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The impact of institutional change on entrepreneurship in a crisis-hit economy: the case of Greece

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The impact of institutional change on entrepreneurship in a crisis-hit economy: the case of Greece

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This paper examines how changes to the institutional environment in a crisis-hit economy impact on entrepreneurial activity. Through a case study of Greece, the paper demonstrates how the institutional environment has changed in light of the crisis and the resultant response of entrepreneurs to these changes. Drawing on in-depth interviews with entrepreneurs, the findings suggest that changes to institutions have served to limit entrepreneurial activity rather than enhance it, and that this has worsened in the midst of the crisis. We argue that this will detrimentally impact Greece's ability to navigate out of the crisis and regain competitiveness in the longer term. The paper concludes by offering a number of theoretical and policy implications which are focused on improving institutional environments so that entrepreneurship can play an appropriate role in recovering from economic crises.

Keywords: entrepreneurship; institutions; crisis; Greece

Introduction

Entrepreneurship is widely acknowledged as an engine of economic growth (Henry, Hill, and Leitch 2003; Acs, Desai, and Hessels 2008). Yet, the ability of entrepreneurship to contribute to growth is determined by the formal and informal institutions which are prevalent within an economy (Acs, Desai, and Hessels 2008). A great deal of research has been conducted which examines the interplay between institutions and entrepreneurship, with the prevailing view being that formal institutions can change rapidly but informal institutions are much slower to change (Estrin and Mickiewicz 2011). Recent research on institutional change has focused on transition economies where moves from centrally planned to more open, competitive market economies have taken place (see e.g. Manolova, Eunni, and Gyoshev 2008; Manolova and Yan 2002; Puffer, McCarthy, and Boisot 2010; Smallbone and Welter 2010). In addition, there is some emerging research which examines entrepreneurial activity and the recent economic crisis (Cowling, Liu, and Ledger 2012; Parker, Congregado, and Golpe 2012; Smallbone et al. 2012), but none which considers how changes to the formal and informal institutional environment are impacting entrepreneurship in crisis-hit economies.

Given that the institutional environment is crucially important for entrepreneurship, we posit that through institutional change policy-makers may be able to respond positively to crisis. However, in order for responses to be effective, it requires understanding of the

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interaction of formal and informal institutions. Formal institutions can be changed but will not always positively impact entrepreneurship unless informal institutions also change. In addition, weak informal institutions can serve to undermine formal institutional change. While the crisis was global in nature, we can expect differences in its effects depending on countries' relative exposure to it and their ability to emerge from it (Smallbone et al. 2012), at least part of which can be explained by institutional change and its impact on entrepreneurship. Therefore, the ability of formal and informal institutions to adapt positively to a crisis will determine the long-term impact on entrepreneurship and economic development.

In this paper, therefore, rather than focusing on a specific aspect of policy response, such as access to finance as previous studies of the crisis have done (see e.g. Cowling, Liu, and Ledger 2012), we consider the broad formal and informal institutional environment and how it interacts and changes as a result of economic crisis. In doing so, the paper contributes to the literature on institutions, entrepreneurship and crises by demonstrating how policy-making can have a positive or negative impact on entrepreneurship depending on what policy decisions are made.

This paper focuses on a study of Greece, a country which has been adversely and severely affected by the global economic crisis which began in 2008, and which has been slow to recover (Matsaganis and Leventi 2013; Tagkalakis 2014). Greece has been severely affected by the crisis, leading to both endogenous and exogenous institutional change. Endogenous change has resulted from the Greek government's attempts to restructure the economy in response to the crisis, while exogenous change has been experienced due to the international bailouts Greece has received which are conditional on tax increases and austerity measures (Matsaganis and Leventi 2013). These changes have led to formal and informal institutional change which will influence the competitiveness of the Greek economy in the longer term. The paper examines how changes to the institutional environment brought about by the recent crisis have impacted on entrepreneurs. We contend that Greece's institutional environment was weak prior to, and has worsened as a result of, the crisis. Furthermore, we posit that negative changes to formal institutions brought about by the impact of the crisis will have a consequent and congruent negative impact on informal institutions, as the entrepreneurial culture weakens in response to changes in rules and regulations. It is only by reversing the trend of weak institutions that Greece can properly emerge as a competitive country in the longer term.

In order to respond effectively to a crisis, a country or region's ability to adapt institutional arrangements is of paramount importance. Simmie and Martin (2010) assert that the institutions which comprise an economy continually adapt with a view to maintaining long-run equilibrium and improving the growth path. Yet, policy-makers must also seek to positively respond to external factors, such as economic crises, if an economy is to emerge positively. Political leadership is important at times of crisis, since economic challenges demand the coordination of actors at multiple spatial scales. Dawley, Pike and Tomaney (2010) refer to this as 'intelligent institutional leadership', which brings together stakeholders under a common strategy that helps to generate a (more) resilient and competitive economy. Where such an approach is proactive in responding to external shocks, as opposed to reactive, the effect of disturbances are often reduced (Pendall, Foster, and Cowell 2010).

Martin (2012) posits that understanding why some economies are better able to adapt to shocks than others represents a key question for the social sciences. The economic crisis provides an opportunity to reconsider the role and nature of entrepreneurship (Rae 2009), and while it is too early to examine the full impact of the crisis on Greece or the long-term impact of institutional change, it is possible to examine how entrepreneurs perceive changes to institutions and how they have responded to these changes. In doing so, insights into the interplay between crisis, institutions and entrepreneurship can be produced. Accordingly, the aim of the paper is to critically analyse how the institutional environment has influenced entrepreneurs in Greece during the crisis. As such, this paper addresses the central research question of how institutional change has affected entrepreneurial activity in Greece as an example of a crisis-hit economy. In answering this question, the paper finds that formal institutional reforms have taken place which have served to worsen the entrepreneurial environment as well as leading to a deterioration in the already weak enterprise culture in Greece, the sum of which will serve to hinder entrepreneurial activity and long-term competitiveness.

Whereas previous research has shown that policy-makers have improved the institutional environment in response to a crisis (Smallbone et al. 2012), the contribution of this paper is to demonstrate how policy decisions can have a cumulatively negative impact on entrepreneurship. Some of the institutional changes (such as a lack of credit) have been imposed upon policy-makers and they are unable to alleviate these issues, for example by changing formal institutions, due to the direct fiscal impacts of the crisis on government. However, other decisions made by policy-makers which aim to improve the national economy have inadvertently undermined entrepreneurial activity, the support of which is crucial for recovering from crisis and achieving growth.

