEs (size 1) face the most severe liquidity problems, only 15% of those applied for financing in the previous semester.
 - ✓ By contrast, 1/2 of the larger SMEs (size 6) sought financing, mainly through bank loans.

* The scale of 1-6 in the graphs above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).

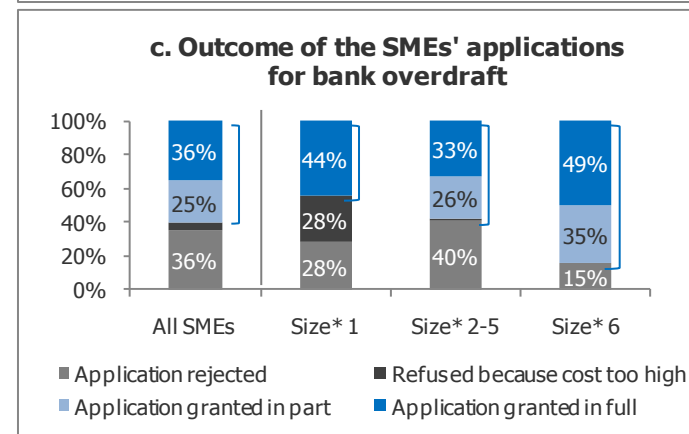
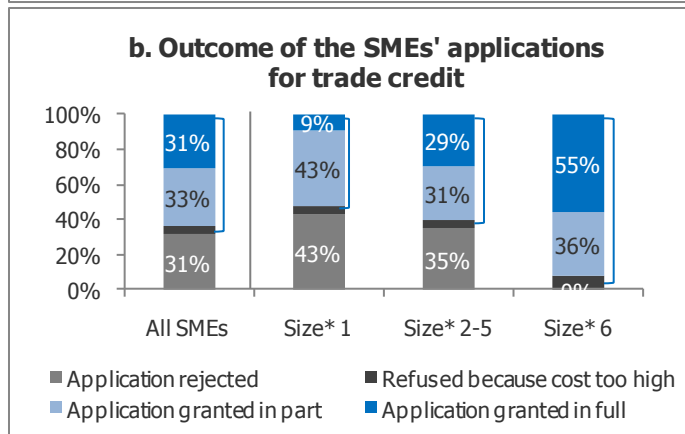
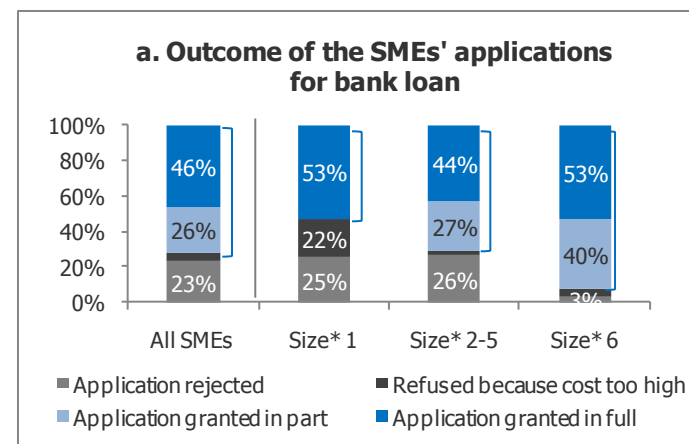
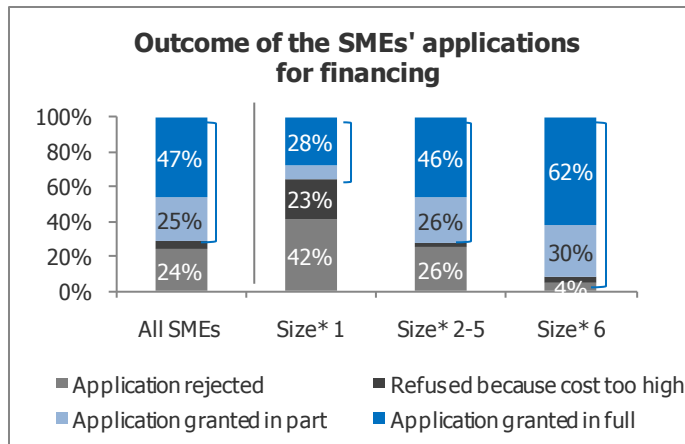
** Note that circa 7% of SMEs (or 20% of those that applied for financing) applied for more than one type of financing. Hereafter, references to financing as a whole take into account answers by enterprises in the following order of priority vis-a-vis types of financing: bank loans, trade credit, overdrafts, and other types of financing.



Variation by size

Results of applications for financing

- In the case of **bank loans**, ½ of applications were granted the full requested amount – this applies across the board for all sizes of SMEs. However, the outcome of the remaining ½ of the loan applications differs significantly depending on size – 40% of the largest SMEs obtained a portion of the requested funds, while 47% of the smallest SMEs either turned down the financing offered due to unfavourable terms or had their application rejected.
- While in the case of bank loan and overdraft applications the size of the SME does not appear to affect **approval of the financing requested in full**, the situation is quite different in the case of trade credit (approvals granted to about 55% of larger vs. only 9% of the smaller SMEs).



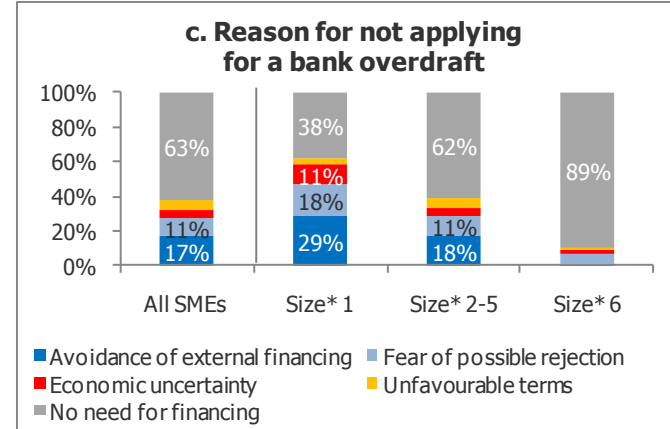
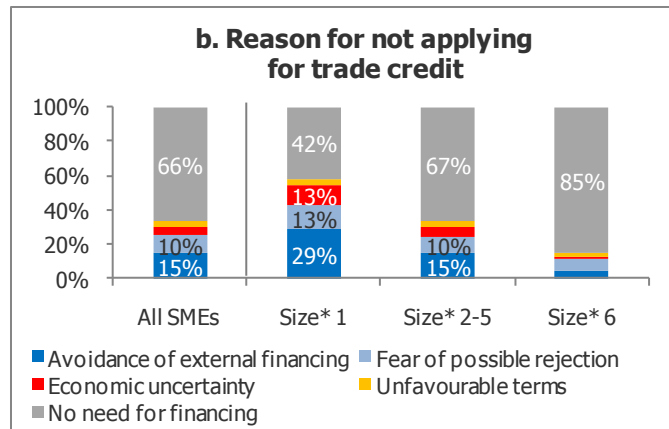
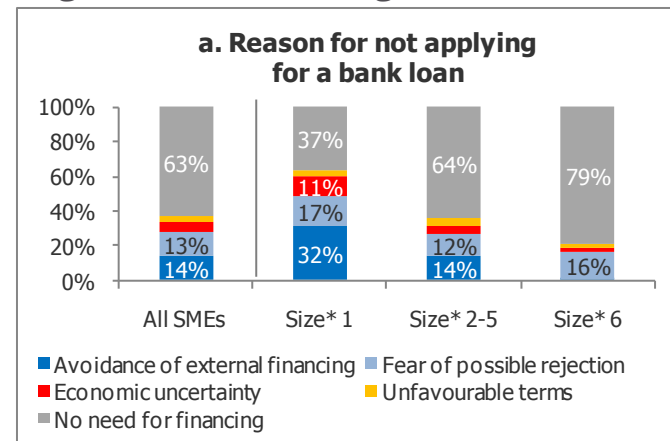
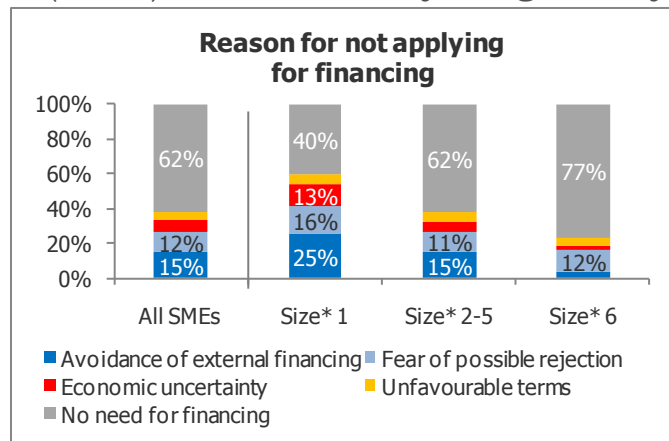
* The scale of 1-6 in the graphs above indicates turnover in € millions: 1=(0-0.1 mn], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).



Variation by size

Reasons why SMEs did not request financing

- The different stance of small and medium-sized enterprises is reflected in the **reasons why they did not apply for financing** in the previous semester. In aggregate, 62% of SMEs that did not apply for any kind of financing considered that they did not need financing.
- ✓ 77% of the **largest SMEs** (size 6) estimated that they did not need financing, while the rest did not even file an application, mainly because they believed it would be rejected.
- ✓ Only 40% of the **smallest SMEs** (size 1) did not deem financing necessary, while a large number of these enterprises (i.e. ¼) stated that they are generally avoiding external financing.



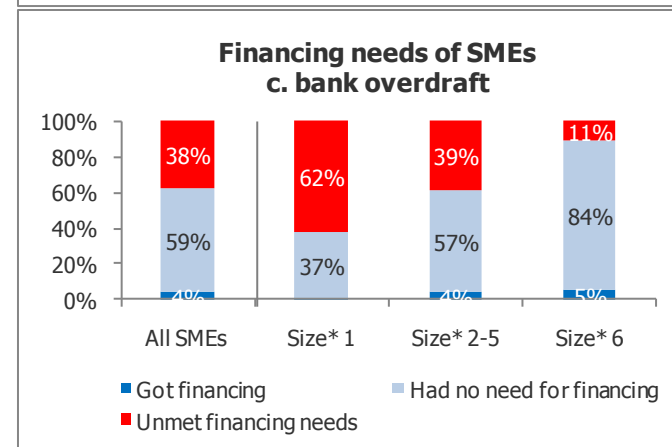
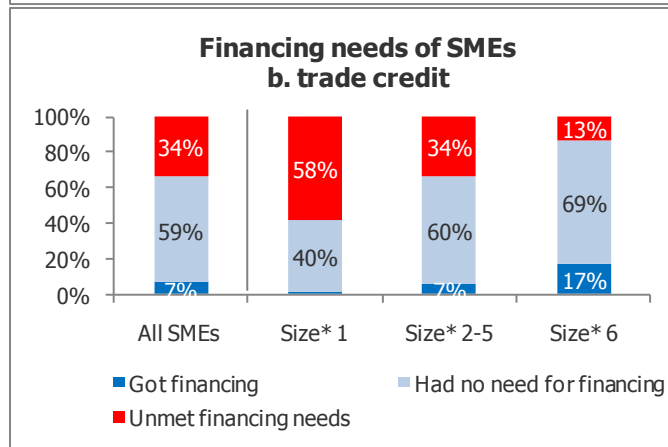
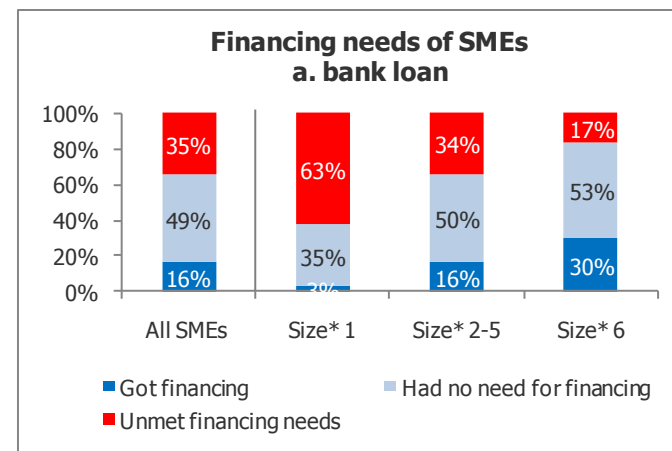
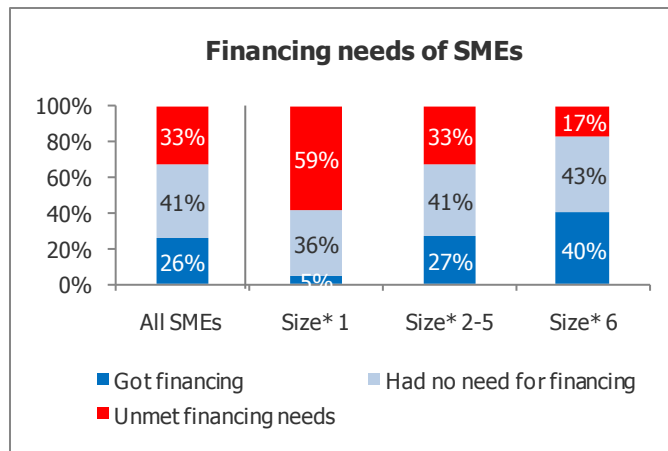
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Variation by size

Conclusions with regard to meeting financing needs

- To sum up, as regards the need for financing we note that:
 - ✓ 41% of SMEs stated that they **did not need financing**,
 - ✓ 26% of SMEs **were granted financing** (i.e. $\frac{3}{4}$ of SMEs that filed an application for financing)
 - ✓ the remaining $\frac{1}{3}$ of SMEs **needed financing ,but were not provided with such** (mainly because they did not file an application and, to a lesser extent, because the application was rejected). Smaller SMEs face more severe problems: 60% on average are unable to meet financing needs vs. 17% of larger SMEs.



