

2001

# The New Economy and the Strategy of Greek Firms

Makridakis, Spyros

Hellenica

---

<http://hdl.handle.net/11728/7054>

*Downloaded from HEPHAESTUS Repository, Neapolis University institutional repository*

*Spyros Makridakis*

## The New Economy and the Strategy of Greek Firms

In the World Competitiveness Scoreboard since 1993. Greece has ranked 41st and then 40th for three consecutive years. Its ranking improved considerably between 1996 and 1999 when it reached the 31st position. Consequently the ranking fell to the 32nd position in 2000 and went back to 30th place in the latest standings for the year 2001. The Greek economy together with the majority of Greek firms has entered into a period of prolonged stagnation, vis-a-vis its competitors, which will continue for the foreseeable future unless something dynamic is done. The major reason is not that the Greek economy is not improving but rather that its associates in the EU, as well as other advanced countries, are advancing much faster than Greece. In my view, the distance separating Greece and Greek firms from those of advanced economies will further increase, unless fundamental ameliorations are introduced and are implemented satisfactorily. As the New Economy is becoming the driving force for succeeding, the Greek Government and firms would be obliged to follow the practices of advanced economies/firms and continuously adapt to the new realities of glob-



al competition. Otherwise, the current stagnation will continue for some time to come.

### THE COMPETITIVENESS OF GREECE IN THE YEAR 2001

The latest world competitiveness rankings, referring to the year 2001. Greece's ranking denotes that, on average, the economies/firms of 29 countries are more competitive than Greece. Equally important among the countries whose rankings are below Greece only two (Portugal and Italy) are part of the EU. The remaining are developing ones or part of the former Eastern, communist block. Furthermore, if we examine the differences between the ten countries above Greece and the ten below, we see a big difference between the two groups. For example, the score of the 20th country, Norway, is 13.1 points above that of Greece, while the country in the 40th position (Philippines) is only 9.4 points below that of Greece. Furthermore, Estonia is ranked 22nd, while Hungary (both former Eastern Block countries) is ranked 26th. Greece has, therefore, a long way to go to catch up with the countries above it. In ad-

dition, there would be a great deal of competition from developing nations whose ranks are close to Greece that would also want to advance their economies and become more antagonistic in the global marketplace.

Undoubtedly, Greece has, in the last decade, progressed a great deal both in absolute terms and in relation to its neighbors. However, this is not enough if Greece and Greek firms want to compete in the league of advanced economies and first rate global firms. In such case, much more must be done with a single purpose in mind (similar to the one of being admitted to the Euro): becoming capable of successfully competing with the best firms in the world and the most advanced of economies. Otherwise, it would be practically impossible to reverse the prevailing stagnation and move another ten positions to where Norway is at present. What we must not forget is that other countries/firms will also do the utmost to improve themselves and that, in final analysis, world competitiveness is relative and that, like in sports, there cannot be many winners.

#### NOKIA: A NEW ECONOMY FIRM

The market capitalization of Nokia is €166 billion. Such capitalization is greater than that of all the firms listed in the Athens Stock Exchange. In Greece, one of ten hears that Greek firms cannot compete internationally because of our small size. Yet, the population of Finland is less than half of that of Greece. Furthermore, Finland lacks the excellent climate and natural beauty of our country. However, Nokia has managed to become the world leader in mobile telephony, without a large domestic market or any previous expertise in such industry. Jorma Ollila, its CEO, had the

courage to decide, less than a decade ago, that mobile telephony would become a killer application. He, therefore, transformed Nokia from a conglomerate to a single focused firm and betted all its resources on mobile telephony. Today, despite the big crisis surrounding the telephone and high tech industries, Nokia has managed to weather this crisis and achieve a market share which is greater than the combined sum of its following three competitors which are larger, older, and with greater experience than Nokia.