The paper develops a more nuanced understanding of how institutional reforms can negatively affect entrepreneurial activity in a crisis-hit economy, and thereby undermine the contribution that entrepreneurship can make to recovery. While there are emerging academic studies of Greece's economic challenges (see e.g. Featherstone 2010), this is the first study to examine institutional change and entrepreneurship in the contexts of the financial crisis in Greece. We use a dual method approach, combining a review of relevant policy documents relating to entrepreneurship and economic development and qualitative interviews to explore entrepreneurs' perceptions in depth. The remainder of the paper is structured as follows. Section 2 reviews the extant literature on entrepreneurship and institutional environments, before Section 3 introduces the entrepreneurial environment of Greece and sets out the methodological approach of the study. Section 4 then presents the findings of the case study, and highlights how the institutional environment in Greece has undermined entrepreneurship and curtailed economic development. Finally, the paper concludes by reflecting on the discussion and considers the wider implications for strengthening the entrepreneurial environment in Greece and other crisis-hit economies.

Literature review

Although entrepreneurship is often portrayed as an individual endeavour, it is important to recognize that it both affects and is affected by the institutional environment which governs and directs economic activity (Acs, Desai, and Hessels 2008; Bruton, Ahlstrom, and Li 2010). The 'rules of the game' (North 1990, 1994) incorporate formal institutions such as the ease of starting up, licensing and registration laws and access to finance, and informal institutions such as perceptions of opportunity and prevailing culture impose direct and indirect effects on both the supply of and demand of entrepreneurs' behaviours (Acs, Desai, and Hessels 2008). As such, the extent to which entrepreneurship is socially productive and contributes to economic growth depends on the institutional context in which it occurs (Baumol 1990; Acs, Desai, and Hessels 2008).

Formal institutions can be defined as the rules and regulations which are written down or formally accepted and give guidance to the economic and legal framework of a society

(Tonoyan et al. 2010; Smallbone et al. 2012). Informal institutions can be defined as the traditions, customs, societal norms, culture and unwritten codes of conduct (Baumol 1990; North 1990; Smallbone et al. 2012). These norms and values are passed from one generation to the next and can therefore be resistant to change (Bruton, Ahlstrom, and Li 2010). We posit that it is the interaction between formal and informal institutions that will have a long-term impact on entrepreneurship and its ability to contribute to emergence from this crisis. This section begins with a discussion of formal and informal institutions before considering how institutional arrangements affect entrepreneurship.

Formal institutions

Formal institutions are created to provide rules, regulations and property rights that enable decision-makers to engage in transactions with greater certainty (Smallbone et al. 2012). Where formal institutions are strong and well enforced, over time entrepreneurial activity will be fostered which contributes to economic growth (Acs, Desai, and Hessels 2008). However, where formal institutions are weak, they impose costly bureaucratic burdens on entrepreneurs and increase uncertainty as well as the operational and transaction costs of firms (Djankov et al. 2002; Puffer, McCarthy, and Boisot 2010). Entrepreneurs in such settings can often be faced with incoherent and constantly changing regulations (Manolova and Yan 2002; Aidis, Estrin, and Mickiewicz 2008), meaning that, for example, they are unable to calculate their tax bills due to changing tax rates (Tonoyan et al. 2010). Furthermore, gaining credit can be difficult, as banks can favour larger businesses and lack willingness to finance small enterprises (Smallbone and Welter 2001). As such, getting credit can act as a strong constraint on entrepreneurial activity, with entrepreneurs often either having to resort to the informal credit market, for example borrowing money from family and friends, or by resorting to bribing bureaucrats to secure the access to capital (Guseva 2007). Moreover, in a crisis situation, credit constraints become much more acute. Smallbone et al. (2012) demonstrate how a credit crunch caused by the recent economic crisis impacted on both the supply of and demand for small firm financing in the UK and New Zealand, and Cowling, Liu and Ledger (2012) show that the crisis in the UK led to finance being more readily available to larger and older firms throughout the recession. In common with these economies, finance has become more difficult to obtain in Greece as a result of the crisis (European Commission 2012).

In light of recent economic crises, academic and policy interest has focused on how economies can rebound and cultivate greater resilience and competitiveness following an external shock (Pike, Dawley, and Tomaney 2010). In order to respond effectively to a crisis, a country or region's ability to adapt institutional and organizational structures is of paramount importance (Dawley, Pike, and Tomaney 2010). The organizations and institutions which make up an economy are continually adapting to the wider economic environment, and indeed policy can be proactive in being 'prepared' for external shocks (Simmie and Martin 2010). Similarly, policy-makers must also seek to positively respond to external factors such as crisis if an economy is to emerge positively (Pike, Dawley, and Tomaney 2010), and where policy is proactive or responds positively to external shocks, disturbances and stresses can be minimized (Pendall, Foster, and Cowell 2010). Smallbone et al. (2012) show that policy-makers in New Zealand sought to minimize the impacts of the crisis by approving a small business package that consisted of an expansion to the export credit scheme, expansion of business advice services, a prompt payment requirement for government agencies and a relief package of 11 tax changes. Similarly, in the UK, the government introduced a relief package for small firms, financial help involving a system of loan guarantees and financial advice, a temporary cut in the value-added tax (VAT) rate, an acceleration of capital investment projects and accelerated roll-out of broadband and measures to combat unemployment, for example by paying companies to hire and train the unemployed (Smallbone et al. 2012). However, such policy options are only available to governments with budget flexibility. In Greece, which has been reliant on international bailouts to prevent fiscal collapse, the ability to fund such changes is severely restricted due to the shrinking of the state purse brought about by the crisis (Kaplanoglou and Rapanos 2013), meaning that positive institutional change is stymied. For example, Greece has introduced VAT increases which served to dampen demand for products and services as prices rose (Matsaganis and Leventi 2013). As a consequence, it is clear that changes to the formal institutions prior to or in the midst of a crisis is important for determining how an economy can support entrepreneurs, and ultimately how effectively it will emerge from the external shock.

Informal institutions

Bruton, Ahlstrom and Li (2010) describe how the informal institutions of norms and behaviours present within a society define and determine models of individual behaviour based on subjectivity and meanings that affect beliefs and actions. These norms are the often taken-for-granted culturally specific behaviours that are learned living or growing up in a given community or society (Scott 2007) and engender a predictability of behaviour in social interactions which is reinforced by a system of rewards and sanctions to ensure compliance and over time become an informal institution (DiMaggio and Powell 1983, 1991).

Understanding informal institutions is important to entrepreneurship in terms of how societies accept entrepreneurs, inculcate values and create a cultural milieu whereby entrepreneurship is accepted and encouraged (Bruton, Ahlstrom, and Li 2010). Indeed informal institutions are widely acknowledged as critical to explaining different levels of entrepreneurial activity across countries (Davidsson 1995; Frederking 2004; Puffer, McCarthy, and Boisot 2010). Since entrepreneurship is always embedded in a cultural context, understanding informal institutions is critical to fostering entrepreneurship (Bruton, Ahlstrom, and Li 2010). Yet, despite the importance attributed to culture in relation to entrepreneurship and economic development, it remains an elusive concept (Huggins and Williams 2011). This elusiveness represents a substantive challenge for academics and policy-makers alike, as affecting cultural change demands a clear understanding as to the intended objectives of such interventions and the mechanisms by which they are achieved. Where informal institutions within a society are not well understood or adequately considered by policy-makers, then institutional reforms will have a limited overall impact on fostering entrepreneurship.