* The scale of 1-6 in the graphs above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).

EMPLOYMENT IN SMEs

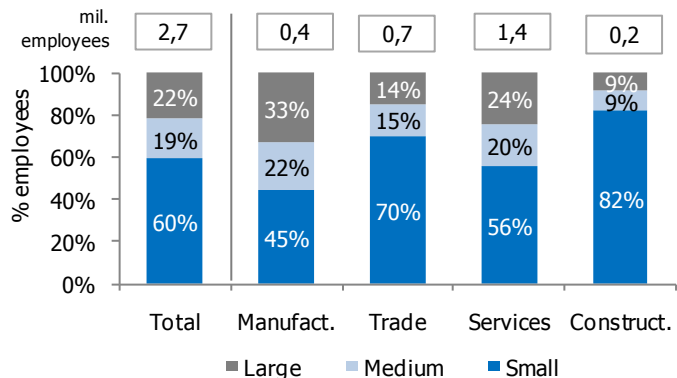
Features of the business sector





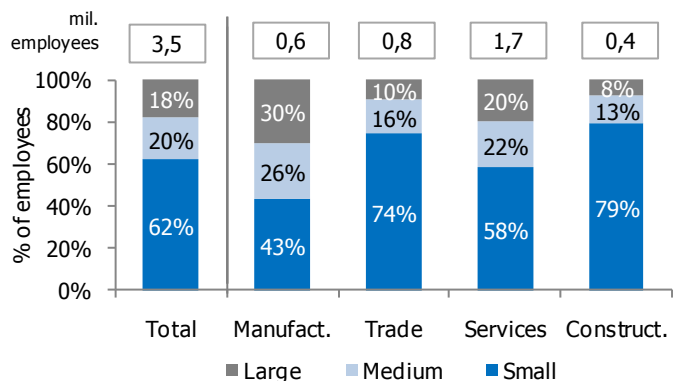
Structure of the labour market

Employment distribution per size 2013



Source: Hellenic Statistical Authority (Labour force survey)

Employment distribution per size 2008



Source: Hellenic Statistical Authority (Labour force survey)

- Looking into employment developments in the business sector overall* during the crisis (2008-2013), it is shown that circa **880,000 jobs have been lost** (about ¼ of employment).
- Most jobs were lost in **construction and manufacturing** (55% and 35% respectively), while trade saw a decline of 20%. Services saw the smallest decline (employment down by 15%), though this has had a significant impact on total employment, in view of the fact that the specific sector employs circa ½ of the employees of the business sector.
- The strong presence of **SMEs** in the business sector overall** is reflected in the share they hold in total employment, amounting to 80% in 2013 (60% in small and 20% in medium-sized enterprises). Their concentration is even greater in the trade and construction sectors (circa 90%).

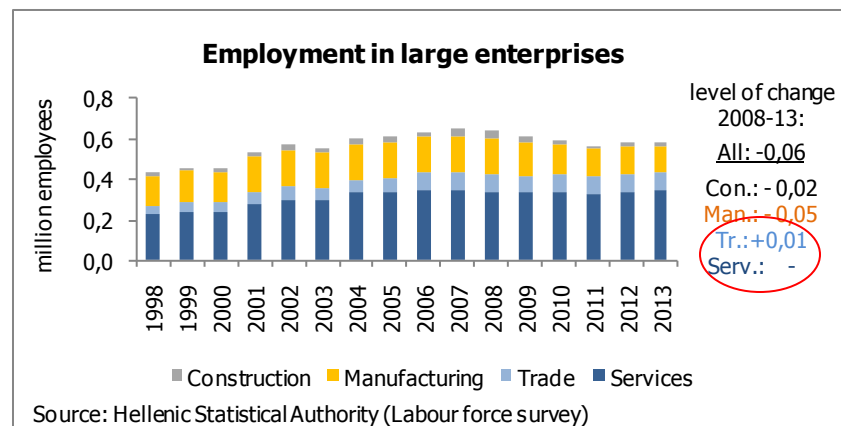
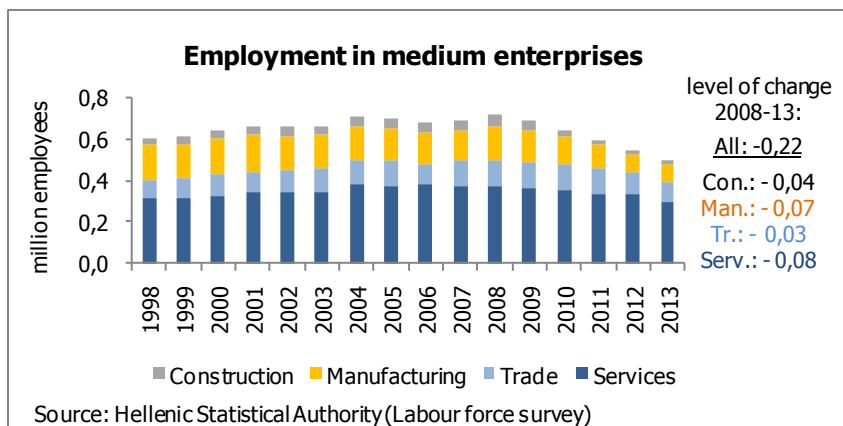
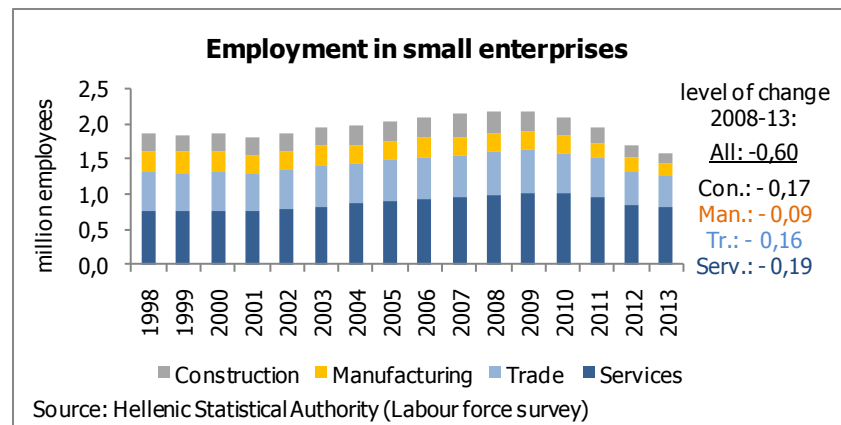
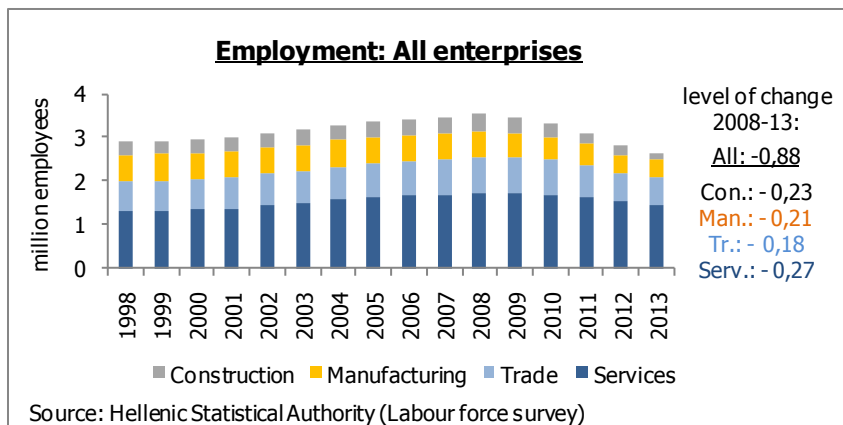
* The above employment data concern local business units and do not take into account the sectors of agriculture-fishery, mines, electrical power and financial services, while public sector services are also not included.

** The size of enterprises is defined by the number of their employees. For the purposes of the survey: small enterprises have 1-9 employees, medium-sized enterprises 10-49 employees, large enterprises 50-249 employees and very large enterprises more than 250 employees.²⁴



Course of employment by business size

- The **broader SME sector** has experienced a 30% decline in employment (820,000 jobs), vs. 10% of large corporations, while it should be noted that **large corporations involved in trade and services*** managed to maintain their employment broadly unchanged in the period 2008-13.
- Focusing on employment by business size, we can infer that 70% of the reduction in employment has occurred in **small enterprises****, with the loss of 600,000 positions.



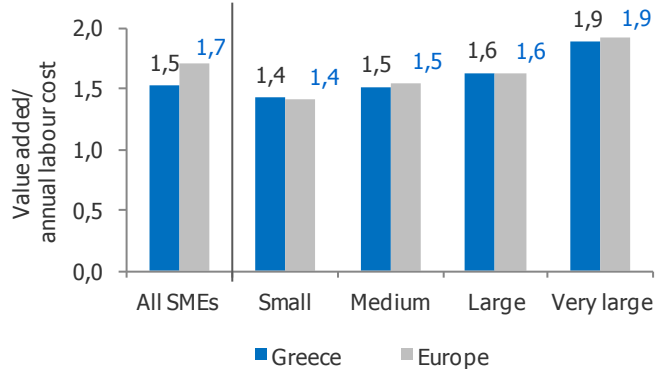
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Labour productivity: Greece- Europe

Wage adjusted labour productivity*

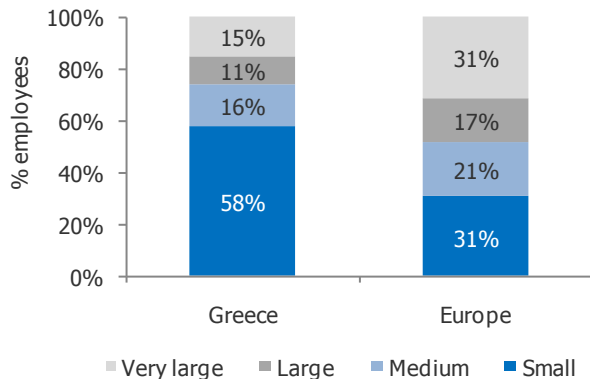


* indicative data for manufacturing enterprises

Source: Eurostat, NBG calculations

- Labour productivity* appears to increase in line with the **size of the enterprise**. For example, data regarding manufacturers indicate that for every euro earned by the average employee as pay he offers value added of €2 in very large enterprises, vs. circa €1.5 to small enterprises.
- This situation serves to affect negatively the labour productivity of the domestic business sector, where the proportion of persons employed in small enterprises was 60% on average in the period 2003-09 (vs. 30% in Europe)**. Accordingly, although productivity for each business size is similar in Greece and Europe, **overall productivity** is lower in Greece because of the fact that small enterprises employ a greater share of the workforce.

Employment distribution per size
(avg 2003-2009)



Source: Eurostat, NBG estimates

* The data concern the manufacturing sector.

** The size of enterprises is defined by the number of their employees. For the purposes of the survey: small enterprises have 1-9 employees, medium-sized enterprises 10-49 employees, large enterprises 50-249 employees and very large enterprises more than 250 employees. 26

EMPLOYMENT IN SMEs

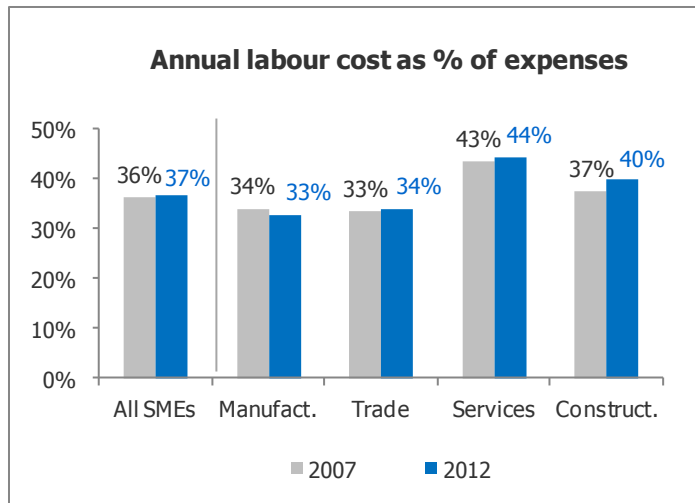
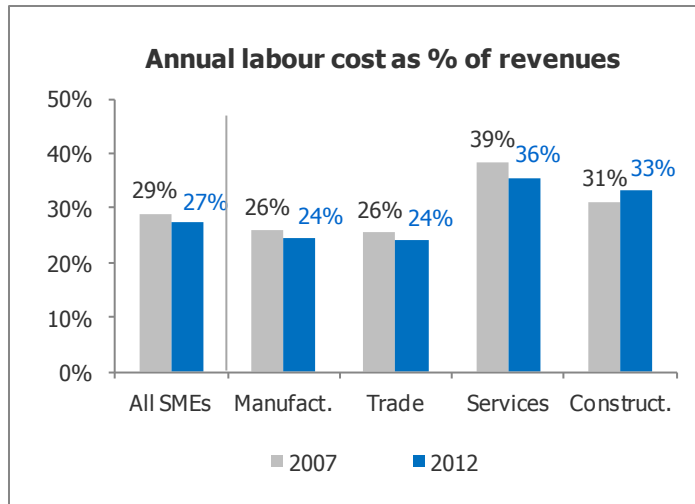
Findings of NBG's survey





Labour cost

In a period of sharp contraction, SMEs have managed to contain labour costs.....



