

Greece: *the business growth landscape*

Grant Thornton International Business Report 2015



Introduction

Greece is a country in southeast Europe of approximately 11m people. It is the 45th largest economy in the world with an estimated output of US\$238bn in 2014.

Drawing on data and insight from the Grant Thornton International Business Report (IBR), the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), this short report considers the outlook for the economy, including the expectations of 200 business leaders interviewed in Greece, and more than 10,000 globally, over the past 12 months.

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11 million inhabitants

Economy

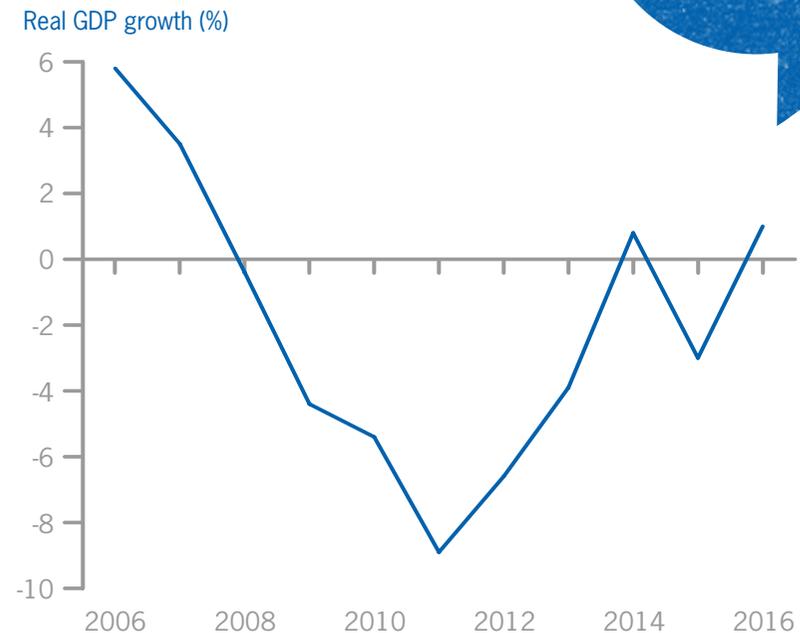
The Greek economy for the first time since the financial crisis in 2014 but the election of Syriza led to a stand-off with the so-called troika – the European Commission, the European Central Bank and IMF. After months of uncertainty, and the imposition of stringent capital controls to prevent a run on Greece's banks, a bailout package was agreed with Greece's creditors (despite being soundly rejected by the Greek people in a referendum) in July.

Fresh elections held on 20 September provided Syriza with a new mandate and Greece's 10-year bond yields – a key indicator of default risk – dropped to 8%, their lowest level in 2015. This suggests investor confidence that political continuity will ease the implementation of the country's third bailout programme. Athens faces a heavy schedule of laws to pass through parliament by the end of the year but the majority of MPs remain committed to keeping Greece in the eurozone.

Latest economic indicators

- the Greek economy surprised forecasters, growing by 0.8% in Q2, while the Q1 figure was revised up to zero growth (from a contraction of 0.2%)
- an increase in tourist arrivals at local airports beat poor projections, rising by 6.9% in the year to July
- new-car registrations also rose by 21.7% in the year to June
- total exports rose 1% in the year to May while the import bill decreased by 13.7% due principally to much lower oil imports

Economy grew
0.8%
in Q2-2015



Source: Economist Intelligence Unit (2015)