In countries which have sought to reform and move from being centrally managed to open, entrepreneurial and innovative economies, attention has chiefly been paid to formal institutions (Manolova and Yan 2002) and liberalization has been expected to create new and numerous opportunities for entrepreneurship (Saar and Unt 2008). However, in countries without a long tradition of entrepreneurship, the culture which harnesses entrepreneurial activity has been slow to catch up, meaning that reforms to formal institutions have not lead to increases in levels of entrepreneurship. Reforming informal institutions is difficult but not impossible. It is often a slow process, since the norms and values passed from one generation to the next can be resistant to change (Estrin and Mickiewicz 2011). As entrepreneurship becomes more visible and valued in a society, it gains legitimization, and the growth of entrepreneurial aspirations and ambitions can in turn serve to reinforce the emergence of a pro-entrepreneurship culture

(Krueger and Carsrud 1993; Minniti 2005). In this sense, although government is clearly important in influencing entrepreneurial activity (Smallbone and Welter 2001; Acs, Desai, and Hessels 2008), institutional change is not simply the responsibility and domain of policy-makers. Entrepreneurs themselves can act as change agents and influence the institutional landscape (McMullen 2011). At the cultural level entrepreneurship is also self-reinforcing, as individuals follow societal clues and are influenced by what others have chosen to do, thereby slowly moving society to a more entrepreneurial culture as people see others succeeding (Minniti 2005). In consequence, over time, informal institutions can be influenced and improved, and entrepreneurs' actions can contribute to increasing pressure for wider societal change, whether it is intentional or not (Welter and Smallbone 2011). However, unchanging cultures can contribute to a lack of economic resilience meaning that responses to crises may be slow (Simmie and Martin 2010). In this sense, a culture which is supportive of entrepreneurship and allows flexibility and diversity will foster greater resilience and emerge from crisis more quickly (Hill, Wial, and Wolman 2008), whereas informal institutions which foster a weak culture of entrepreneurship will undermine entrepreneurial activity. While they are more difficult to affect as they are slow to change (Estrin and Mickiewicz 2011), consideration of informal institutions is important as they will have a long-term impact on entrepreneurship and its ability to contribute to emergence from crisis. Perceptions of entrepreneurship can change as a result of crisis, with some individuals less willing to take risks while others see opportunities to exploit, and societal views of entrepreneurs can shift if they are seen to have contributed to the crisis (European Commission 2012; Amoros and Bosma 2013). As such, informal institutions are as important to the development of entrepreneurship as formal institutions (Williams and Vorley 2014) and should be properly considered by policy-makers seeking to facilitate emergence from a crisis.

Institutional arrangements as rules

Research on institutions finds that the formal and informal interact in two key ways, either as complementary or substitutionary (North 1990; Tonoyan et al. 2010). Informal institutions are complementary if they create and strengthen incentives to comply with the formal rules, and thereby plug gaps in problems of social interaction and coordination, and enhancing the efficiency of formal institutions (Baumol 1990; North 1990). Where informal institutions substitute formal institutions, individual incentives are structured in such a way that they are incompatible with formal rules and exist in environments where formal institutions are weak or not enforced. Where institutional arrangements are complementary the asymmetry between formal and informal institutions is reduced, whereas when substitutionary the asymmetry increases (Williams and Vorley 2014). The arrangements of institutions determine what North (1990, 1994) refers to as the 'rules of the game', which can impose direct and indirect effects on both the supply of and demand of entrepreneurs, as well as shaping their perceptions and behaviours (Acs, Desai, and Hessels 2008). Our research examines the institutional arrangements in the crisis-stricken economy of Greece, and considers how reforms to the formal institutional environment have disincentivized entrepreneurship and been compounded by the informal institutions which are characterized by an un(der)productive if not entrepreneurial culture in Greece.

Empirical focus and methodology

The recent economic crisis has highlighted the weaknesses of the Greek economy and its institutional environment, and understanding the nature of these challenges is critical to managing its fragile recovery. While the enduring Eurozone crisis and speculation concerning the membership of Greece within the Eurozone provides the backdrop to our research, the focus of this paper is on the nature of institutional change and entrepreneurial activity in the context of the crisis. In doing so, the paper demonstrates that in responding to external shock, the ability of governments to affect positive institutional change is limited by the extent of the crisis. We show that institutional changes can be negative in terms of promoting entrepreneurship and that this can be caused by a lack of policy flexibility available in a crisis.

Entrepreneurship and institutions in Greece have been the focus of academic research for some time (see e.g. Dana 1999; Souitaris 2001, 2002; Skuras, Dimara, and Vakrou 2000; Fotopoulos and Giotopoulos 2010). However, there remains a gap in understanding how changes in the institutional framework brought about by the economic crisis have influenced entrepreneurial activity. It is clear that Greece has been badly hit by the economic crisis, the roots of which can be traced back to the 1950s when the Greek state was attempting to rebuild its infrastructure and industrial base following the Second World War and the Civil War (Spanos, Zaralis, and Lioukas 2004). Despite extensive industrial development, with large-scale manufacturing complexes developing during the 1950s and 1960s, Greece does not have an industrial tradition to build on (Komninos and Tsarchopoulos 2012). Consequently, much of the private sector has become dependent on, if not underwritten by, the state (Kapsali and Butler 2011), and the Greek economy has come to be characterized by a disproportionately large and ineffective public sector. A consequence of this has been the emergence of a significant informal economy, which further undermines the competitiveness and growth potential of Greek economy (Dalamagas 2000; Piperopoulos 2009). Structural problems in the Greek economy see the country ranked as 81st out of 144 world economies (World Economic Forum 2014) and 61st out of 189 world economies in the 'ease of doing business' index with the primary reasons cited as government bureaucracy, poor access to finance, corruption, tax regulations and rates and political instability (World Bank 2014). Prior to the recent crisis, Greek economic competitiveness had been declining (Featherstone and Papadimitriou 2008; Featherstone 2010) and the crisis and ensuing recession has brought many of the systemic problems to the fore. As a result Greek competitiveness has further declined due to the crisis, and it is now ranked as the least competitive economy in the European Union (EU; World Economic Forum 2014).