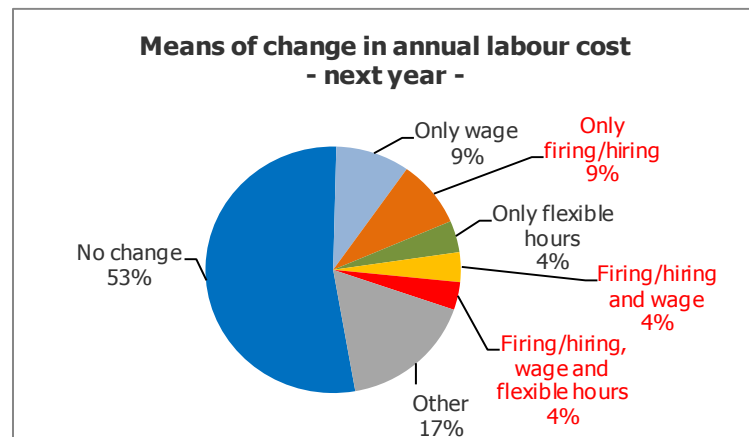
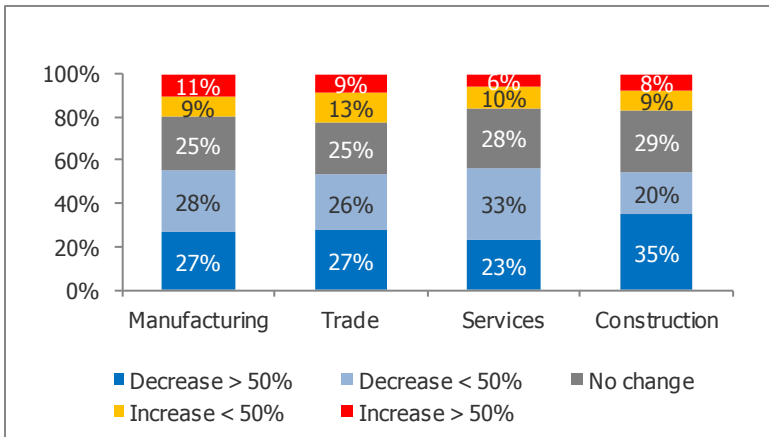
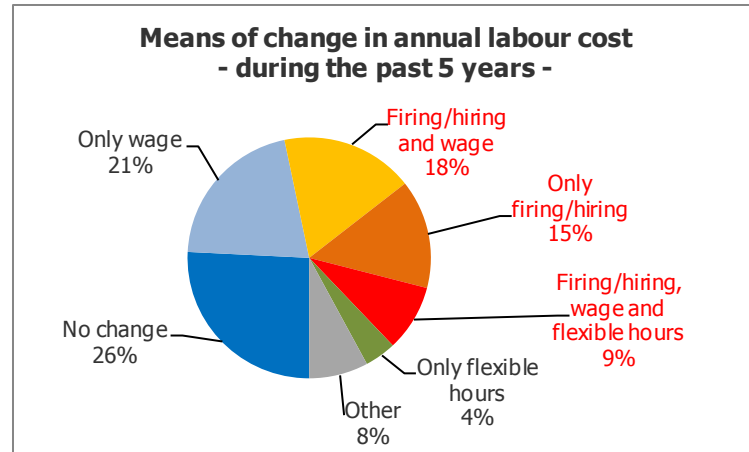
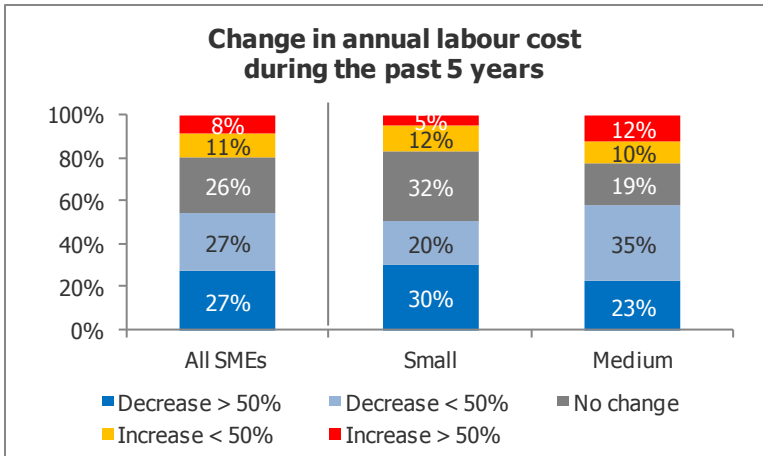
- According to our survey, SMEs show a considerable degree of flexibility. For instance, the reduction of average wage per employee in combination with layoffs has enabled the **cost of labour as a percentage of revenue to remain virtually stable** (27% of revenue in 2012, vs. 29% in 2007). This development is a positive sign of restructuring, especially at the current conjuncture where SME revenue has collapsed (down 50% in the past 5 years, see page 7).
- Specifically, labour costs have been reduced by circa 50% by means of:
 - ✓ reduction of **average wage per employee**, contributing 28% to the reduction in labour costs,
 - ✓ reduction in the **number of employees**, leading to a 25% reduction in labour costs.
- In addition, alongside reductions in the cost of labour, SMEs appear to have succeeded in reducing their non-personnel costs as their overall cost structure is virtually unchanged.



Labour costs

... as a result, ½ of SMEs do not intend to make any further changes to their labour cost in the year ahead

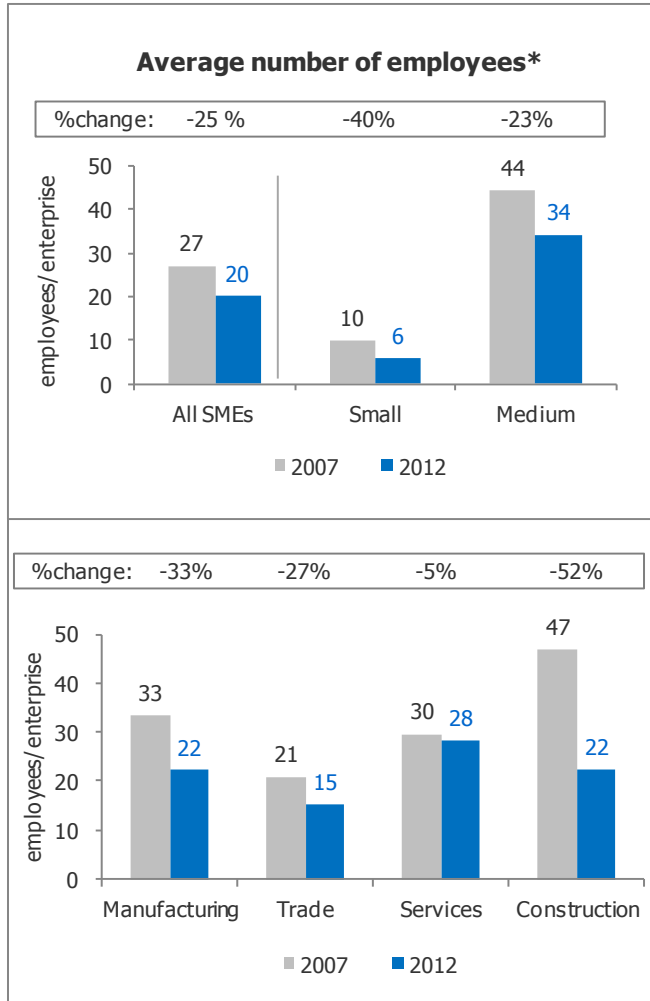
- Although ¾ of the SMEs made changes to their labour costs in the previous 5 years, over ½ of SMEs do not intend to make similar changes in the year ahead.
- About ¼ of SMEs resorted to **layoffs** and **wage reductions** in the previous 5 years, while another 21% adjusted only wages, and 15% adjusted only the number of employees.
- Of the SMEs that resorted to layoffs, 84% **select employees** on the basis of skills and 12% on the basis of cost (which is more significant for smaller SMEs, 30% of which decide on the basis of cost).





Employment

Significant reduction in average employment, especially in smaller enterprises



* The data concern the equivalent of full-time employment for workers employed on a full-time, part-time and seasonal basis (but not on an outsourcing basis).

- On looking at the course of employment in SMEs, as reflected in the current business survey, we can infer that the **average number of employees per business** has decreased by 25% in the past 5 years (down to 20 persons in 2012 vs. 27 in 2007).
- **Small enterprises**** appear more vulnerable, with average employment down by 40% (6 employees on average in 2012 vs. 10 in 2007), compared with 23% for medium-sized enterprises (34 employees on average in 2012 vs. 44 in 2007).
- As regards differences by sector of activity:
 - ✓ Greater losses were observed in construction SMEs, with the level of employment per enterprise dropping to half in the past 5 years.
 - ✓ On the other hand, stronger resistance was developed by the services sector, where employment per enterprise dropped by only 5% in the past 5 years.

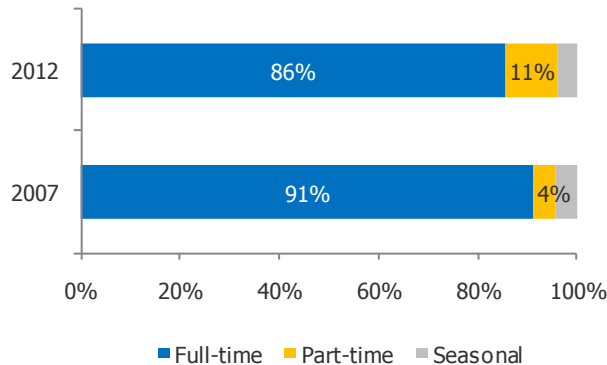
** For the purposes of the survey, small enterprises are those with turnover under scales 1-3 (€ millions): 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1] and medium-sized enterprises those with turnover under scales 4-6 (€ millions): 4=(1-2.5], 5=(2.5-5] and 6=(5-10].



Employment

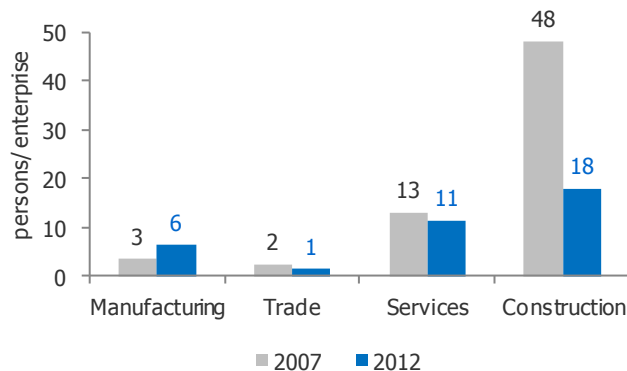
More flexible forms of employment are gaining ground

Type of employment in SMEs



* The data concern the equivalent of full-time employment for workers employed on a full-time, part-time and seasonal basis (but not on an outsourcing basis).

Contract workers (outsourcing)



➤ The fall in **employment** over the past five years has been accompanied by a restructuring of the labour market in SMEs:

- ✓ **Part-time employment** increased to 11% of the workforce in 2012, vs. 4% in 2007.
- ✓ This increase was achieved at the cost of **full-time employment** (86% in 2012, compared with 91% in 2007), while **seasonal** employment continues to account for 3%.

➤ Besides regular employment, SMEs benefit considerably from flexible forms of work provided by **contract workers (outsourcing)** – for which they do not pay employer's contributions or compensation in the event of contract termination. The average number of contract workers has dropped over the past five years, at a rate similar to that of the rest of employment. Notably, however:

- ✓ In manufacturing, the average rate of outsourcing increased (6 per company in 2012, compared with 3 per cent in 2007),
- ✓ In construction, where third-party contractors are hired widely, there was a significant decline in numbers (18 per company in 2012 vs. 48 in 2007).