Economic outlook

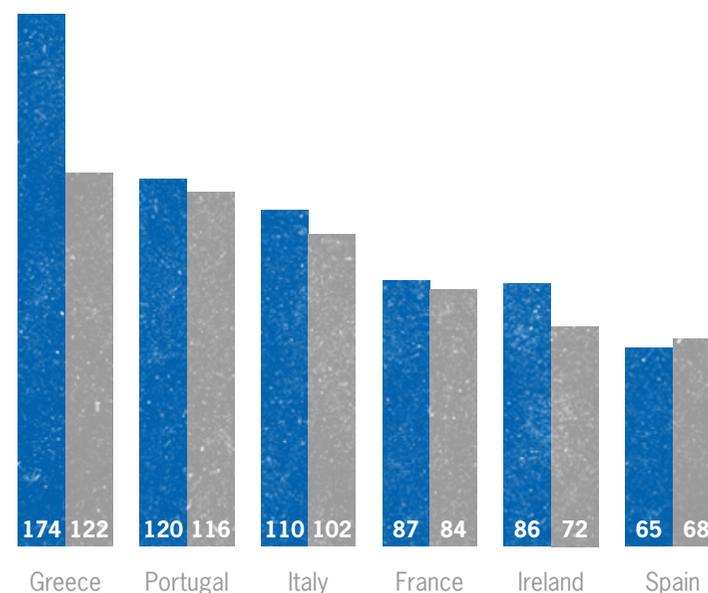
Despite the surprise positive economic growth posted in Q2, the EIU expects the Greek economy to contract by 3.0% in 2015 with the capital controls and strict withdrawal limits introduced on 28 June likely to remain in place for some time. However, the EIU is forecasting an acceleration in growth to 1.0% in 2016 and 1.6% in 2017, assuming September's election result brings some stability.

The government was re-elected having already signed the bailout deal but none of the planned policies have yet been implemented. However to even begin this process and the secure the funds for the recapitalisation of the banking sector, the government need to legislate a series of reforms before the first review of the bailout is concluded in November. These include pensions and social security funds restructuring; tax and labour market reform; reductions in the defence procurement budget; and privatisations.

Greek debt is expected to begin to slowly decline over the coming years (assuming no further instability). In 2014, net general government debt was estimated at 174% of GDP by the IMF. This is forecast to shrink to 122% by 2020, still dangerously high, but comparable with levels in Portugal and Italy.

Domestic demand is likely to remain weak with unemployment still tracking at over 26% but buoyant tourism is helping to offset local uncertainty. Tourism arrivals for 2015 have been estimated at 25m, beating the 2014 record of close to 21m. Many of the jobs it creates are seasonal but the industry is thought to indirectly support 1.5m jobs.

General government net debt (% GDP)



Source: Grant Thornton IBR 2015

■ 2014
■ 2020

Business growth

Business optimism in Greece plunged to an all-time low in Q3 according to data from our IBR. The interviews (which were conducted in early September before the election result) reveal net -60% are optimistic for the local economic outlook, down from -38% in Q2.

This beats the previous low of -58% recorded in the second quarter of 2012 and comes at a time when both eurozone and global confidence has fallen. Eurozone optimism is down 19 percentage points (pp) over the quarter to 33% with global confidence down 7pp to 38%.

Indicators

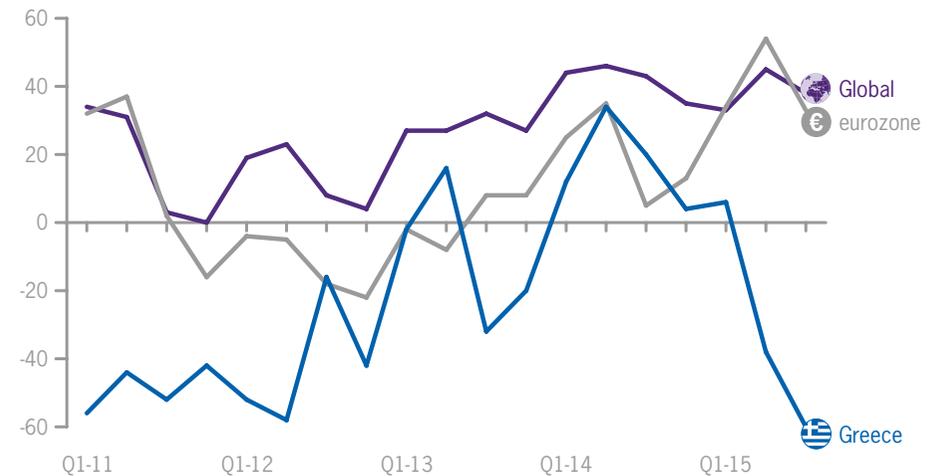
Despite low optimism in the economic outlook, Greek businesses are more optimistic about their own growth prospects. Net 17% of businesses expect to increase revenues over the next 12 months, down from 36% in Q2 but still well above the 2012 average of 0%. Similarly net just 10% of business leaders expect to increase profits, down from 38% in the previous quarter, but above the 2011 and 2012 averages which fell into negative territory.