Today, Greece is a developed economy with above average rates of early-stage entrepreneurial activity and a high level of established business ownership (Xavier et al. 2012). Greece also has a high rate of small family-owned enterprises, but a cultural resistance to the iconic 'entrepreneur' (Drakopoulou Dodd and Hynes 2012). Greek cultural perceptions of entrepreneurship are often negative, with entrepreneurs seen as having selfish motives (European Commission 2012), and common metaphors used to describe them, including 'thieves', 'fraudsters', 'pimps' and 'vampires' (Drakopolou Dodd, Jack, and Anderson 2013). The percentage of total early-stage entrepreneurship in 2012 was 6.5%, but has declined as a result of the crisis as the recession has negatively affected the survival potential of businesses (Global Entrepreneurship Monitor 2013). More than one-third (36%) of early-stage entrepreneurs in 2012 belonged to the 25–34 age group; while this may be viewed as a positive sign, it may reflect the fact that high unemployment rates have pushed people into entrepreneurial activity (Global Entrepreneurship Monitor 2013). Yet, at the same time, a majority of people in Greece favour self-employment over employment by a company, which compares favourably to the EU as a whole (European Commission 2012). However, following the crisis this position has decreased, with more people now stating that they would rather work as an employee and a fall in the number of who favour self-employment, which is similar to the EU level trend of more people now preferring wage employment to self-employment (European Commission 2012). Indeed, because of the crisis perceived opportunities to start a business are dramatically low, although perceived capabilities are quite high, and the nature of entrepreneurial activities tends to be of low ambition and often driven by necessity (Amoros and Bosma 2013).

This paper critically analyses how changes to the institutional environment have affected entrepreneurial activity in Greece in light of the financial crisis. While entrepreneurship research has been dominated by quantitative approaches, this study employs a qualitative case study of entrepreneurs based in Thessaloniki, the second most populous city in Greece and a major economic, industrial, commercial and political centre (Moussiopoulos et al. 2010). In understanding how the institutional environment affects entrepreneurial activity our approach is twofold. First, national policy documents and reports relating to economic development were reviewed to identify themes relating to entrepreneurship. With no single policy document on entrepreneurship, the review included those official documents that relate to economic growth, competitiveness and entrepreneurship. Second, businesses listed in the Thessaloniki Chamber of Commerce membership database with email details were contacted and invited to take part in interviews. An overall population of 142 entrepreneurs responded, from which 26 agreed to take part in in-depth interviews which were conducted between April and June 2012 and lasted 50 minutes on average. Table 1 provides a profile of the participants in terms of the

Table 1. Profile of participants.

Respondent	Sector	Size of business (number of employees)	Age of business
1	Financial services	11–50	1–5 years
2	IT	1–10	6–10 years
3	Food and drink	11–50	1–5 years
4	Tourism	1–10	6–10 years
5	Electronics	11–50	1–5 years
6	IT	1–10	Less than a year
7	Tourism	11–50	1–5 years
8	Construction	51–250	10 + years
9	Construction	51–250	10 + years
10	IT	1–10	Less than a year
11	Real estate	1–10	1–5 years
12	Media	11–50	1–5 years
13	Telecommunications	51–250	10 + years
14	Pharmaceutical	11–50	1–5 years
15	IT	11–50	10 + years
16	IT	1–10	1–5years
17	Tourism	1–10	10 + years
18	Media	1–10	Less than a year
19	Electronics	1–10	1–5 years
20	Construction	51–250	6–10 years
21	Food and drink	1–10	6–10 years
22	Financial services	11–50	1–5 years
23	IT	1–10	1–5 years
24	Food and drink	11–50	1–5 years
25	Financial services	1–10	6–10 years
26	Textiles	11–50	10 + years
27	IT	11–50	1–5 years

sector their business operates in, the size of the business and its age. While the empirical study is not intended to be representative of entrepreneurs in Thessaloniki or Greece, the perceptions and experiences of the entrepreneurs provide in-depth insights into the institutional environment (Hindle 2004; Doern 2009). Therefore, while we acknowledge that such research can lack generalizability (Jack and Anderson 2002), its value is in generating questions for further research hypotheses.

The interviews were semi-structured and followed the interview schedule set out in Figure 1, along with a summary of the key themes emerging from the entrepreneurs. The nature of semi-structured interviews meant that a number of issues not on the interview schedule were raised by respondents, which were relevant and were subsequently explored further. The interviews were recorded with the respondent's consent and transcribed, before assuming an inductive approach towards thematically analysing and coding the data to explore emergent themes (Bryman 2012). In order to ensure the reliability of coding and prevent coder bias, the coding process was conducted independently by the authors, with overarching thematic categories identified to develop a coding scheme so that intra-coder reliability could be consistent. This coding scheme was applied by both authors, and the results of it were then compared to before identifying and agreeing any discrepancies between the coders. This constant comparative method involves continually identifying emergent themes against the interview data, and assuming a process of analytic induction whereby the researcher develops the narrative (Silverman 2000). In the analysis and discussion we use quotes from the interviews to add voice to the study. In many cases, consensus was found regarding the key areas of exploration and these responses can therefore be considered to be representative of the views of the majority of the respondents. Figure 1 outlines how the entrepreneurs considered the formal and informal institutional landscape prior to the crisis, in the midst of the crisis and what they consider to be the key institutional challenges in the longer term as Greece seeks to emerge from the crisis. It demonstrates how formal and informal institutions have acted as a barrier to entrepreneurship over time, and how a greater emphasis on cultural perceptions is required if Greece is to develop a more entrepreneurial and dynamic economy. The remainder of the paper unpacks these perceptions and tells what Steyaert and Bouwen (1997) refer to as the 'story of entrepreneurship', by considering how the institutional environment, and recent changes to it, has shaped entrepreneurial activity in Greece.

Analysis and discussion

This section furthers the existing debates outlined in the literature review by presenting a more nuanced analysis of how reforms to the institutional environment in the midst of a crisis can have a negative impact on entrepreneurship. The institutional environment prior to the crisis provides the context for understanding the prevailing rules and culture, and to analyse how they have changed as a result of the crisis. Table 2 outlines the institutional environment prior to the crisis, how institutions have changed in the midst of the crisis and post-crisis. The table highlights that there is a relationship between formal and informal institutional change over time. Prior to the crisis, Greece showed evidence of institutional asymmetry with stable but bureaucratic formal rules and weak informal norms which stymied entrepreneurship, as individuals circumvented or avoided rules. Negative changes to formal institutions caused by the crisis have a consequent and congruent negative impact on informal institutions, as the entrepreneurial culture weakens in response to changes in the rules and regulations. Reflecting this relationship between a deterioration in formal institutions and a weakening of informal institutions, the findings are presented in