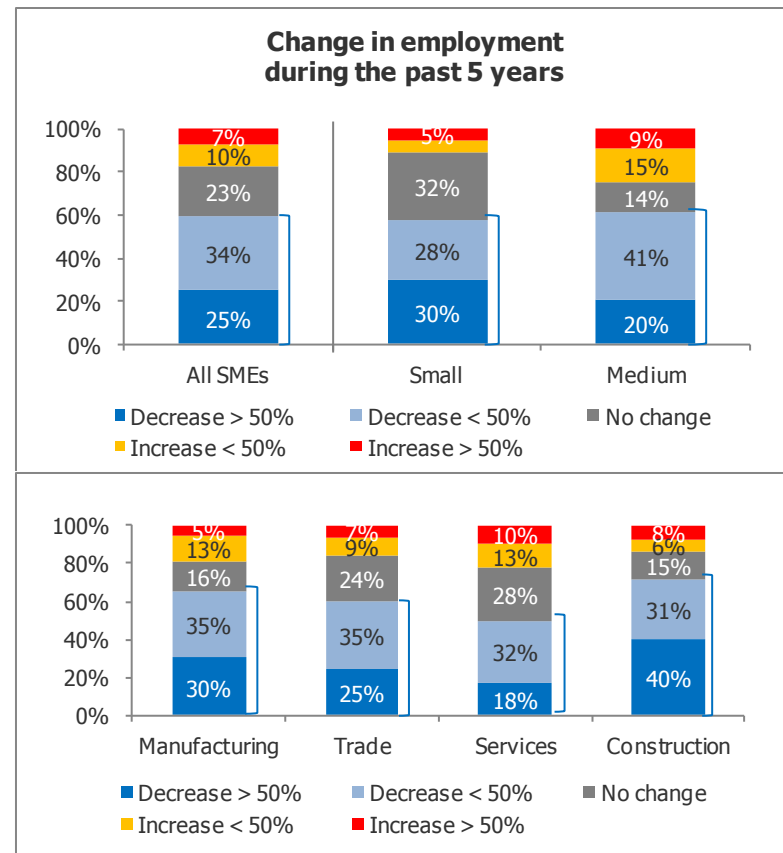
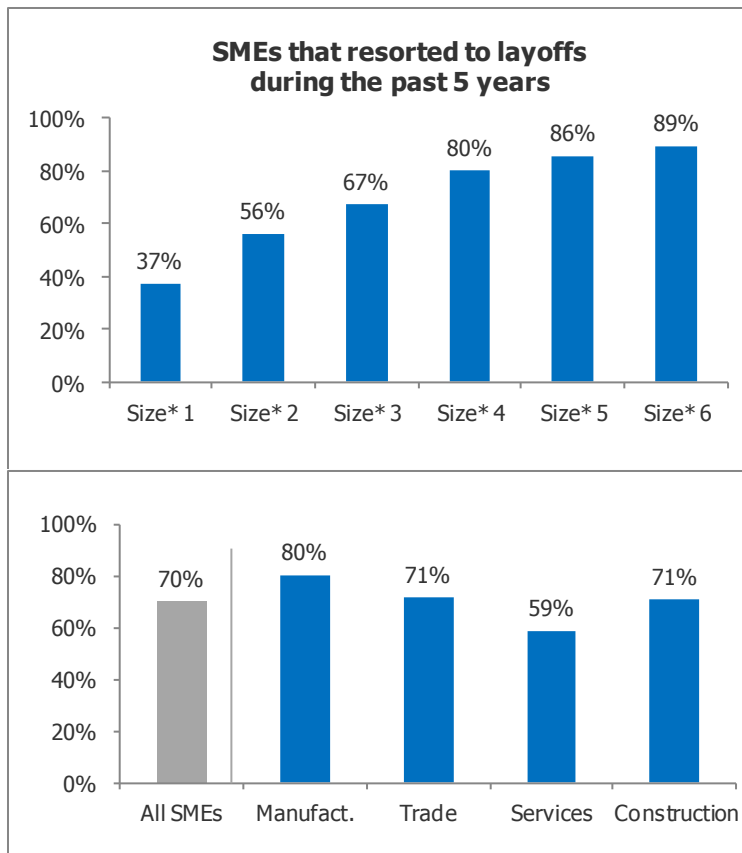
➤ In addition, it is notable that due to the adverse environment, over the past two years 45% of SMEs had to **delay payroll payments** by an average of 1.5 months.



Employment

The majority of SMEs resorted to layoffs over the past five years...

- The adverse environment led to **layoffs** by 70% of SMEs, the phenomenon being particularly marked in manufacturing and medium-sized enterprises (90% of larger SMEs vs. 40% of smaller enterprises).
- However, since there were also hirings during this period, the number of SMEs that ended up having a **lower number of employees** in 2012 vs. 2007 was smaller (circa 60%). In addition, as medium-sized enterprises also made more hirings, they presented a smaller decline in average employment (23% vs. 40% for small enterprises).

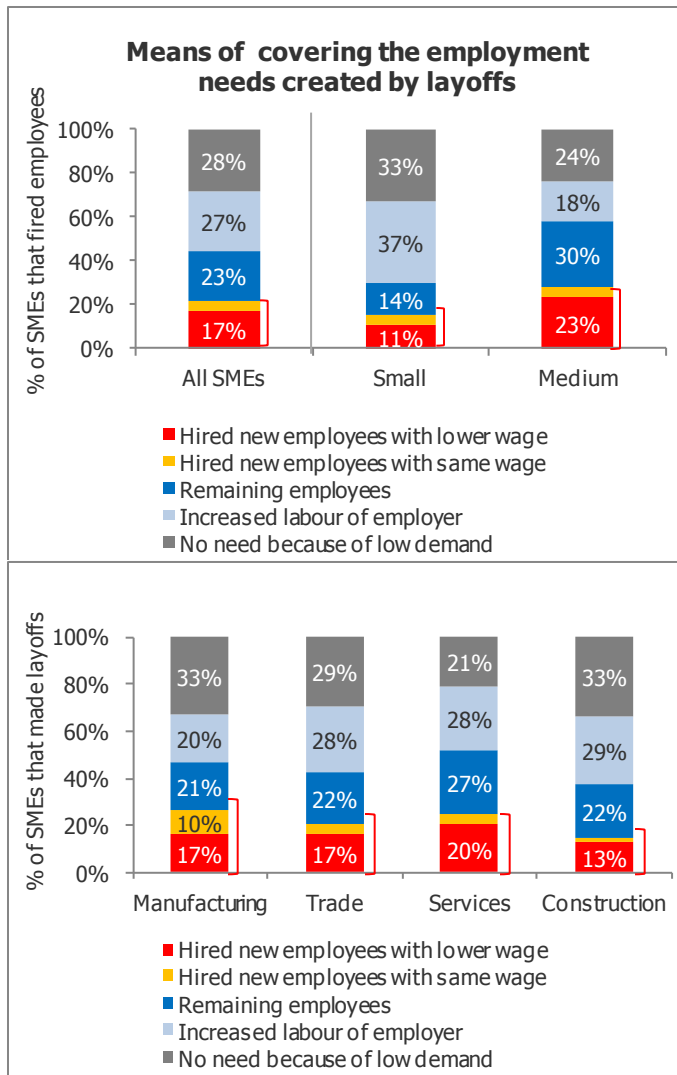


* The scale of 1-6 in the graph above indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).



Employment

...which were only to a small extent offset by lower-wage hirings



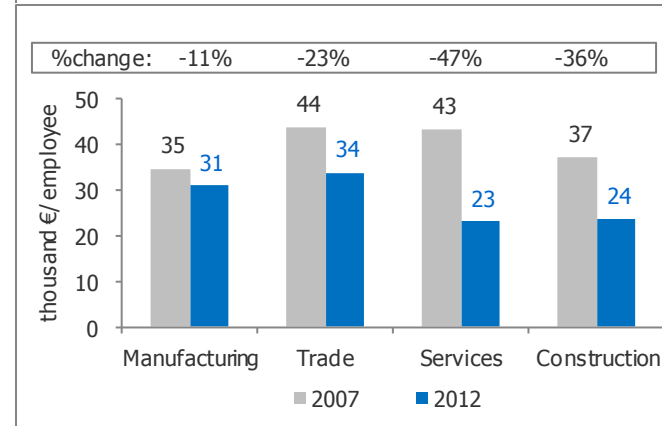
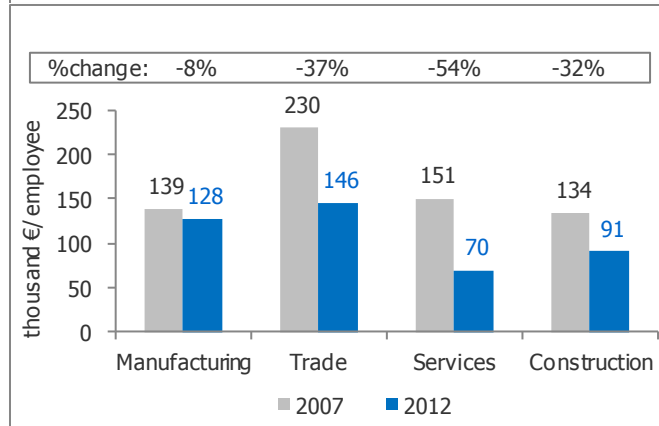
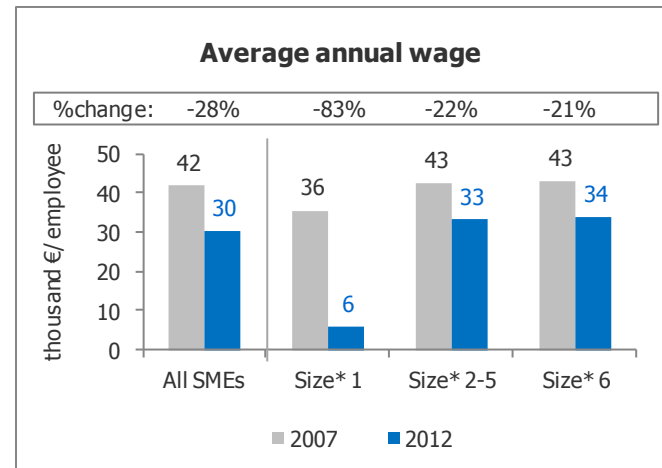
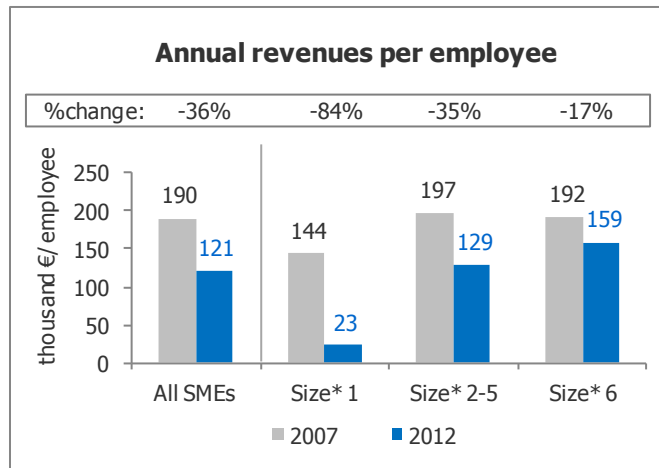
- As regards **new hirings serving to offset layoffs**, we note that 22% of enterprises that made layoffs, also hired new staff. $\frac{3}{4}$ of SMEs that carried out rehiring provided for **lower wage**. This strategy was mostly followed by medium-sized enterprises (28% vs. 16% of small enterprises) and the manufacturing sector.
- About half the enterprises that carried out layoffs covered the created employment needs through **increased labour by the employer** and the remaining staff.
- Because of reduced demand, the remaining $\frac{1}{4}$ of SMEs did not post any **employment needs stemming from the layoffs** of the previous years. Slightly greater labour needs appear to have been created in medium-sized companies and the services sector.



Wages

Layoffs have not been enough to stabilize productivity – wage cuts have also been needed

- Despite the fall in employment, revenue per employee contracted by 36% over the past 5 years – falling even more in **small enterprises**. Accordingly, to keep the productivity level relatively stable, wage cuts of circa 28% were required (while the decline in the smallest enterprises has exceeded 80%).
- As regards the various **individual sectors**, there was a sharp drop in revenue per employee in the services sector (where employment declined less), and only marginally in manufacturing (where aggressive job cuts took place). Against this backdrop, manufacturing SMEs did not need to reduce significantly average wage to balance their labour costs; in the services sector, however, the average wage declined sharply.