The outlook for employment has weakened over the past quarter. Net -4% of businesses expect to hire workers (meaning a slim majority expect to lose workers), down from 16% in Q2 and an average of 17% over the past 12 months.

One brighter spot for the economy is overseas sales. Net 25% of Greek businesses expect to increase exports over the next 12 months, down only 7pp from Q2. The year-to-date average stands at net 30%, down from 40% in 2014, but above the average 2010-13.

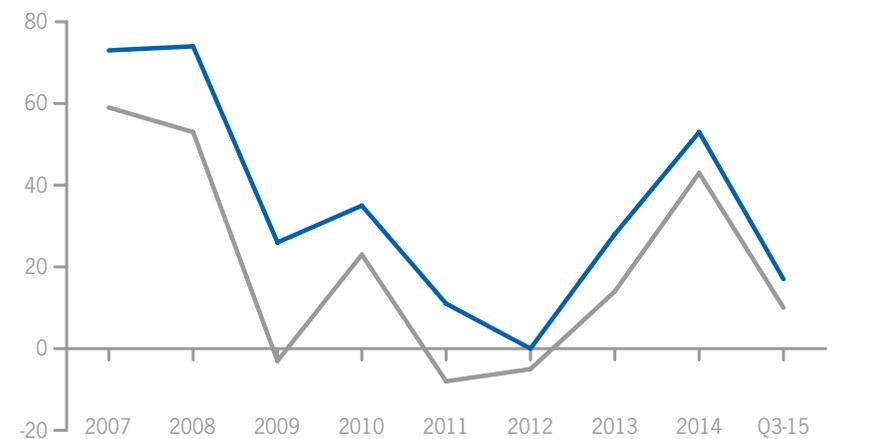
Another positive is that investment has held up during the crisis. Net 34% of Greek businesses expect to increase spend on plant and machinery in the year ahead, and the average across the 2015 is 42% – which compares to 36% across the eurozone.

Net percentage of businesses optimistic in the economic outlook



Source: Grant Thornton IBR 2015

Net percentage of Greek businesses which expect an increase (next 12 months)



Source: Grant Thornton IBR 2015

Constraints

Economic uncertainty is the principal constraint strangling business growth in Greece. This may have dissipated to a certain extent since the election but it remains unresolved as to how the reforms demanded by Greece's creditors will be implemented.

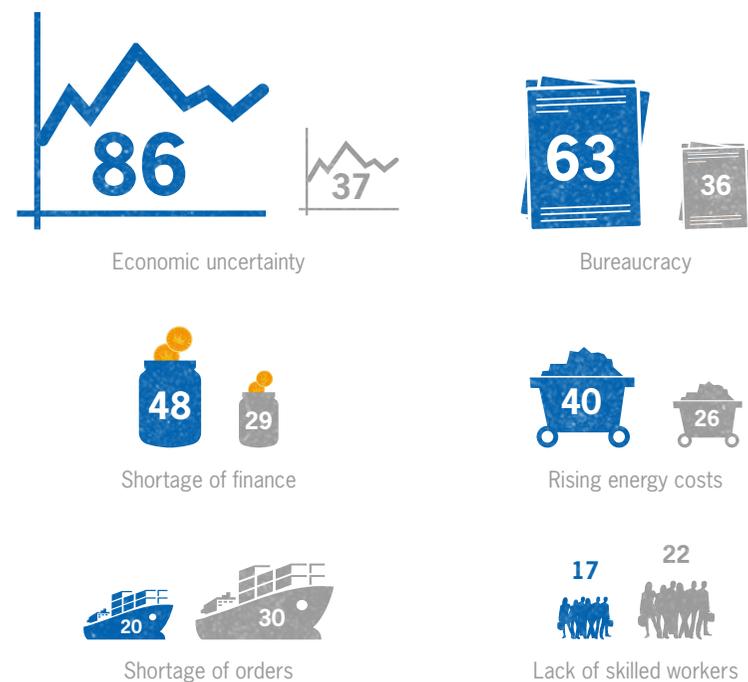
Almost nine in ten Greek businesses cite economic uncertainty as a constraint on growth (86%) more than double the eurozone average (37%). For business leaders, uncertainty increases risk and therefore weighs on their ability and desire to take bold long-term growth decisions such as hiring new workers or launching a new product or service.