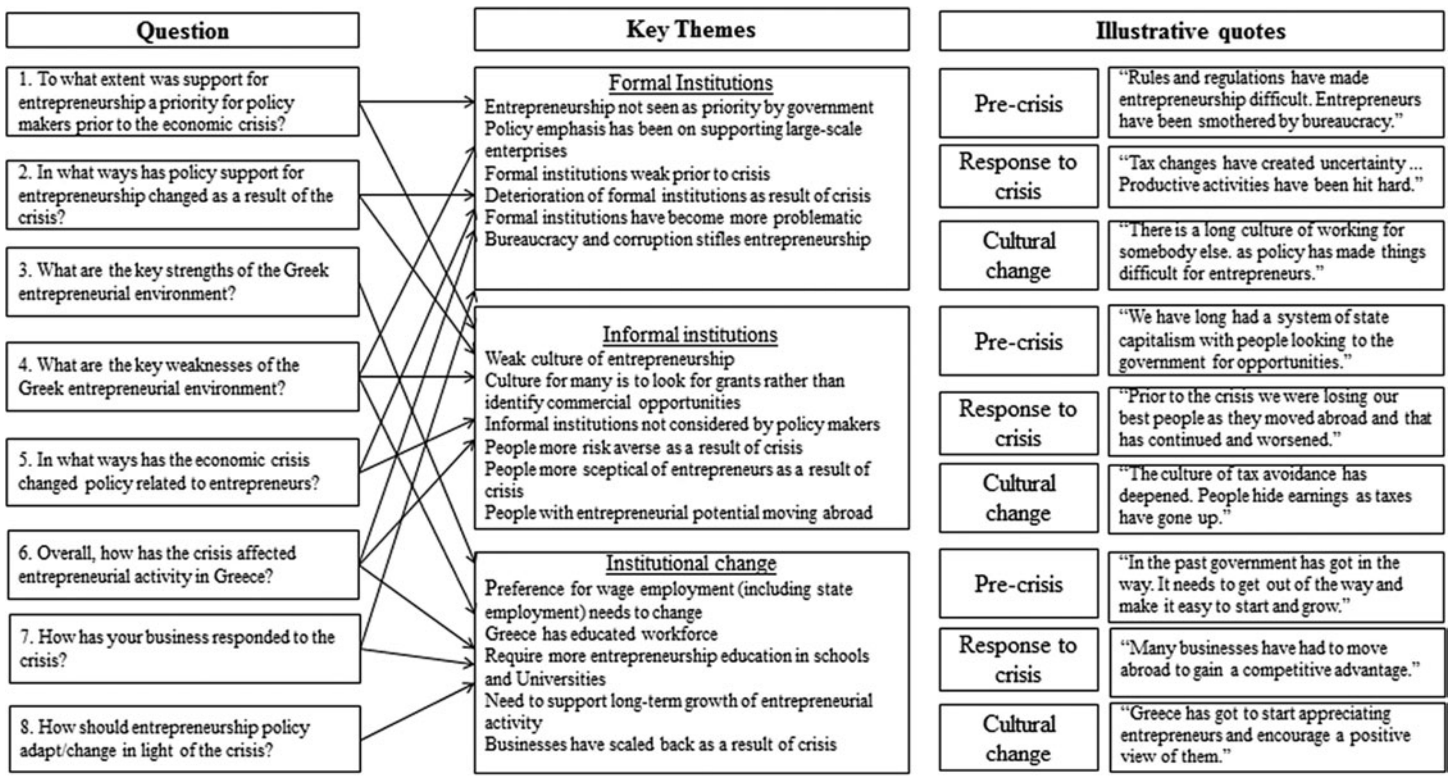

Figure 1. Interview questions and emergent themes.

Table 2. Institutions and institutional change prior, during and post-crisis.

	Institutional setting pre-crisis	Institutional changes during crisis	Institutional changes post-crisis
Formal institutions	• Ineffective rules and regulations (i.e. bureaucratic environment to start-up and do business)	• Exogenous change occurs due to crisis (i.e. European and IMF response to Greece in terms of financial assistance)	• Continued exogenous change due to crisis (i.e. EU-IMF called for further austerity measures)
Arrangements	• Failure to reform (i.e. Greece had a disproportionately large public sector)	• Endogenous change occurs due to conditions and policy decisions which weakens formal institutions and creates uncertainty (i.e. austerity measures, increased taxation and public sector restructuring)	• Renewed endogenous change aims to restore macro-economic stability (i.e. extended austerity measures and increases in taxation) • Further deterioration of sociopolitical environment (e.g. vote of no confidence in parliament and new elections)
Informal institutions	• Weak culture of formal and productive entrepreneurship (i.e. prevalence of local and informal/underground economic activities)	• Negative perceptions and response difficult environment to live and work in (e.g. protests, riots and social unrest)	• Continued weakening of culture through uncertainty and worsening of formal institutions (i.e. further general strikes)
Arrangements		• Formal institutional change creates uncertainty which leads to increases in informal activity	• Formal enterprise and entrepreneurial activity not seen as desirable (i.e. unproductive and informal entrepreneurship prevails)
Formal/informal institutional dynamic	• Formal institutions are not conducive to entrepreneurship and this is reflected in informal institutions • Asymmetry between formal and informal institutions, as entrepreneurs circumvented bureaucratic rules	• The exogenous and endogenous reforms to the formal institutional environment can be seen to have a negative effect on informal institutions and deterred entrepreneurial activity. Institutional asymmetry grows with unstable rules and weak culture	• Further reforms to the formal institutional environment have sought to improve and consolidate the formal institutional environment, although the persisting asymmetry continues to stymie entrepreneurship

three sections: the first examines how entrepreneurs understood and related to the institutional environment in Greece prior to the onset of the financial crisis; the second examines how the practices of entrepreneurs have changed as a result of institutional reforms in Greece; and the third considers how the institutional environment has shaped the culture of entrepreneurship in Greece and thus what role culture may play in any economic recovery.

The institutional environment prior to the crisis

A key measure of the effectiveness of formal institutions is the ease of starting a new business. According to the World Bank's (2014) Doing Business Indicator, the institutions which govern starting a business have improved, with the number of procedures required improving from 15 to 5 between 2004 and 2014, and the number of days improving from 38 to 13. While this is clearly an improvement, other research has found that starting a business has become more difficult as a result of the crisis (European Commission 2012). Indeed, the improvements made in procedures and days do not reflect the experiences of the entrepreneurs interviewed. All of the entrepreneurs, whether recently launched or more established, reported that the process involved took longer than they anticipated, with a consensus found that 'unnecessary bureaucracy gets in the way' (INT10) of starting a business. With a competitive small business environment with low barriers to entry regarded as integral to promoting entrepreneurship (Audretsch, Baumol, and Burke 2001), it is telling that many entrepreneurs described Greece prior to the crisis as 'close to being a socialist state', while others described the country as 'Soviet-like'. This sentiment predominantly refers to the view that the Greek state is regarded as a highly interventionist, or what Thurik and Wennekers (2001) refer to as 'overly managed', which has suppressed entrepreneurial activity.

