


# Impact of the Global Financial Crisis on the IT Sector: The Case of Greece

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## ABSTRACT

The impact of the information and technology (IT) sector on countries' innovation development has been recognized as crucial in prior and recent research studies. Moreover, firms' innovativeness affects positively countries' economies. Nevertheless, the global economic crisis of the last decade constituted a significant barrier to the development of country economies and had a negative effect on firms' performance. Specifically, the negative consequences of the global crisis became harder for Southern Europe countries. More specifically, the Greek economy suffered from an extended period of crisis with harder consequences than those of other European countries. The main purpose of this study was to examine the financial performance of Greek IT firms in the early years of crisis. The findings have been relevant to those of previous studies that observed negative effects of the financial recession on firms' profitability.

## KEYWORDS

Efficiency, Financial Crisis, Financial Statements Analysis, Greece, IT Sector

## INTRODUCTION

The Greek economy, before the outbreak of the financial crisis of 2008, relied heavily on domestic demand, which was fueled by public and private borrowing (Provopoulos, 2014). Without a productive model capable of ensuring sustainable progress, competitiveness started to subside and the external trade deficit deteriorated. The excessive public spending in relation to the minimal revenue led to large deficits and historically high debt levels. Thus, the international financial crisis was transformed, in Greece, into a sovereign debt crisis.

The reassessment of credit risk brought new, more restrictive borrowing terms, while in early 2010s, the inability of markets to finance the country's deficits was clear. For this reason, the Greek government requested financial support from the Eurozone countries and the International Monetary Fund (IMF) in the same year. A process of rapid economic adjustments, at great socio-economic cost, was then inaugurated. Losses in production, employment and income was the price paid to prevent the collapse of the economy (Provopoulos, 2014).

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According to the National Bank of Greece (2013), the GDP declined by 2% in 2009, after a decade of positive performance, driven by the downward trend in investment (-13,7%), private consumption (-1,6%) and exports (-19,4%). The downturn in economic activity had been stronger in combination with the implementation of restrictive measures. In particular, the decline in public consumption aimed at reducing the budget deficit, whereas the private consumption was hit by income cuts, tax hikes, credit expansion, uncertainty, and a drop in employment (Provopoulos, 2013). In fact, the entry of the country into the Memorandum in 2010-2011 brought the largest increase in the unemployment rate (2007-2012), reaching 6,2% (Psychis, 2013). Lastly, the uncertainties of the period curbed business investment. The majority of businesses have just recently begun to recover from the shock of the Greek economic crisis.

According to Sternad (2012), the serious economic crisis changes the environment by putting barriers, but creates simultaneously opportunities for organizations. According to Anghel et al. (2013), administrations should adapt their operational strategies in order to face the crisis. As a first step towards adaptation, they recommend studying the mechanisms of efficiency and understanding the ways in which the crisis impacted business profitability. Enright and Mak (2003) point out that companies operating in a region where economic crisis has broken out, may be subject to corporate disasters.

The purpose of this research is to detect the volatility of the Return on Equity of companies operating in the IT sector in the pre-crisis period (2007-2009) and in the mid-crisis period (2010-2012). Collecting data from their accounting statements, it aims to highlight the determinants that influenced their performance before and during the crisis.

This study contributes to the existing literature because it is one of the few studies that include both listed and not listed on the ATHEX companies, before the financial crisis and during it. To the extent known to the authors, the studies focus only on the performance of the sector's listed firms until now.

The structure of the paper is as follows: The following section summarizes the results of recent research related to the effect of the economic crisis on the profitability of enterprises. In the third section, the survey data are displayed, while the theoretical model used to determine the performance of companies is also captured. In the fourth section, the empirical results of the analysis are presented and in the last section, the conclusions and the proposals for further survey are quoted.

## **LITERATURE REVIEW**

A large number of studies have explored the performance of companies during the economic crisis of 2008 and the factors that contributed to the dissemination of its successive shocks.

Olkkonen and Koponen (2011) studied the firm's behavior adaptation in order to face the consequences of the financial crisis. They found that the Dynamic Capabilities affected significantly the firms' change which had also significant impact on the product innovation.

Regarding the surveys conducted in industries other than IT, Dolenc, Grum and Laporsek (2012), applying the approach "Difference in Differences", examined the influence of the economic crisis (treatment) in different sectors of Slovenia during the period 2003-2010, considering that it does not affect a group of industries (control group), while it affects another (treatment group). In the second group, economic performance proved to be poorer, excluding sector B (mining and quarrying). On the contrary, the control group-sector A (agriculture, forestry, fishery) achieved satisfactory results. Apart from the indicator EBITDA (Earnings Before Interest, Tax, Depreciation, Amortization), which did not differentiate significantly due to the crisis, the impact of the crisis was statistically significant and negative on most of the indicators, especially on the indicators Return on Equity and Employee Value Added.

Notta and Vlachvei (2014), making a model with the variables of Market Share, Total Assets over Sales Ratio, Liquidity, Leverage and Equity Coverage of Fixed Assets Index, investigated the

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