How has Nokia managed to become the leader in Mobile telephony? Clearly, it provides something unique that is valued by customers, in particular young ones, around the world who prefer its phone sets than those of its competitors. Nokia's lead is not simply technological. Rather Nokia stays ahead of its competitors by its ability to continuously innovate. It is a firm that understands what consumers want and succeeds in translating such wants, through innovation, into products and services that provide high value added to its existing and potential customers. Like other New Economy firms, Nokia has understood the importance of innovation and has organized itself to supply, on a continuous basis, new products/services that consumers around the world are willing to buy. In addition, Nokia has also grasped the significance of being a low cost producer and be able to also compete on price with its competitors.

Unless Greece can produce its own Nokias, it would not manage to climb up the scale of rankings and become a full fledged member of the advanced economies. But it is worth imagining the implication of having a Nokia type firm in Greece that will more than double the capitalization of the Greek stock exchange and which will become a vivid example for other firms to follow.

### THE NEW ECONOMY: SUCCEEDING IN TODAY'S BUSINESS ENVIRONMENT

The new economy is not a slogan. It is not just about high tech firms, dot.coms or Internet companies. The new economy (and the new economy firms) is based on four interrelated principles. First, a continuous innovation that produces new products/services that customers want and are willing to pay for. Secondly, a strong drive to become and stay super-efficient/effective through regular improvements in productivity. Third, a culture that respects the customer and provides him/her with high value added products/services at an honest price. And fourth, a global reach in order to expand the potential market as much as possible and harness economies of scale and scope, to the greatest possible extend, in a way that would allow to reduce costs and offer better prices to consumers.

### CONTINUOUS INNOVATION

Today, all mature industries, from banking to automobiles, are characterized by over-capacity, razor sharp competition, and falling profit margins. As automation is amplified and the capital to finance new investments has become easier to secure, more and more firms in a greater number of countries are capable of carrying out such investments and producing high quality products and services at rock-bottom prices. The end result is that today practically all products and all non-personalized services have been commoditized, or are about to become so. Even high tech products like computers have turned into commo-

ties with competition done exclusively on price (excellent quality has turned into a competitive requirement). In such an environment, the only firms that can escape

the cut throat competition are those that are capable of continuous innovation that allows them to avoid the inevitable commoditization of their products/services.

The necessity of continuous innovation must be emphasized, as imitation is a fact of today's business practices. This means that the

length of time before competition will copy innovative products/services is short, and does not permit any complacency from the part of innovators.

Continuous innovation requires a different mentality and another form of organization than that prevalent in the traditional, industrial concerns. In such an organization, ideas and imagination are more critical than buildings and machines, while entrepreneurship and taking risks are more important than hierarchical management and analytical thinking. The challenge, therefore, for all firms, and particularly for Greek ones that are behind in the World Competitiveness Scoreboard, is to become innovative and bring to market new, high valued added products/services that consumers will be willing to buy.

The list of firms that have succeeded through continuous innovation is long. Some prominent examples, to mention a few, include Enron, Yahoo, Dell, Charles Schwab Palm, Starbucks, General Electric. On the other hand, the majority of yesterday's corporate giants (General Motors, Philips, Siemens, Ericsson, Eastman Kodak, Rover) have seen their fortunes and profits fall, unable to adapt to the new model, where the critical link in the supply chain has become the ability to continuously innovate.





## SUPER-EFFICIENCY/EFFECTIVENESS

Computers and networks are permitting great improvements in the effectiveness and efficiency of internal operations (Back-Office), as well as in the way communications within a firm and between itself and its suppliers and customers is conducted. Exploiting to the highest degree the benefits of technology is another deciding factor that differentiates successful from "average" firms. However, impeccable operational effectiveness/efficiency is fast becoming a competitive requirement that provides fewer and fewer competitive advantages, as more and more firms can, and are in the process of, implement such computer and network technologies. At the same time, firms do not have a choice but to ceaselessly improve their productivity, as not to be left behind their competitors, through investments in computers and networks. In addition, they need to appropriately train their personnel, suppliers, and even customers in order to exploit the advantages of these technologies to the maximum possible extent.

The majority of Greek firms is still behind the latest of computer/network technologies. Governmental efforts, coupled with EU initiatives and funding (e.g., the *Computerized/Networked Greek Society*) aimed at allowing Greek firms to catch up with their EU and North America counterparts, and become capable of improving their efficiency/effectiveness, and grow to become more productive, and therefore competitive, at a global level.