The entrepreneurs often described Greece as having a system of 'state capitalism ... [with] no private sector that is not reliant or connected to the state' (INT2) and having 'a large state sector that dominates' (INT5). The consequence of a dominant centrally managed state is that many entrepreneurs have focused their activities on providing services to government rather than in the private market place. This subject was repeatedly raised in the interviews, with the entrepreneurs providing numerous perspectives on the trend which has seen businesses focus on gaining grants from central government and/or Europe. In addition, many of the entrepreneurs stated that money from European programmes, for example Cohesion Policy, did not filter down to them, despite it having support for small and medium-sized enterprises (SME) competitiveness as one of its priority areas (European Commission 2014). Instead, the perception was that the priority for such funding was to support large-scale businesses and infrastructure projects which did little to help smaller scale enterprises. However, for entrepreneurs with sufficient scale, focusing on gaining funding from national or European governments was sometimes seen as a good thing: 'If I didn't chase government contracts and grant funding it would be bad for my business, and someone else would.' (INT6); a bad thing: 'The economy had become far too reliant on the public purse in Athens and Brussels, and the skill of the private sector has been on how to acquire public money rather than how to make profit and grow and has made Greece less competitive' (INT11); but most commonly it was just regarded as normal: 'unfortunately it's just a reality ... to change it would be to change the whole system in Greece' (INT26).

The weak formal institutional environment has meant that informal insitutions have substituted for effective rules, by avoiding rules which are seen as bureaucratic or engaging in informal or illegal activity. A key outcome of this has been the proliferation of corruption which acts to limit entrepreneurial activity (Manolova, Eunni, and Gyoshev 2008; Tonoyan et al. 2010; Estrin and Mickiewicz 2011). The entrepreneurs reported that this exists within elements of the public sector, and as Djankov and Murrel (2002) suggest private businesses are often targeted for bribes as they were seen as affluent enough to pay. Indeed, corruption in Greece has become more pronounced as a result of the crisis, with Greece ranked 94th in the Corruption Perceptions Index, the worst performing country in the EU (Transparency International 2012). Bribes relating to business registration and licenses are common in Greece (Katsios 2006); along with the rigging of public bids, and the misuse and fraudulent obtaining of EU and national government subsidies are also significant issues (European Commission 2010). A culture of corruption helps entrepreneurs who are willing and able to bribe officials, while those who are not are placed at a competitive disadvantage (European Commission 2010). As two of the respondents commented:

> people in the public sector expect kick-backs ... it has become the norm. (INT12)

> we can't compete against the injustice in public procurement. The person who provides the biggest bribe will win ... I don't want to pay bribes, I don't like it but I've have had to get used to them because I want my business to succeed. (INT23)

Institutional responses to the crisis

The previous section examined the institutional environment in Greece prior to the crisis and demonstrates some of the challenges faced by entrepreneurs. This section builds on this by examining how the institutional environment changed in the midst of the crisis, mainly as a result of policy responses to recession and austerity measures introduced as the Greek government seeks to rebalance the economy. That is to say that it is not simply the prevailing institutional environment which has affected entrepreneurial activity, but that institutional reforms have created further obstructions which serve to disincentivize or undermine entrepreneurial activity.

One recurring theme in the interviews related to how the institutional environment was becoming more challenging in the wake of the crisis as the government sought to restructure the economy. At a time when Greece was in need of more entrepreneurial activity to contribute to competitiveness and growth, changes to the rules of the game in the form of tighter and more punitive public policy frameworks have had the opposite effect. Some of the impacts of the crisis, such as the availability of credit, have been outside of the direct remit of Greek policy-makers. Given the shrinking of the Greek state purse, the government has had no public money available to extend and/or support credit as a response to a fall in bank lending, as has occurred in other countries (Smallbone et al. 2012). This has meant that 'government is no longer a customer' (INT9) due to the formal institutional change in access to finance. In addition, several entrepreneurs stated that bank lending to small businesses had 'completely stopped' (INT6), and that the government was not able to stimulate, underwrite or provide funding themselves to plug this gap. The freezing of bank lending and reduction government procurement activity has meant that many entrepreneurs had adjusted their growth plans to reflect more limited and constrained opportunities. One respondent stated that 'we can't expand now as we can't get access to finance ... we are just aiming to survive not grow' (INT19), while another said 'we have had to cut back our workforce because some of our business has stopped ... we used to provide IT services to a company that worked for the government but that work isn't there anymore' (INT27).

While the lack of private sector finance may have been outside the ability of government to solve, given their financial constraints, other decisions made by policy-makers have had a direct impact on entrepreneurial activity. Despite attempts to reform the taxation system in the early-mid 2000s, the Greek government has since been forced to increase taxation rates on enterprises and income tax on employees (Katsimi and Moutos 2010). One illustrative example referred to by a number of entrepreneurs interviewed of an industry that has been adversely affected by legislative change was wine making. Many of the interviewees stated that wine making is a growing sector, one of the most important agricultural exports and with the potential to contribute to growth in Greece. However, in an attempt to generate higher public revenues as a result of the economic crisis, this growing sector has experienced tax increases of c.80%, which has curtailed growth and consequently seen tax revenues from this industry fall. Similarly, Greece has introduced VAT increases which have served to dampen demand for goods and services further as prices have risen (Matsaganis and Leventi 2013). This type of economic policy represents a counterproductive step in terms of reforming the rules of the game, as the pay-offs to entrepreneurship in this sector are reduced:

> The Greek wine industry has the potential to grow. It is a sector with potential to be competitive and export. But what happens? Taxes on it are increased and the businesses are squeezed. (INT8)

> When they increase taxes on an industry, entrepreneurs will leave that industry, find different things to do ... or at the very least investment in that industry will be reduced. (INT4)

Despite industry-specific variations, Greece still compares favourably with other countries with a corporation tax rate of 20%, which is lower than France, the UK and the USA (OECD 2012). However, the entrepreneurs interviewed expressed how the austerity programme in Greece, which has included variable VAT increases on different sectors, had created a sense of increased uncertainty with regard to the taxation system. One entrepreneur explained:

> Business taxes have gone up and they could easily go up again. Right at the moment Greece needs private sector growth, businesses are being strangled with increased taxes and uncertainty. (INT16)

