The Determinants of Small Firm Growth in the Greek Manufacturing Sector

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Abstract

The aim of this paper is twofold; first, to identify the variables that mostly affect rapid sales growth in Greek manufacturing small and medium sized enterprises (SMEs); second, to examine the potential influence upon business growth and performance outcomes of those variables representing enterprise and financial management characteristics of the Greek SMEs. The study utilizes panel data of a random sample of 143 firms from the manufacturing SMEs sector in Greece. Regression analysis is used to determine the explanatory factors of rapid sales growth. This paper is firstly addressing the Greek case and our results are in line with the findings of other empirical studies in the European Union (EU), thus, supporting the convergence hypothesis among member states in EU. Indeed, factors found to influence significantly manufacturing SMEs growth in Greece are profitability, liquidity, reliance on long-term debt, employee productivity, fixed

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assets turnover and restricted sales credit terms. Moreover, our findings also suggest that SMEs located in big cities behave differently from firms located in the periphery with regard to factors related to growth. The same holds true for firms in different industry subgroups. Our findings give rise to several policy implications that are crucial for the competitiveness of the sector, especially in view of the changes induced by the European Monetary Union, as well as, by other undergoing economic changes in the country such as the Olympic Games 2004. Policies such as low cost financing, lower tax burdens, incentives for investments in new technology, continuous personnel training, promotion of e-commerce and cooperation with foreign firms might induce fast growth in Greek SMEs.

- **JEL Classifications:** G32, L6, L11, C23
- **Key words:** Capital structure, Industry study, Manufacturing, Panel data

### I. Introduction

It is generally recognized that small and medium sized enterprises (SMEs) play an important role in the European Union (EU), in terms of economic growth and development with a particular contribution in terms of employment generation. This is particularly true in the case of Greece\(^1\) that is literally a country of SMEs since they comprise 99.8\% of total firms, contributing 91\% to total employment and 30\% to manufacturing value added. Moreover, Greek SMEs demonstrate a strong contribution to economic growth, both regionally and nationally\(^2,3\).

In the last decades, globalization has resulted in an increasing competition in most product and service markets worldwide. This is especially true for the EU countries following the European Integration process. However, while increasing competition affects firms of all sizes, there are size-related characteristics that can affect the ability of SMEs to respond to such changes. In view of the foregoing changes, the survival of SMEs is crucial to the Greek economy, particularly in the

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\(^1\)SMEs in Greece are defined as those firms that employ up to 100 persons.

\(^2\)It should be noted at this point, that exceptionally important to economic growth are the fast growing SMEs, which are viewed as only the top 5-10\% of all growing firms according to the OECD SMEs outlook (2000).

\(^3\)For a literature review on the Greek SMEs, see among others EOMMEX (2000), KEPE (1989) and Voulgaris et al. (2000)