## VALUING THE CUSTOMER

Over-capacity and increased competition have dramatically changed the perceived and actual importance of customers

who, in addition, have become exceedingly demanding. Excellent quality is taken for granted in our days. Firms must, therefore, compete by offering better services and by lowering their prices in order to keep existing customers and/or gain new ones. Customer loyalty cannot be presumed anymore as competition for the same customer is multiplying while the market is finite.

In order to keep existing customers, successful firms are offering a host of personalized services and a great deal of additional benefits to their customers. Moreover, through CRM systems they aim to both segment (thus, offering mass customization) and to cross-sell (thus, providing a one-stop-shopping) additional products/services to their customers. Greek firms are behind in both providing personalized, customized services, and in using CRM techniques for cross selling.

## GLOBAL REACH

Globalization offers a potentially unlimited market place for smaller firms like the majority of those operating in our country. The biggest advantage of such a huge market place is the economies of scale and scope that can be gained, and the large opportunities that can be identified and exploited. Obviously, operating globally requires significant changes, extending to both the strategic and the operational level, and different attitudes and behavior from the part of the owner/entrepreneur, as well as from practically all employees of a firm. Only operating at the national, or even the Balkan level, not only seriously limits the market size and economic wealth of the target market but also reduces their ability to compete against more agile opponents and improve.

**ALLOCATING RESOURCES:  
THE TRADITIONAL VS  
THE VC APPROACH**

The ability to innovate, as it was mentioned, is a critical factor, if not the most critical one, for succeeding in the New Economy. The problem with many of the established companies is that they discourage innovation with their conservatism and the formal and highly political manner with which they allocate resources. Venture Capitalists (VCs), on the other hand, are willing to take substantial risks, if they believe on the superior potential of a proposed project. Moreover, VCs judge a proposed project on its merit rather than its supporter(s). Furthermore, they do not restrict the flow of proposals from only the upper management levels but are open to all ideas as long as they can be turned into commercially successful products or services. Finally, VCs provide active support (incubation) for the various projects they finance so that they can have a better chance of being turned, as fast as possible

(acceleration), into commercially successful products/ services.

The potential of Venture Capital for Greece is enormous. The reason is threefold. First, Greece is a conservative society where the majority of firms is still family owned and not accustomed to the culture of

spending money for R&D or encouraging their personnel to innovate. Second, the owners/managers of such firms are not willing to provide the right incentives (share ownership, stock options, bonuses) to those most likely to innovate. Finally, the great majority of Greek firms lacks the resources and is not willing to assume the risk required to experiment in order to successfully innovate.

On the side of potential Greek innovators/entrepreneurs, there are also considerable advantages provided by Venture Capital financing. These innovators/entrepreneurs can assure, not only financing for their ideas, but also a supportive framework from the VCs (the incubation process) that will help them develop their ideas and



turn them into winning products/services. Finally, venture capital financing provides a ray of hope for bright, young people who do not come from rich families and who could not otherwise obtain the required financing to start their own business by commercializing their ideas.

### EXPLOITING GREECE'S COMPETITIVE ADVANTAGES

Greece is endowed with a marvelous climate, a magnificent physical beauty, smart, and capable people, as well as competent entrepreneurs and experienced political leaders. Venture Capital is the best way to exploit such competitive advantages and turn them into sustainable rewards enabling Greek firms to compete and to "win" on a global scale. Today, it is clear that without innovation there will be no new firms that could increase wealth and reduce the high unemployment rates, in particular among young people, existing at present. Venture Capital does, therefore, play a critical role and needs to be introduced in Greece to foster innovation and help our country to improve its global competitive position.

### GOVERNMENT: EDUCATION, LEGISLATION, AND INFRASTRUCTURE

Firms must operate in a given environment over which they have little control. Unfortunately, in Greece there is a great deal that needs to be done to improve such an external environment and make it more conducive for business, while fostering innovation and increasing productivity. It is not the purpose of this article to venture into the extent that education, legislation, and infrastructure hinder the smooth functioning of firms operating in Greece. However, without substantial improvements in all of the three areas, it would be extremely difficult for Greek firms to become more competitive and productive at the global level.