Such uncertainty means that entrepreneurs have difficulties in planning over the medium to long term (Puffer, McCarthy, and Boisot 2010; Williams and Vorley 2014). As one entrepreneur stated: ‘Taxes on my business have changed five times in two years ... it is impossible to plan ahead properly if the goalposts keep being moved’ (INT4). In situations where institutions are stable, planning and coordination is promoted and the ad hoc expropriation of the fruits of entrepreneurship is prevented (Henrekson 2007). The respondents reported increased and frequently changing taxes on businesses and labour which means that stability has diminished. Such reforms to formal institutions have seen a shift in entrepreneurial activity, often not from one sector of the economy to another but rather outside of the Greek economy (Szirmai, Naudé, and Goedhuys 2011). This was exemplified during the interviews with repeated references to a number of key businesses which have moved out of Greece during the crisis:

> In the past 5 years businesses have moved abroad to take advantage of cheaper labour ... Adopting the euro made doing business more expensive and made places like Bulgaria more attractive. (INT8)

> Increasing taxes on labour and businesses have seen a number of companies relocate ... Many have gone over the border to Bulgaria or Albania or other places where the cost of doing business is much less. (INT21)

The loss of these key businesses due to institutional changes such as taxation poses a significant challenge as they represent the loss of the entrepreneurial activity which contributes to the economy through employment and potential productivity increases. Moreover, the empirical findings suggest that while the negative changes in the institutional environment will impact legitimate entrepreneurial activity, a further unintended consequence identified by the interviewees was a rise in informal activities. A number of the entrepreneurs reported that increased taxation and uncertainty had encouraged them to shift some entrepreneurial activities 'off-the-books' where possible. In the case of Greece this poses an interesting challenge, as while Tonoyan et al. (2010) emphasize the importance of a strong institutional environment to tackle informal activity, our findings suggest that while Greece is implementing institutional reform, it is at the same time regressing as an entrepreneurial environment. Consequently, as opposed to promoting the formalization of entrepreneurial activity, Sepulveda and Syrett (2007) describe a coming out of the shadows, whereby weak and changing institutional environments can be seen to inadvertently promote informal entrepreneurial activity while disincentivizing legitimate entrepreneurship. All of the entrepreneurs interviewed stated that they had either engaged in informal economic activity themselves or knew of other entrepreneurs who had in order to avoid the time and/or costs of complying with the rules of the game. This was exemplified by one entrepreneur who commented that it was commonplace for business owners to underreport their revenues to avoid paying taxes:

> Business taxes have gone up so people have started taking out more cash and not declaring it. I know of many service businesses, especially in the tourism industry, who have started to do that in response to the increased taxes. (INT19)

Further to this, one respondent stated that in order to reduce their costs, they had begun under-declaring employee's wages: 'We pay what we paid before but some of it goes to the employees in cash to avoid tax' (INT7). Another respondent stated that he did not declare his total number of employees as some were paid cash in hand to keep them 'off-the-books', so that perceived regulatory burdens such as tax and social security payments could be avoided. Such behaviours were regarded by the entrepreneurs as becoming more commonplace and were considered to be normal rather than deviant, although entrepreneurs (including those partaking in informal entrepreneurship) recognized the detrimental effect on the Greek economy.

Rising informal entrepreneurship coupled with what is an ineffective and overly bureaucratic institutional environment will undermine the potential of entrepreneurship as an engine of growth in Greece. These findings support the view that the institutional reforms in Greece intended to aid the recovery are in fact compounding the impact of the crisis, as the rules of the game are becoming increasingly burdensome and expensive. The consequence of this has been to curtail 'formal' and productive forms of entrepreneurial activity and lead to a rise in unproductive forms of informal entrepreneurship. The immediate implications of this is to prolonging Greece's economic recovery; however, the longer term effects could have larger ramifications for entrepreneurial culture in Greece.

Post-crisis institutional development in Greece

It is clear from the previous section that the entrepreneurs consider that the formal institutional environment has deteriorated in the wake of the financial crisis. However, as a part of the study, it was important to understand how informal institutions shape the institutional environment and affect the prevailing culture of entrepreneurship within a country (North 1990; Frederking 2004; Valdez and Richardson 2013). The cumulative impact of the institutional arrangements in Greece prior to the crisis has inevitably had an impact on the entrepreneurial culture, and thus the country's entrepreneurial capacity. This section reflects on the longer-term informal institutional arrangements and the implications they have had on entrepreneurial culture in Greece.

Valdez and Richardson (2013) assert that the perceptions and behaviours of entrepreneurs and prospective entrepreneurs are influenced by institutional arrangements which in a cyclical fashion affect the prevailing entrepreneurial culture of a country. The consensus among the interviewees was that fostering entrepreneurial activity in Greece had not been a political priority prior to the crisis, and was not regarded as a priority in terms of the economic recovery. As such, this has led to a weak culture of entrepreneurship. As one entrepreneur commented:

> The government has never supported the private sector. It has just got in the way. Where the private sector shows promise the public sector then strangles it ... we need to change the government culture to support entrepreneurship and in turn that will aid the enterprise culture. (INT2)

The interviewees stated that this lack of policy priority has meant that entrepreneurship is not seen as a viable or desirable option for many people in Greece. In order to foster entrepreneurship in Greece there is a need for what Thurik (2009) refers to as a 'demonstration effect', whereby people see successful entrepreneurs and which can increase their own entrepreneurial ambition, thereby improving the entrepreneurial culture. The interviewees repeatedly stated that the culture in Greece is not supportive of entrepreneurship and therefore people do not have the ambition to be entrepreneurs:

> People in Greece are not willing to take risks. We need them to be more willing to do so, but we can only do that by supporting more entrepreneurship so people can see it as a possibility and promoting it in the education system. (INT3)

> Many people want to work for the state. That is the culture. They don't see setting up a business as a worthwhile option when they can get a safe job in the public sector. (INT20)

The views of the respondents confirm Souitaris' (2001) finding that Greece possesses a risk-averse culture which acts as a barrier to entrepreneurship. Furthermore, people in Greece are less likely to be exposed to entrepreneurship through the education system than the EU average (European Commission 2012). The culture of a country is a product of the institutional environment, which, as Welter and Smallbone (2011) note, can be influenced and improved over time. However, many of the respondents stated that the culture of entrepreneurship had deteriorated during the crisis. Several interviewees explained that the crisis had made people even more risk-averse as people do not see the potential of starting a business due to a lack of demand caused by the recession. At the same time, despite austerity measures, the interviewees stated that public sector employment levels had remained comparatively consistent, meaning that many people still saw working for the state as a 'safe' option. However, despite the crisis causing a general deterioration in the entrepreneurial culture (European Commission 2012), some of the respondents stated that the economic crisis should provide an impetus for cultural change in Greece:

> The Eurozone crisis is hanging over us ... We know we need more entrepreneurship, more innovation, more growth ... we need to improve the culture so that people are willing to strive to make businesses succeed. (INT25)