Business leaders are also concerned with stifling bureaucracy: 63% cite regulations and red tape as a growth constraint, again well above the eurozone average (36%). The bailout deal signed by Mr. Tsipras includes legislating for a series of reforms including on the labour market, tax and a wider restructuring of pensions and social security funds which could all put further pressure on business, at least in the short-term.

A shortage of finance is affecting almost one in two Greek businesses (48%), again well above the eurozone average (29%). Capital controls and strict withdrawal limits remain in place; some Greek importers have found their foreign suppliers asking for upfront payments before they send products in.

Rising energy costs are also more of a burden for Greek businesses than their single currency neighbours, although relatively fewer are concerned with a lack of demand or skilled workers.

Percentage of businesses citing factor as a constraint on growth



Source: Grant Thornton IBR 2015

■ Greece
■ eurozone

Economic uncertainty is constraining business growth...

...by stopping business leader's taking risks

Initiatives

Despite facing multiple challenges, Greek businesses are looking at a broad range of initiatives to boost the growth potential of their operations.

Many businesses are looking at how they upskill and improve workforce performance. More than half of Greek businesses (51%) are looking to improve salesforce effectiveness, compared to 41% of businesses across the eurozone. And a further 25% are planning to incentivise productivity improvements, slightly below the eurozone average of 31%. However, with the economic outlook so uncertain, just 15% are expecting to recruit specialist talent.

Business leaders are also considering expanding their operations, either by selling more at home and abroad or by developing new product or service lines. Close to two in four Greek businesses are planning to expand overseas (39%) which ties in with robust export expectations (see above). And a

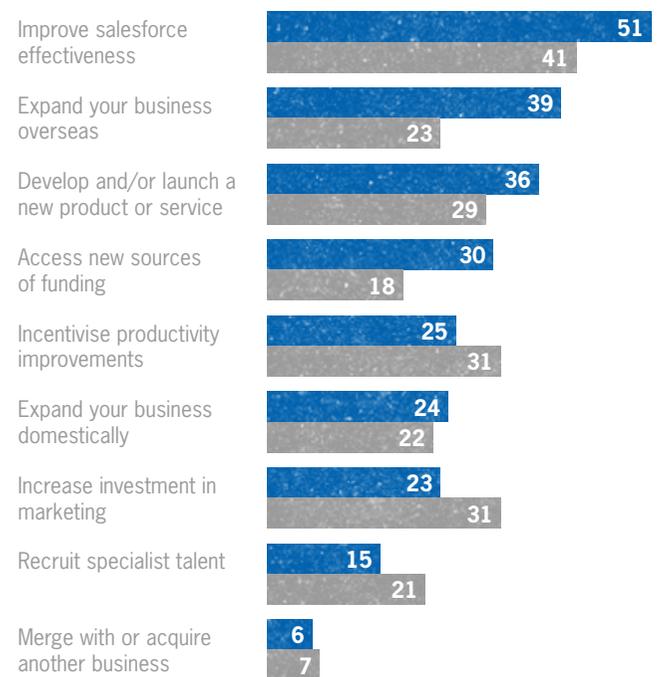
further 24% are trying to expand domestically despite weak consumer confidence. Meanwhile more than a third of local businesses are planning to launch a new product or service over the next 12 months, slightly above the eurozone average.