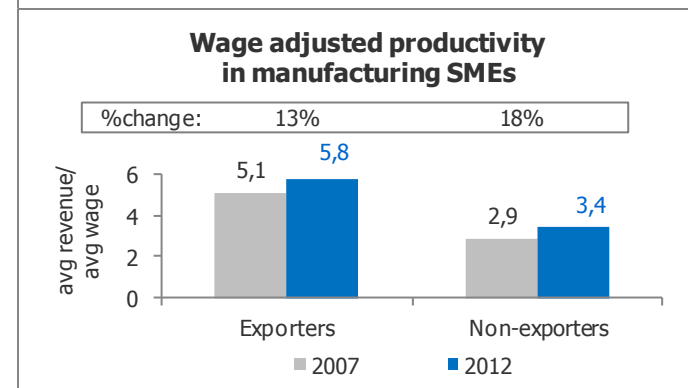
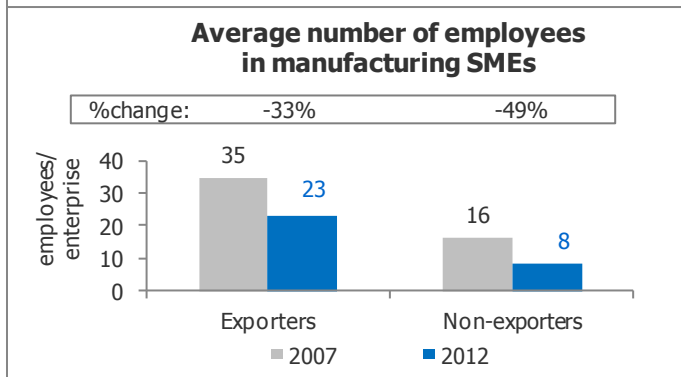
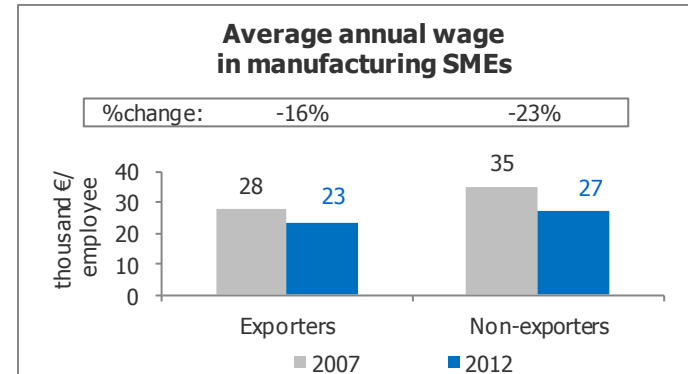
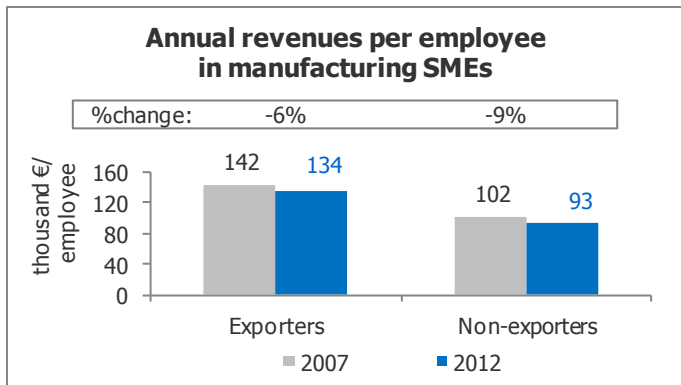




Productivity by business sector

Manufacturing

- **Export-oriented** manufacturing SMEs appear to have carried out fewer layoffs than non-exporting enterprises over the past five years (decline in employment 33% vs. 50%, respectively).
- Due to effective employment adjustments, both exporting and non-exporting enterprises managed to respond to a great extent to lower revenue. As a result, **revenue per employee** dropped marginally by 6% in the exporting enterprises (which remain the most productive companies) and 9% in the non-exporting enterprises (vs. a 36% decline for the entire business sector).
- Note that **average annual wages** decreased by more than annual revenue per employee in both exporting (down by 16% and 6% respectively) and non-exporting manufacturing SMEs (down by 23% and 9% respectively). As a result, **wage adjusted productivity** increased (remaining higher in export-oriented manufacturing enterprises).

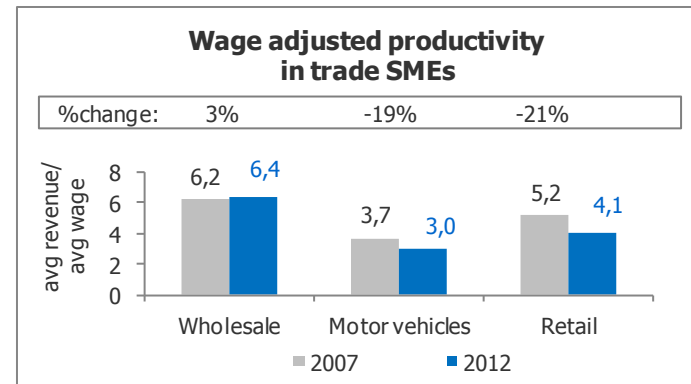
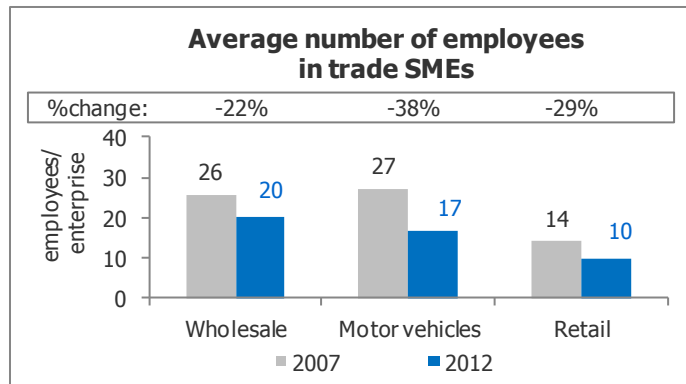
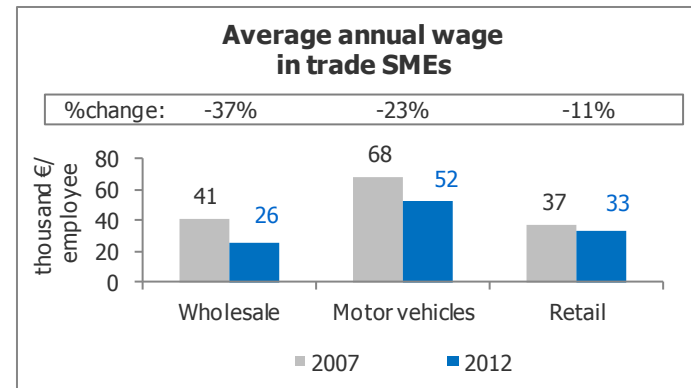
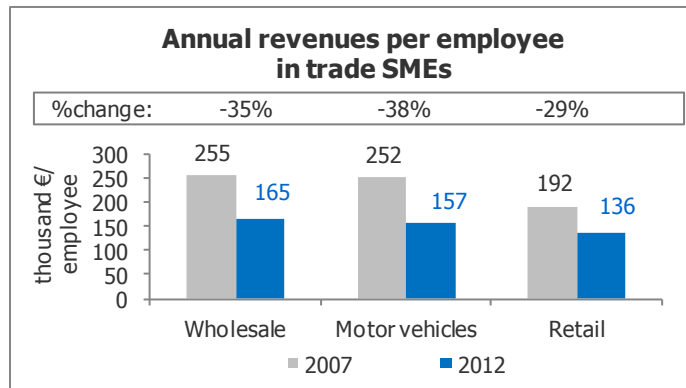




Productivity by business sector

Trade

- Of the various trade sectors, the **motor vehicle trade**, despite severe cuts in employment (38% vs. 29% in retail and 22% in wholesale trade), posted the largest revenue contraction per employee over the past five years.
- **Wholesale traders** responded less dynamically in terms of employment (down by 22%). However, they managed to boost already high productivity by cutting average wages by 37% (compared with 23% in the motor vehicle and 11% in the retail trade sectors).

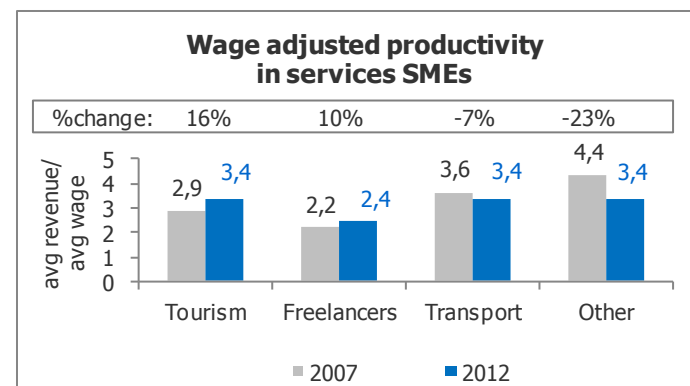
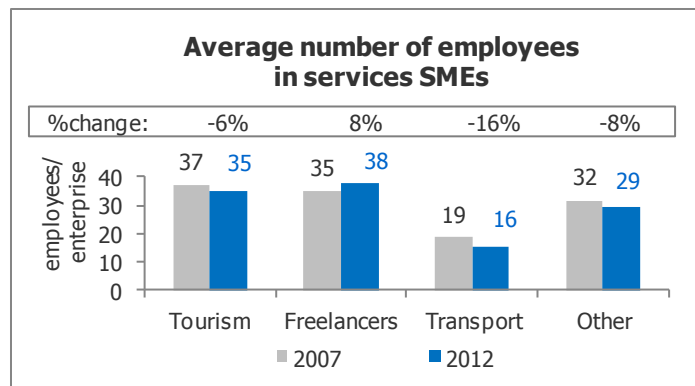
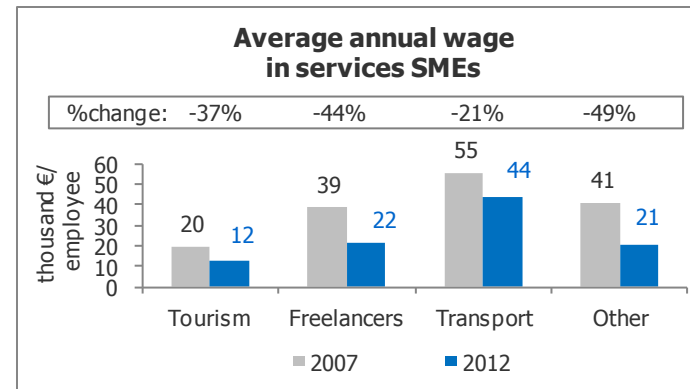
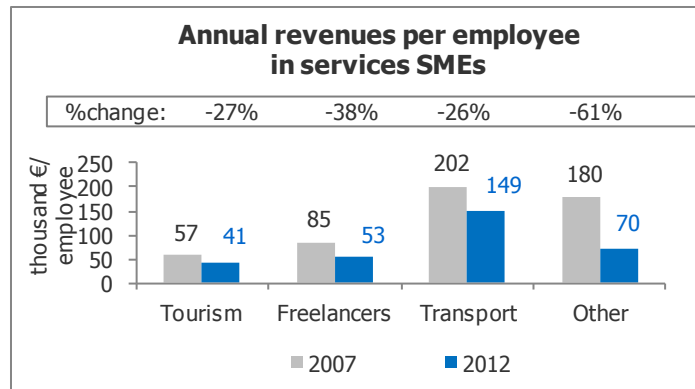




Productivity by business sector

Services

- As regards the various services sectors, job cuts in transportation enterprises were enough to keep their **revenue per employee** at the highest levels for services SMEs. The decline in revenue per employee was more marked among freelancers, due to the small increase in average employment by 8% over the past five years.
- When the reduction in the average wage per employee is taken into consideration, tourism and freelancers are the services sectors that stand out in terms of **wage adjusted productivity**, as they succeeded in increasing productivity over the past five years.

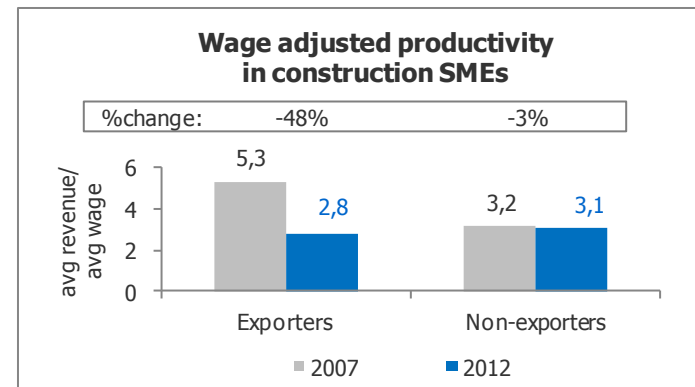
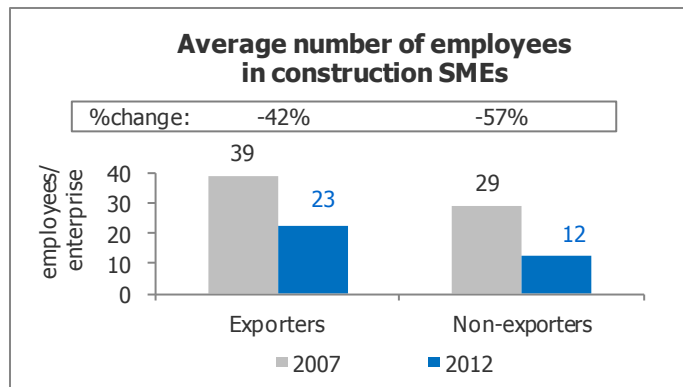
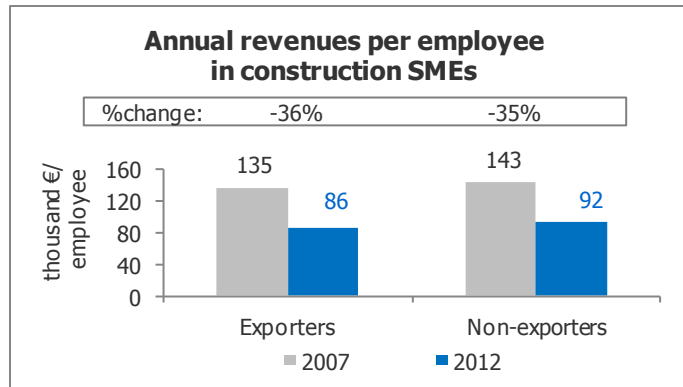