### OUR HIGH INDIVIDUALISM AND SHORT-TERM ORIENTATION

It is not always the fault of the govern-

ment for all the problems facing Greek firms. Research studies find the Japanese to score the highest in placing societal and group values above their own individual ones, while we, the Greeks, score the lowest. Our individualist attitudes, coupled with our dislike for longer term planning and our faith that we can successfully deal with crises when they arise, are part of our national character that greatly influence all aspects of our society and economy, as well as our organizations and personal lives. Phrases such as "έχει ο Θεός" (God is great and will help us) and "η Ελλάδα ποτέ δεν πεθαίνει" (Greece never dies) symbolize our way of thinking. Furthermore, we believe that our Greek Δαιμόνιο (spirit) suffices to overcome our other deficiencies and is enough to help us achieve our goals, even if we are disorganized and late. Somehow, we seem to believe that we are great in handling crises and that we will inevitably manage to handle even the most difficult of situations.

### GREEK FIRMS: STRATEGY AND IMPLEMENTATION

Greece and Greek firms face a quadruple challenge. First, they must enter, full speed, into the new economy. This would imply a major effort to encourage innovation and entrepreneurship, not only in business firms but also throughout all levels of the educational system, as well as within the public sector. In addition, Greek firms must:

- (a) raise substantially their productivity, through the widespread use of computers and networks;
- (b) become customer-centric by shifting their effort to offering better services and by moving to high value added ones; and
- (c) elevate their visions towards the glob-



al marketplace by identifying and exploiting niche market segments at a global level.

The second challenge centers on ways of recognizing and dealing with the deficiencies of the external environment within which they must operate. The strategy of Greek firms must, therefore, be built by accepting these deficiencies and by taking into consideration our national characteristics of lack of team spirit and inability of adequately planning for the long term. Such deficiencies must be corrected, on the one hand through governmental efforts aimed at reducing bureaucratic obstacles, and, on the other, on a serious effort of education. Unfortunately, there is little chance that the Greece and Greek firms will improve their competitive position in the long term without improving their major deficiencies, as succeeding in the New Economy requires both continuous innovation and a substantial improvement in productivity.

The third challenge is the awareness that Greece and Greek firms are not the only ones whose goal is to improve themselves competitively.

We must, therefore, not just improve ourselves, but do better than others, who have also the same objective like ours. Globalization offers many advantages but also increases the enormity of competition that can come from any corner of the world.

The final challenge is recognizing and ex-

ploiting Greece's competitive advantages. Today, apart from merchant marine, there is no other industry our reach is global. We have no Nokias, and we are far behind in the technological field. However, we have considerable competitive advantages that we must exploit. For instance, there are many extremely successful Greeks (both academics and managers/entrepreneurs) abroad that ought to be brought back to their homeland, while, at the same time, provide the same opportunities that allowed them to excel abroad to everyone who does not have the chance to go abroad. Furthermore, we must exploit our great



climate and our national beauty. Greece can become the chic destination for the 400 million EU nationals. Our islands and seas are unique for marine sports but we have not managed to capitalize on (in the Alps, for instance they have created a huge ski industry that brings billions of € each year).



Our moderate climate can make Greece the Florida of Europe, while our large farming population can produce high value added biological products in big demand. The opportunities are endless, what is in short supply is ideas and imagination which together with entrepreneurship and the right organization (e.g., Venture Capital and incubation) can produce commercially successful innovation that can benefit everyone in Greece and raise the living standards.

It is only under such circumstances that Greece and Greek firms can become competitive globally and improve their ranking at the world competitive scoreboard to a level similar to that of the other EU countries.

**Spyros Makridakis** is a Professor at INSEAD and Chairman of the Board of Lamda Development.

*If this train we're  
waiting for was never  
to arrive,  
I, alone, among all  
others with their  
luggage,  
would know my  
destination.*

*And there's something  
gipsied about the night,  
for it goes  
through various stages,  
always ending up in  
silence.*

*Vassilis Steriadis*