With the banking sector still shrouded in uncertainty, a further 30% of Greek businesses are looking at alternative sources of funding; again well above the eurozone average (18%).

Greek businesses looking to expand operations...

...and product range to find growth

Percentage of businesses planning to introduce initiative (next 12 months)



Source: Grant Thornton IBR 2015

■ Greece
■ eurozone

Mergers & Acquisitions

Perhaps unsurprisingly given the volatile economic and political situation, inbound M&A activity has far exceeded outbound over the past three years.

Total inbound M&A activity has totalled US\$2.9bn since September 2012 of which US\$2.6 was in financial services. Investors have principally come from the Netherlands (US\$0.9bn), Cyprus (US\$0.8bn) and the UK (US\$0.5bn).

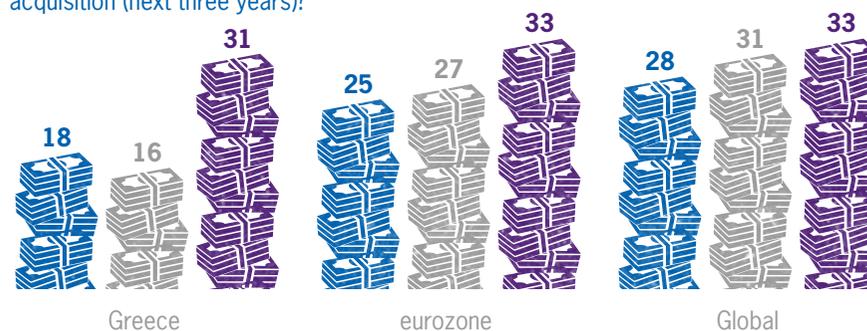
By contrast, outbound activity totalled just (US\$0.6bn) over the same period, split fairly evenly between financial services and industrials. Turkey accounted for 54% of this investment and the Marshall Islands 40%.

Greek businesses expect to be much more acquisitive over the next three years, compared with this time last year. Close to a third (31%) plan to grow through acquisition, up from 16% a year earlier. This mirrors the more buoyant picture across the eurozone where 32% expect to acquire, up from 29% a year earlier.

A further 14% of business leaders expect to sell up over the next three years, broadly level with the eurozone and global averages.

The vast majority of Greek businesses expect to finance growth through retained earnings over the next three years (89%), with a further 59% looking at bank finance – although this may now be tough to realise given recent developments in the banking sector.

Percentage of businesses planning to grow through acquisition (next three years)?



Source: Grant Thornton IBR 2015

■ 2012
■ 2013
■ 2014

31%
of businesses
plan to
grow
through M&A

14%
plan to
sell up
over the next
three years

Automation

The last decade has certainly seen some rapid advances in technology: 3D printing is now a reality and driverless cars will soon be on our roads, threatening many job categories, from factory workers to lorry drivers. A recent study¹ from Oxford University suggested that 47% of total employment in the United States are under threat from computerisation.

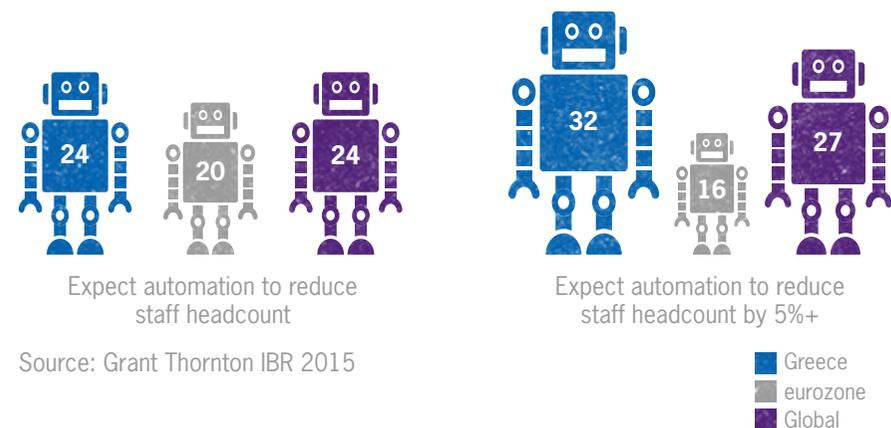
The IBR revealed earlier this year that 24% of Greek businesses expect automation to reduce their staff headcount in the near future – level with the global average. Meanwhile, 32% of Greek businesses expect automation to reduce staff headcount by 5% or more in the near future, compared to 27% globally and 16% across the eurozone.