Productivity by business sector

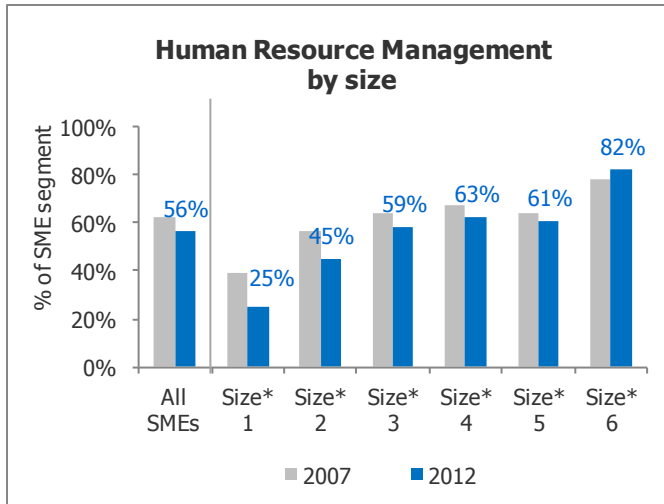
Construction

- As in manufacturing, over the past five years, **export-oriented** construction SMEs **reduced their employment** by less than non-exporting enterprises.
- In view of the changes in revenue per employee and average wages, **wage adjusted productivity**:
 - ✓ remained **relatively stable in non-exporting** construction enterprises, which cut average wages in line with the reduction in average annual revenue
 - ✓ **declined significantly** (almost 50%) **in exporting** enterprises, which lost the advantage they enjoyed 5 years ago vs. non-exporters (as reflected in the confidence index, p. 16). The adverse position of this sector is confirmed by the existence of surplus employees (40% in export-oriented construction enterprises vs. 28% in non-exporting and 20% in SMEs overall).

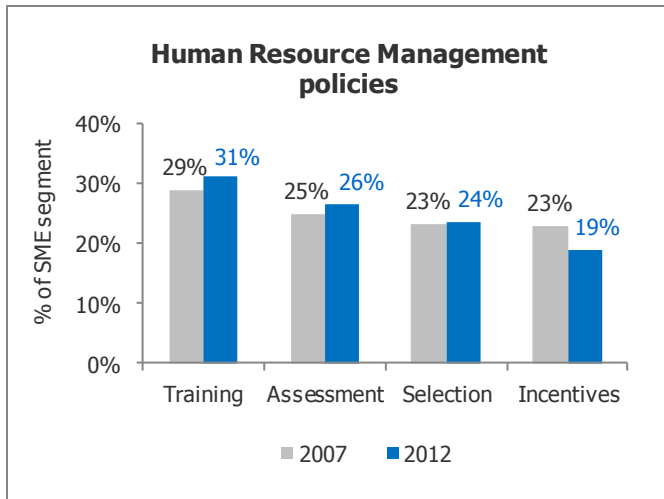




HR management policies



* The scale of 1-6 in the graph indicates turnover in € millions: 1=(0-0.1], 2=(0.1-0.5], 3=(0.5-1], 4=(1-2.5], 5=(2.5-5] and 6=(5-10).

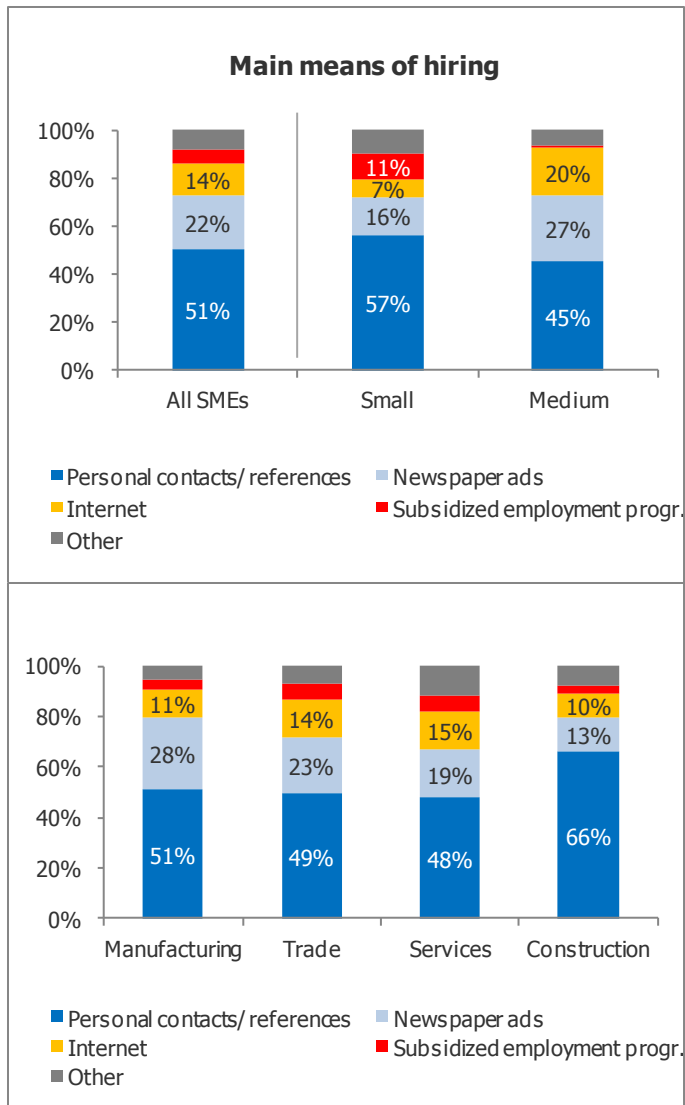


- In examining SMEs' general approach to **HR management**, we see that more than half have specific policies and procedures in place.
- **The larger the business, the better its organisation**, as just ¼ of the smaller SMEs have established policies (at a declining rate over the past 5 years) vs. 82% of the larger SMEs (at an increasing rate over the past 5 years).
- As regards the various **policies** followed by SMEs:
 - ✓ **Staff training** is the most common policy (circa 30% of SMEs), with its importance growing over the past 5 years.
 - ✓ **Performance-related financial incentives** are less common (less than 20% of SMEs), while their importance is limited due to the adverse economic environment.



HR management policies

Staff selection

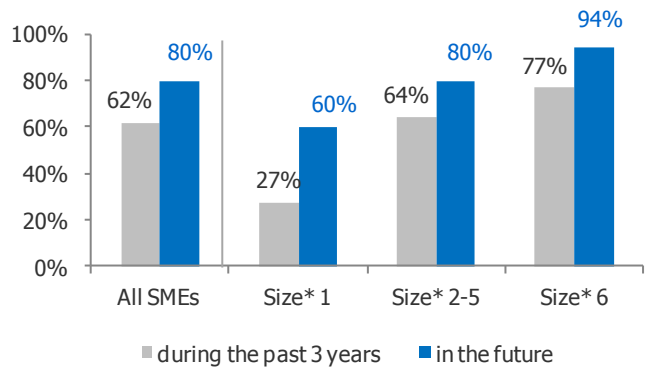


- Business owners tend to take on new employees **via personal contacts and references** from friends and acquaintances – this method being preferred by ½ of SMEs.
- **Job adverts** posted in newspapers and the internet follow, this method is preferred by medium-sized enterprises (in total 47% of medium-sized enterprises vs. 23% of small enterprises).
- OAED (Manpower Employment Organization) **subsidised employment programmes** appear to be more popular among small enterprises (11% vs. 1% of medium-sized companies).
- As regards sector variations, it is notable that **construction SMEs** attach greater importance to personal contacts and acquaintances (66% vs. 50% for the other sectors), while they consider newspaper and on-line job adverts to be less important when searching for new staff.



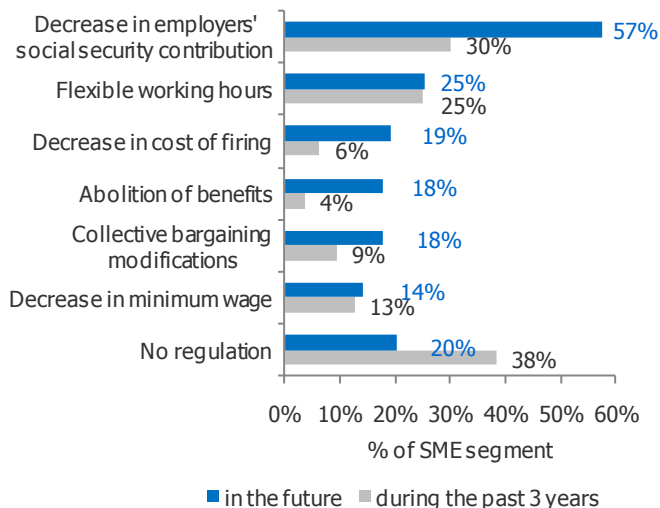
Labour market reforms

SMEs that find labour market reforms usefull



* The scale of 1-6 in the graph indicates turnover in € millions: 1=[0-0.1], 2=[0.1-0.5], 3=[0.5-1], 4=[1-2.5], 5=[2.5-5] and 6=[5-10].

Labour market reforms that were considered usefull by SMEs



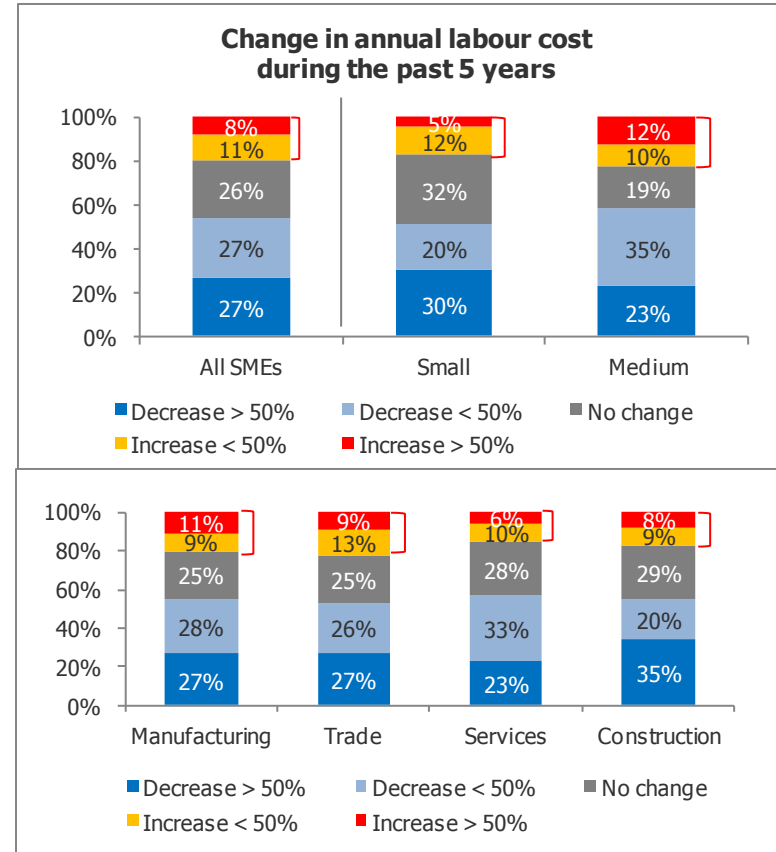
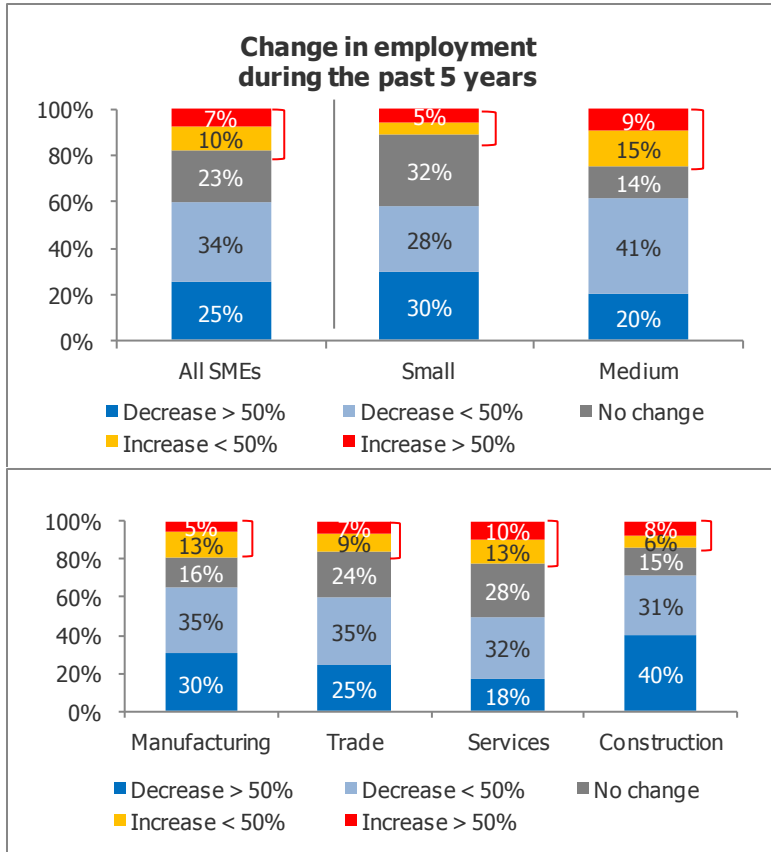
- 60% of SMEs consider the labour market legislative reforms of the past 3 years to be useful. Medium-sized enterprises appear to **have benefited more** from such reforms, while only 27% of smaller SMEs (size 1) consider that they have benefited to some extent.
- The most effective measure according to SMEs (30%), has been the **reduction in employer's contributions**.
- In addition, 80% of SMEs overall anticipate that they **would benefit from further legislative reforms** in the labour market (the rate is 60% even for the smallest SMEs).
- The **key areas** where they suggest further reforms are needed:
 - ✓ reducing employer's contributions,
 - ✓ establishing flexible working hours,
 - ✓ reducing the cost of layoffs, and
 - ✓ modifying collective bargaining.