> If we are to compete and create wealth and employment, we need more innovative start-ups ... we need austerity measures but we also need to make sure we are not making it more difficult for entrepreneurs ... People need to convinced that setting up a business is a good option. (INT14)

Creating an institutional environment that is more conducive to starting businesses is no easy task, and requires positive institutional reforms. While entrepreneurial environments have common characteristics, Henrekson and Stenkula (2010) assert that the difference between the institutional environments means that developing an entrepreneurial culture is necessarily country-specific. In the case of Greece, there is a need to promote a more positive societal attitude towards entrepreneurship and entrepreneurial opportunities, else the country will remain devoid of entrepreneurial-led growth which will further stifle its economic recovery. While informal institutions are difficult to influence, Estrin and Mickiewicz (2011) contend that positive change is possible, although this may take a generation to occur. Within Greece, unless the deterioration of informal institutions is addressed, the institutional environment is in danger of regressing and the level of entrepreneurship will decline further. In this respect, the challenge for Greece is to ensure that the formal institutional environment does not hinder entrepreneurship, while also promoting the reform of informal institutions to ensure that more people see entrepreneurship as a positive option.

Conclusions

This paper has examined how changes to the institutional environment in a crisis-hit economy have impacted on entrepreneurial activity. A key contribution of the paper is to demonstrate that in responding to crises, the ability of governments to affect positive institutional change is not straightforward and often severely restricted. Although the recent economic crisis was global, its impact in different countries has been varied as has their recoveries. This can in part be explained by their exposure to the crisis, but also the resistance of institutions and their ability to adapt. Given it is the interaction of formal and informal institutions that determine the level and productivity of entrepreneurship, institutional change as a result of the recent crisis merits research.

Through the case of Greece, which has been severely affected by the crisis, this paper finds that the interventions of policy-makers to improve the national economy has had an overall negative impact on entrepreneurial activity which has further hindered the ability of Greece to emerge from the crisis. While the economic challenges faced by Greece are both large and numerous, in contributing to a better understanding of the institutions and entrepreneurship, the paper provides lessons for how such economies may positively harness entrepreneurship in emerging from a crisis. The research shows that prior to the recent economic crisis, entrepreneurship had not been prioritized by policy-makers and Greece was a comparatively poor environment for starting a business. Our findings suggest that ineffective institutional arrangements have undermined the country’s entrepreneurial environment and meant that entrepreneurial activity has not contributed to economic growth as much as it could. This can in part be attributed to the large public sector, which has historically been a disincentive to entrepreneurial activity. Moreover, the strongly centralized approach towards managing the economy is at odds with the principle of an entrepreneurial economy. As the country contemplates many years of government austerity and falling living standards, the need to restructure the economy and improve the institutional environment brings with it opportunity for positive reforms. Any institutional reforms need to be mindful about inadvertently undermining and/or disincentivizing entrepreneurial activity, as harnessing entrepreneurial-led growth is imperative for Greece. However, the current trajectory has seen the productivity of entrepreneurial decline, despite formal institutional reforms in the midst of the crisis, and these reforms have been compounded by the orientation of informal institutions.

The paper highlights that the prevailing culture of entrepreneurship in Greece is weak and that it has deteriorated further as a result of the crisis. The crisis has made people more risk-averse due to a fall in demand associated with recession and declining living standards. At the same time, despite the austerity measures, the interviewees stated that public sector employment was still seen as viable and 'safe' option for many people. While some of the entrepreneurs reported that the economic crisis could provide an impetus for cultural change, positive change will only be seen once Greece is emerging from the crisis and new opportunities for entrepreneurial activity are seen and acted upon. This can then lead to a 'demonstration effect', whereby more people see entrepreneurship as a positive option. However, given the precarious economic position of Greece, any positive reforms are likely to be a protracted exercise.

Previous research on crisis-hit economies has provided some indications of how support for entrepreneurs may be extended through government spending (Cowling, Liu, and Ledger 2012; Parker, Congregado, and Golpe 2012; Smallbone et al. 2012). However, given the fiscal constraints facing Greece and the conditions of the bailout, policy flexibility has been severely limited. The Greek state purse has shrunk as a result of the crisis (Kaplanoglou and Rapanos 2013), meaning that direct government support for entrepreneurs has been severely curtailed. The institutional changes that have taken place have had an overall negative impact on entrepreneurship, by making entrepreneurial activity harder through worsening and frequently changing rules which have created uncertainty and a consequential worsening of the enterprise culture. At its most simple level, policy-makers should adhere to a principle of 'do no harm' in terms of entrepreneurship. That is to say that they should avoid any policy actions which limit entrepreneurial activity and its potential contribution to economic growth. This means avoiding adding further unnecessary bureaucratic burdens on business as well as avoiding punitive tax increases. While this is not easy given the need for the Greek government to repay debt, if entrepreneurship is stymied then emerging from the crisis will take longer as a valuable contributor to growth and future resilience is being held back.

As stated, the paper contributes to a better understanding of institutional change and entrepreneurship. In doing so, the lessons learnt can be applied to other countries which have been affected by the crisis to greater and lesser degrees. The paper demonstrates that formal institutions can change in both positive and negative ways in response to a crisis. Previous research has shown that although reforms to formal institutions may be a positive step in fostering entrepreneurship, if they are not congruent with informal institutions then economic development within a country will not be positively affected (Williams and Vorley 2014). Our paper builds on this avenue of research by demonstrating that although some countries may be able to respond positively to crisis to limit its impact (Cowling, Liu, and Ledger 2012; Smallbone et al. 2012), in countries which are severely restricted in terms of the public purse, both formal and informal institutions can deteriorate in a consequential manner. Changes which serve to further weaken formal institutions lead to a weakening of informal institutions as the entrepreneurial culture adjusts to the new environment. This means that the long-term path to competitiveness is damaged.

Finally, we acknowledge that the research approach used contains some limitations. The study is geographically localized within the city of Thessaloniki and involved a relatively small number of in-depth interviews with entrepreneurs. Clearly, the views of the respondents interviewed cannot be considered to be representative of all entrepreneurs in Greece. While this limits the generalizability of the findings, the value of our research lies in the rich insights it provides regarding the entrepreneurial environment in Greece. With regard to further research, it would be worthy to investigate the extent and impact of institutional change in other crisis-hit economies. Greece is not the only country to be affected by the crisis, and institutional responses are by their nature particular to the national context. Given the fact that the crisis we focus on is still fairly recent and a country such as Greece will take many years to emerge from it, examining and comparing institutional change across different crisis-hit economies will provide a fruitful avenue for future research. It would be worthwhile to examine how institutions have changed in other crisis-hit economies which have also been in receipt of international bailouts, for example Portugal and Ireland, as well as extending the existing but nascent research on countries which have been able to fill the gap of absent private finance through active government intervention.

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