This is a concern considering youth unemployment is running above 50% but it does seem to

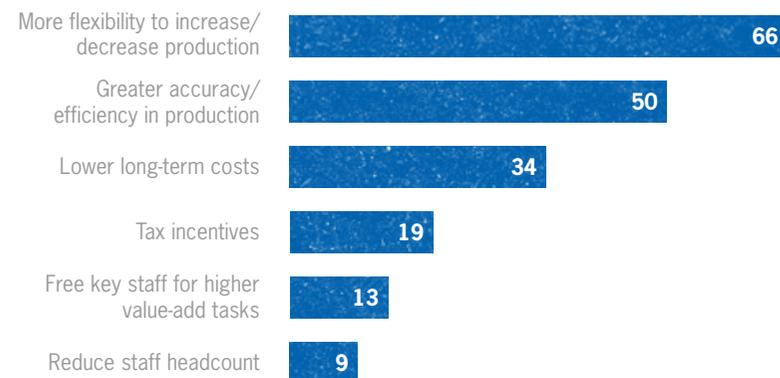
reflect more than a desire to cut costs. A third of businesses (34%) cite a desire to cut long-term costs as a driver to automate – compared with 38% across the eurozone and 53% globally – but just 9% are looking to reduce staff headcount – compared with 22% across the eurozone and 34% globally.

The biggest motivation for Greek businesses is flexibility to increase/decrease production (66%) with another 50% looking for greater accuracy/efficiency in production.

Automation expectations of businesses (near future)



Automation drivers



¹ 'The future of employment: how susceptible are jobs to computerisation?' Frey, Osborne (2013)

International expansion

Globalisation is accelerating. While businesses are looking to unlock new revenue streams and governments are encouraging economic diversification, the increased connectivity of the digital age is lowering barriers to entry, opening up more international growth opportunities for dynamic businesses.

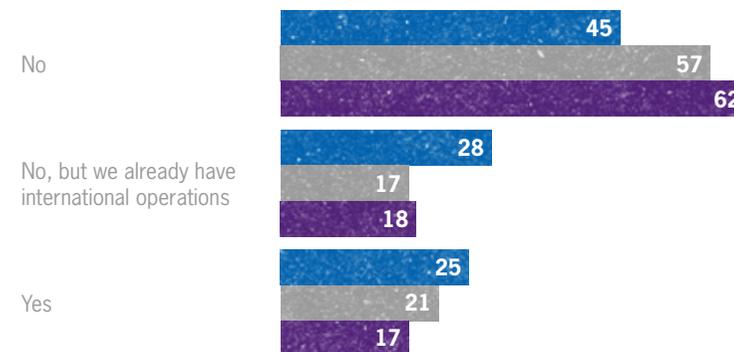
Greek business leaders are certainly aware of the benefits of operating overseas, perhaps even more so given domestic troubles: 53% of businesses either currently have operations abroad, or plan to expand overseas over the next 12 months. This compares to 38% across the eurozone and 35% globally. Western Europe, Eastern Europe and the United States are the key target markets.

Those business leaders unwilling to go abroad are most likely to be dissuaded by financial risk/uncertainty (36%), local legislation/regulatory requirements (30%) and access to finance (21%).

The Grant Thornton Global Dynamism Index 2015 ranks Greece 51, level with Italy for the dynamism of its business growth environment. Greece ranks highest for business operating environment (37) but lowest for labour market (57).