SMEs that stand out in a positive way

Companies that increased their workforce in the midst of severe crisis

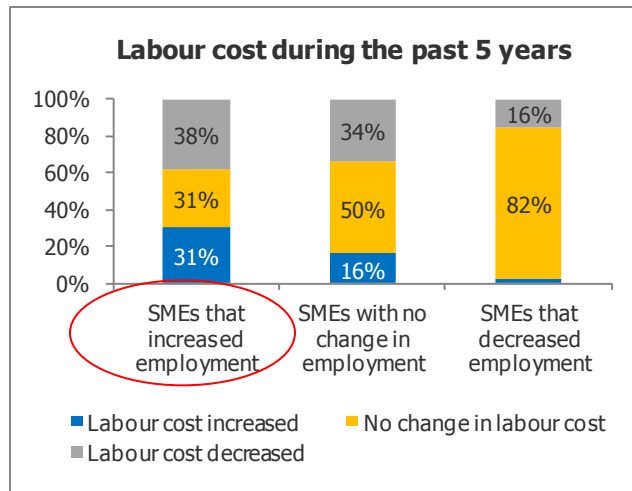
- In a period of sharp contraction, many enterprises understandably have reduced staff numbers over the past 5 years, nevertheless 17% of SMEs opted for a **net increase in their employment** (with 7% of SMEs increasing their workforce by over 50%).
- Most enterprises ($\frac{3}{4}$) that increased their employees are **medium-sized**, while no specific sector stands out.
- In addition, 19% of SMEs increased their **labour costs** over the past 5 years. The critical question is whether those enterprises that increased their employment are the same that saw their labour costs increase.



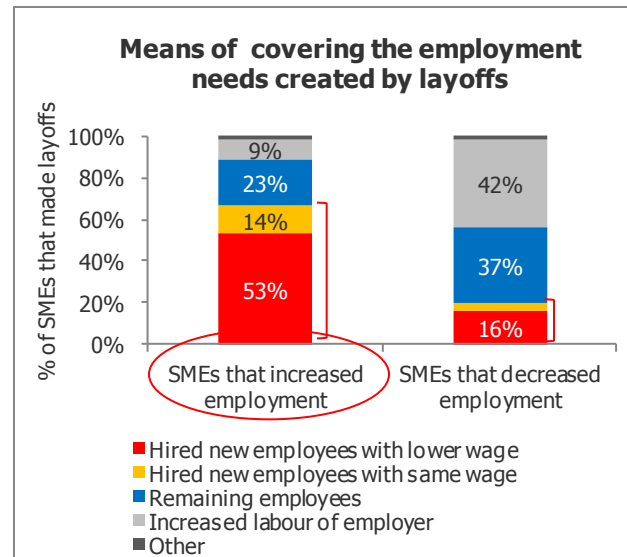
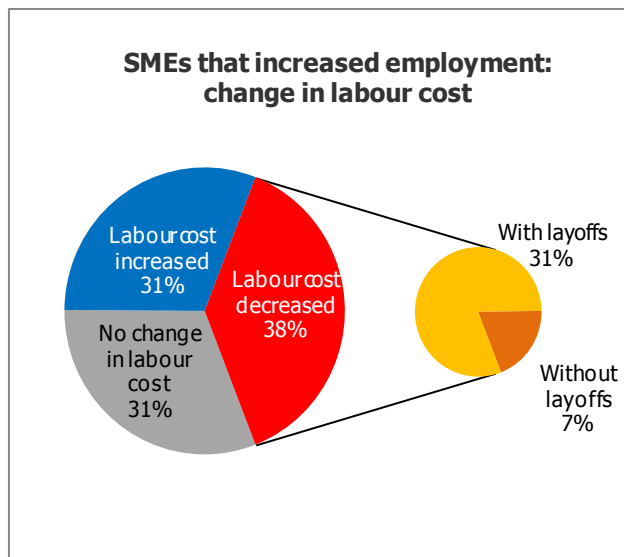


SMEs that stood out in a positive way

Strategy regarding human resources



- 70% of SMEs that increased employment managed not to increase their **labour cost** (40% reduced it, while 30% kept it unchanged).
- 80% of companies that increased employment while reducing labour costs made layoffs and **rehired employees on a lower wage**.
- In general, filling the employment needs arising from layoffs by hiring new lower-wage employees is a strategy applied by 53% of SMEs that increased their employment, vs. approximately 16% of enterprises that reduced their employment over the same 5-year period.

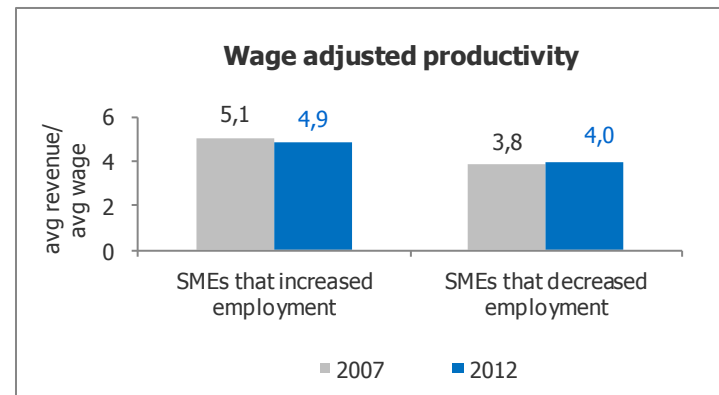
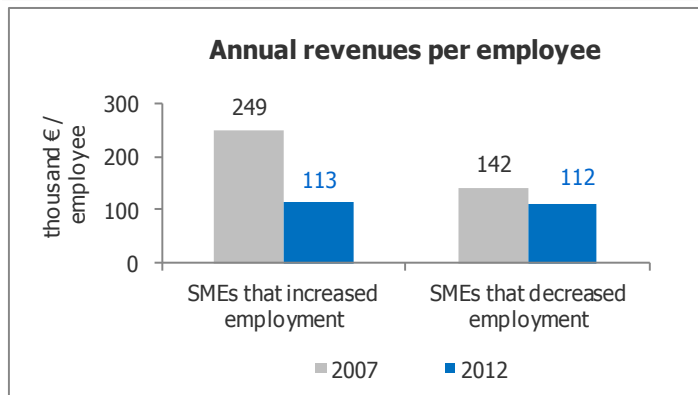
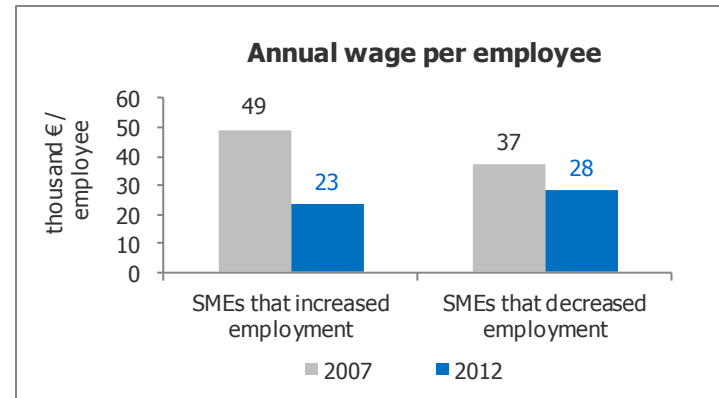
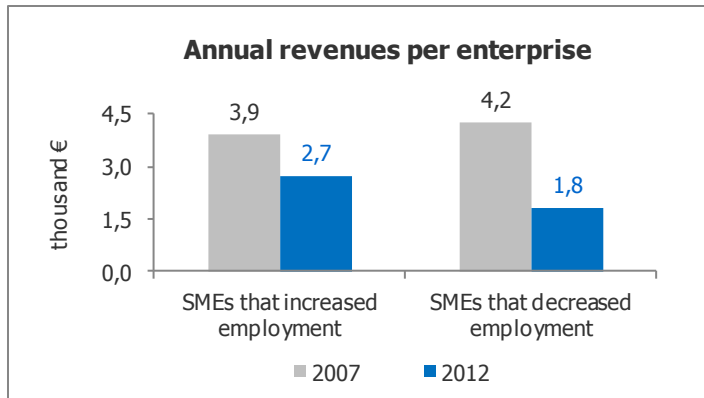




SMEs that stood out in a positive way

The importance of flexibility

- SMEs that increased their workforce managed to achieve a **dual goal**:
 - ✓ **They gained market share** against those enterprises that followed employment reduction policies. Specifically, although prior to the crisis they were of a similar size to the enterprises that reduced employment (average annual income of €4 million in 2007), over the past 5 years their revenue declined by just 30% vs. 60% for those that reduced employment.
 - ✓ **They managed to maintain the higher productivity** (wage adjusted) they enjoyed before the crisis, by drastically reducing the average wage, which almost fully off-sets the decline in revenue per employee.

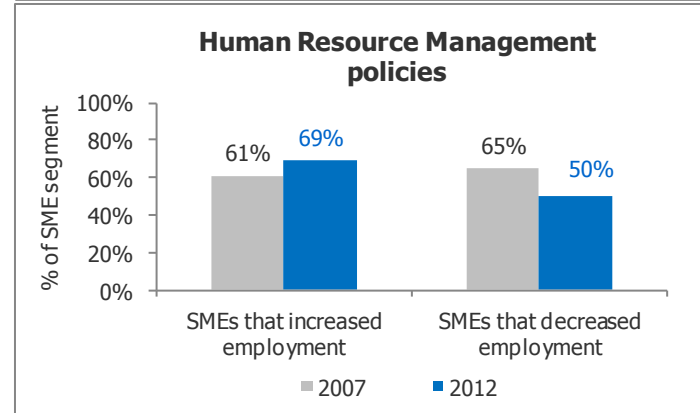
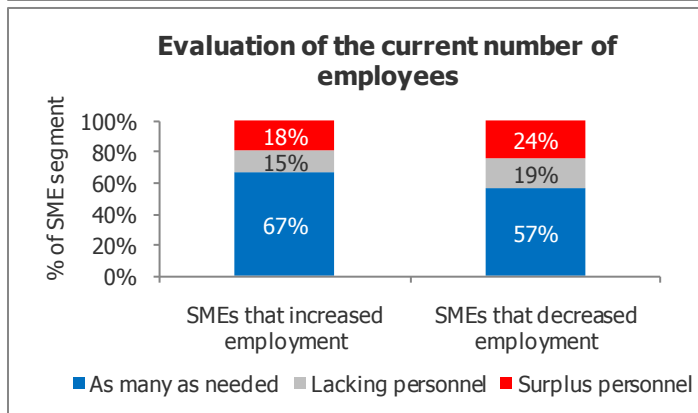
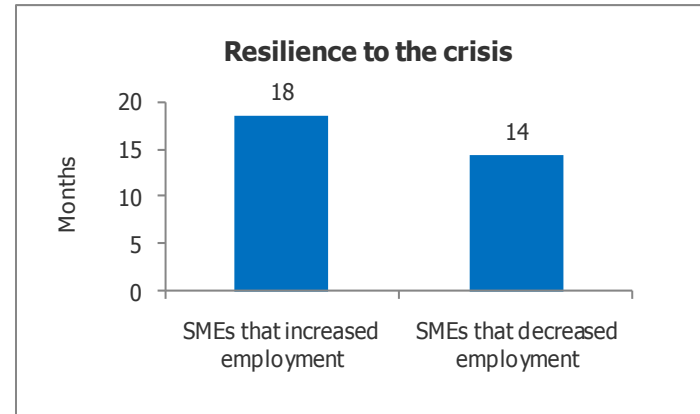
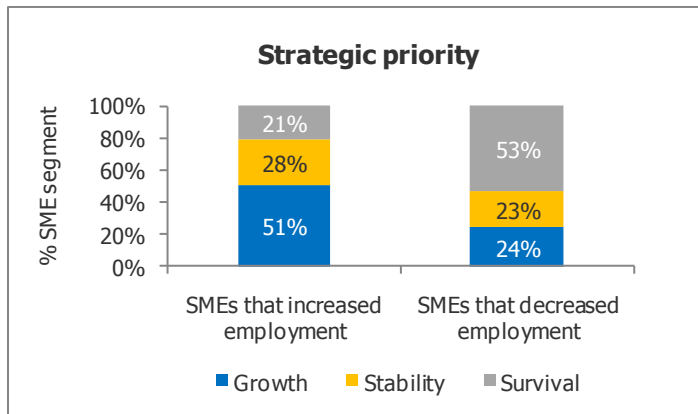




SMEs that stood out in a positive way

Achieving sounder results

- Enterprises that increased employment continue to comprise the healthiest group among SMEs, with a significantly **stronger growth orientation** (51% of these aim at growth vs. of 24% of SMEs that reduced employment) and **greater resilience to the crisis** (18 months vs. 14 months for the other SMEs).
- The increased number of employees does not appear to cause any problems, as only 18% of these SMEs consider that they have **surplus personnel**.
- Likewise, they present a **better organizational profile**, as they have stepped up use of HR management policies (70% of SMEs in 2012 vs. 60% in 2007) - quite the opposite of what happened to SMEs that reduced employment (where the use of HR policies was restricted to just 50% of such enterprises in 2012 vs. 65% in 2007).