53%
of Greek
businesses have
international
aspirations

Is your business planning to expand into a new international market over the next 12 months?



Source: Grant Thornton IBR 2015

■ Greece
■ eurozone
■ Global

Business growth environment rankings

Rank/60		(Score/100)
1	Singapore	69.9
=3	Finland	67.3
11	Germany	64.9
=23	France	60.8
27	United Kingdom	59.8
=38	Portugal	54.4
43	Spain	52.0
=51	Greece	47.7
=51	Italy	47.7
60	Ukraine	29.6

Source: Grant Thornton GDI 2015

Women in business

Despite much debate and discussion the proportion of the top jobs in business held by women has barely changed over the past decade, increasing from 19% in 2004 to 22% today, and never reaching higher than 24% over the intervening period.

Greece has consistently tracked above the global figure, averaging 25% since 2004, rising to 27% in 2015. Further, just 18% of Greek businesses have no women in their senior leadership teams compared with 32% globally and 39% across the eurozone. Senior women in Greece are most likely to hold the positions of HR director (31%) or Chief Marketing Officer (29%).

Mirroring the global trend, senior female leaders in Greece (54%) are almost twice as likely as men (27%) to have used social media to secure their current role.

Women (46%) are also much more likely than men (26%) to cite parenthood as a major challenge to reaching the upper echelons of the business world. A further 39% cite both gender bias (compared with 16% of men) and insufficient support structures (compared with 21% of men).

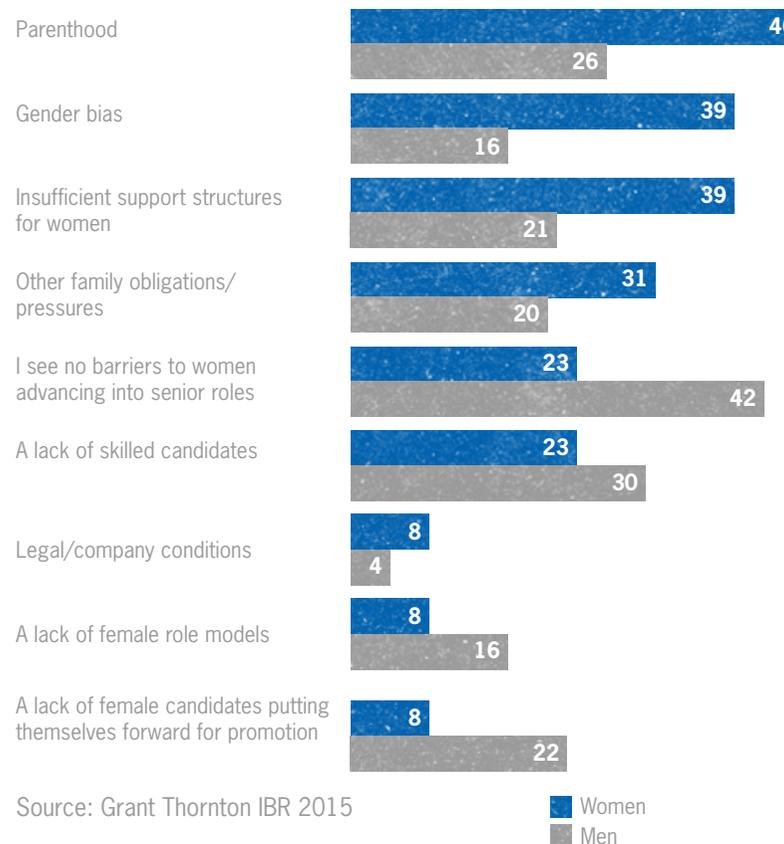
Percentage of senior leadership roles held by women



Source: Grant Thornton IBR 2015

- Long-run average (2004-2015)
- 2015

Major perceived barriers to female advancement in Greece



IBR 2015 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 businesses leaders in 36 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in businesses with 50-499 employees. Q3 data is drawn from 2,500+ interviews globally (50 in Greece) conducted in September 2014.

To find out more about IBR, please visit: www.grantthornton.global.

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