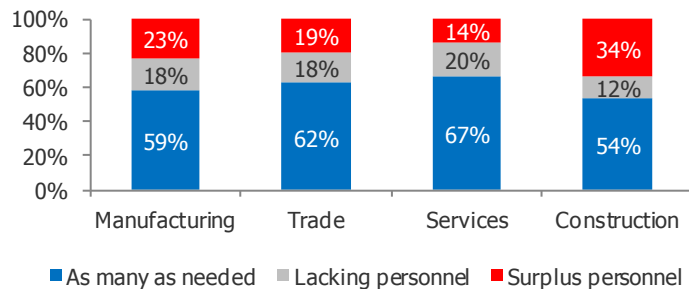
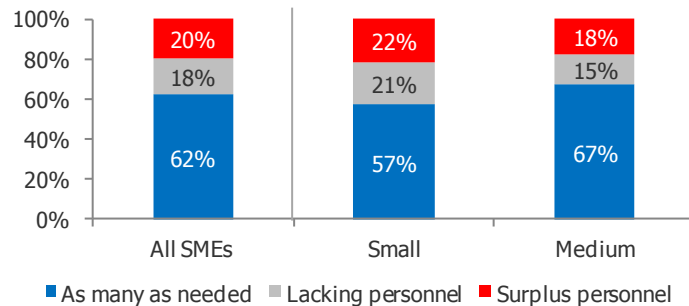




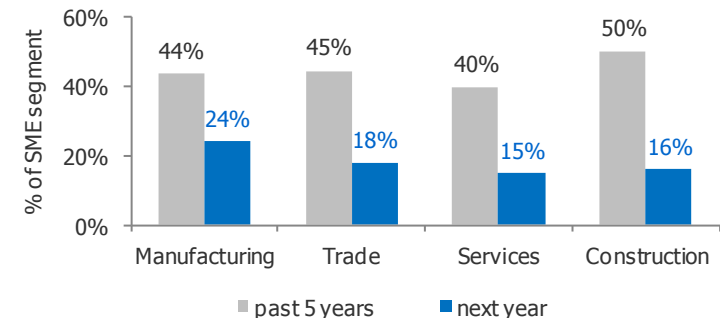
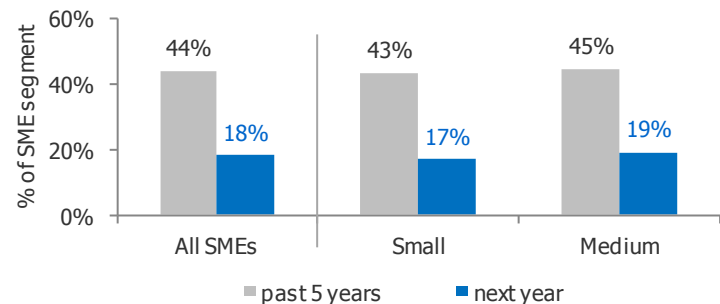
SMEs employment in the following year

- Following labour market restructuring over the past 5 years, SMEs present a trend toward **workforce stabilization for the year ahead**.
- Specifically, 60% of SMEs state that they have as much employees as required, while **only 20% continue to employ surplus personnel**. Accordingly, circa 20% of SMEs state that they intend to change the number of employees during the next year in order to reduce their labour costs.
- A comparison of these expectations with the situation that has emerged in the past few years (where 44% of SMEs have reduced labour costs through layoffs) leads us to believe that the greater part of restructuring in the SME labour market has already been effected.

Evaluation of current number of employees



Change in labour cost through firing/hiring

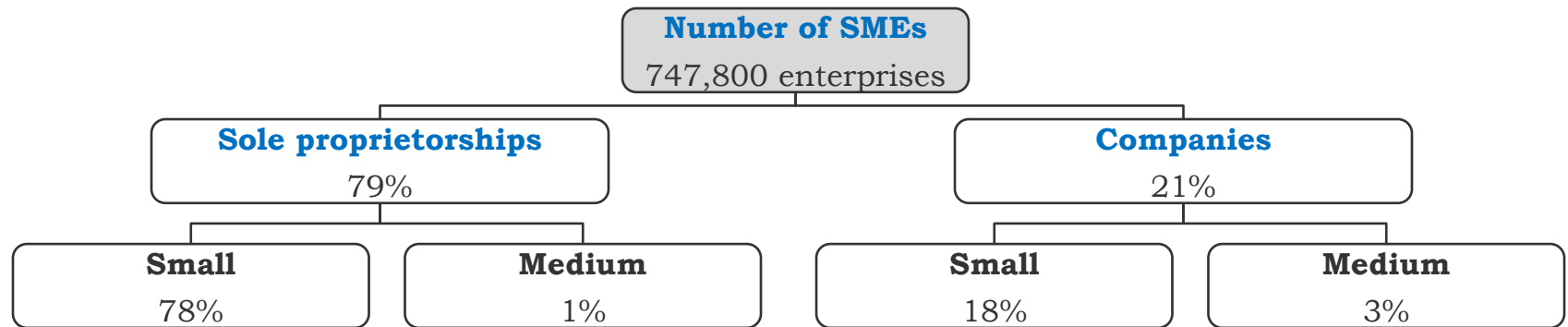


ANNEX

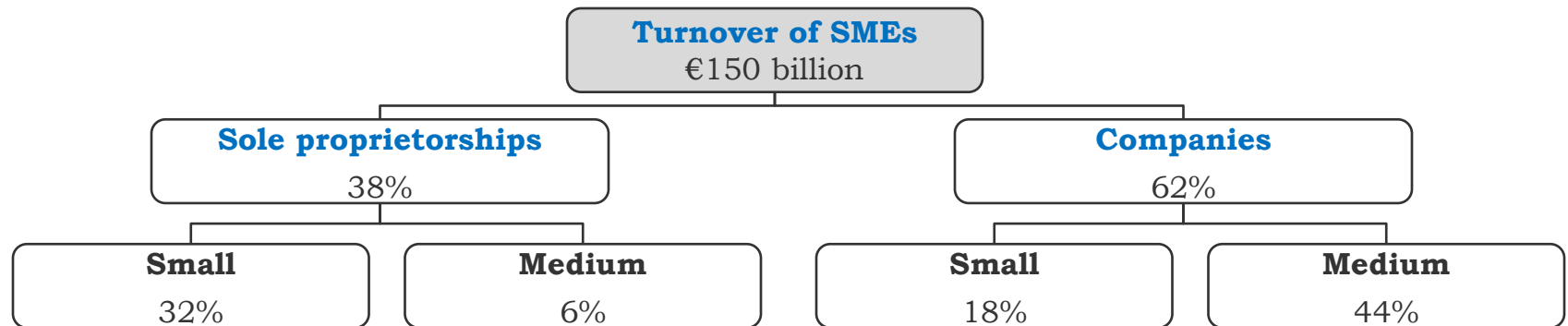




Mapping the SME sector in Greece



** For the purposes of the survey, small enterprises are those reporting turnover of less than €1 million and medium-sized enterprises are those reporting turnover of between €1 million and €10 million.*



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- The approximately 750,000 SMEs in Greece generate turnover of circa €150 billion.
- 4/5 of SMEs are sole proprietorships, which account for a corresponding share of the total domestic business sector (compared with just ½ of the business sector in Europe).
- Although sole proprietorships comprise the majority of SMEs, the greater share of turnover (over 60%) is generated by companies of various legal status (SA, limited partnership, limited liability, etc.).



Sample description

Sample structure (number of companies)					
Turnover (million €)	Manufacturing	Trade	Services	Construction	Total
(0 - 0,1]	40	40	40	40	160
(0,1 - 0,5]	40	40	40	40	160
(0,5 - 1]	40	40	40	40	160
(1 - 2,5]	40	40	40	40	160
(2,5 - 5]	40	40	40	40	160
(5 - 10]	40	40	40	40	160
Total	240	240	240	240	960

*Due to changes in the availability of data, there is a possibility of deviations of circa 10 per cent.

Greek SMEs structure (based on turnover contribution)					
Turnover (million €)	Manufacturing	Trade	Services	Construction	Total
(0 - 0,1]	1%	4%	5%	1%	11%
(0,1 - 0,5]	3%	14%	6%	2%	24%
(0,5 - 1]	2%	9%	3%	1%	15%
(1 - 2,5]	3%	11%	4%	2%	20%
(2,5 - 5]	3%	8%	3%	1%	15%
(5 - 10]	3%	8%	3%	1%	15%
Total	15%	53%	23%	8%	100%

Source: Hellenic Statistical Authority - business register 2007

- Our survey examines a sample of enterprises with a turnover of below €10 million, which, for the purposes of the analysis, we define as small and medium-sized enterprises (SMEs).
- Enterprises were selected using a stratified sampling method, in line with the standards of similar surveys carried out by international organizations. Specifically, a total of 960 enterprises were selected in such a way as to enable even distribution of the sample on the basis of two key factors: scale of turnover (6 scales) and activity sector (Manufacturing, Trade, Services, Construction).
- In order to draw conclusions that are representative of the SME segment, answers were weighted according to the participation of each sub-set in the total turnover of the segment. Thus, findings were arranged: i) by size; ii) by sector; and iii) for the whole SME business sector. On the basis of the methodology, the segments are weighted based on their shares in total turnover and not the number of enterprises.



Constructing a business confidence index

- In order to construct a confidence index for SMEs, we included a number of basic questions regarding the level of business activity in the previous and in the coming semester. The model for the questions is based on the harmonized questionnaire recommended by the OECD and the European Commission, thereby enhancing the predictability of the index.
- The Index questions have 3 alternative answers: increase (+), no change (=), decrease (-), or above normal (+), normal (=), below normal (-). To begin with, we convert the number of answers per category (+,=,-) to percentages and then we calculate the net result by subtracting the (-) from the (+) percentage. Last, the confidence index for each sector is the average of the net results for the following questions:
 - ✓ For **manufacturing**: The level of orders, inventories, and future production trend.
 - ✓ For **services**: The business situation of the firm in the previous semester, past and future demand trend.
 - ✓ For **trade**: Level of inventories, past and future demand.
 - ✓ For **construction**: Level of backlog, and future employment trend.
- For the SME sector, the business confidence index has been estimated as a weighted average of its subsectors (the weights being the shares of the sectors' turnover in the economy).
- By carrying out the survey on a regular 6-month basis, we should be able to form a picture of SMEs' course over time, as reflected in the index. To draw reliable conclusions, comparison will be made between the current index level and its long-term average (so as to correct possible over-optimism or over-pessimism bias).



- *Company: TNS ICAP*
- *Methodology: Quantitative research in the form of Computer Aided Telephone Interviewing - C.A.T.I., using a 20-minute structured questionnaire.*
- *Sample: A total of 960 interviews:*
 - ✓ *480 enterprises with annual turnover up to EUR 1 million (freelancers, sole proprietorships, unlimited companies, limited partnerships, limited liability companies, SAs)*
 - ✓ *480 enterprises with annual turnover between EUR 1 million and 10 million (unlimited companies, limited partnerships, SAs, limited liability companies)*
- *Geographical coverage: Athens, Thessaloniki, Heraklion, Ioannina, Kavala, Larissa, Patras.*
- *Sampling: multi-stage, stratified, non-proportional sampling for sector, turnover size and geographical area in each of the two sets of samples.*
- *Statistical error: in each of the two sets of samples of 480 enterprises the maximum statistical error is estimated at +/- 4.5% at a 95% confidence level*
- *Period of survey: 25/04/2013 - 12/06/2013*
- *Survey framework: The survey was carried out in line with ESOMAR and SEDEA (Association of Greek Market and Opinion Research Companies) codes of conduct and the quality control requirements set by PESS (Quality Control in Data Collection). A total of 37 researchers and 3 reviewers with experience and know-how in business surveys participated in the field research.*

NATIONAL BANK OF GREECE

Strategic Planning & Research Division

Survey of Greek SMEs *July 2013*



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