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Strategic management practices and implementation in small and medium sized enterprises in Cyprus

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STRATEGIC MANAGEMENT PRACTICES AND
IMPLEMENTATION IN SMALL AND MEDIUM SIZED
ENTERPRISES IN CYPRUS

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**STRATEGIC MANAGEMENT PRACTICES AND IMPLEMENTATION IN
SMALL AND MEDIUM SIZED ENTERPRISES IN CYPRUS**

Dissertation

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STATEMENT OF ORIGINAL AUTHORSHIP

This dissertation has not been previously submitted for a degree or diploma at any higher education institution. To the best of my knowledge, the thesis contains no material previously published or written by another person except where due reference is made.

.....

Theodoros Christou

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ABSTRACT

Small and Medium Size Enterprises (SMEs) play an important role for the growth and the development of the economy of Cyprus as well as for all countries. Strategic management and its implementation has been come the main focus in SMEs because of its role in generating economic wealth. Although there are many advantages to use strategic management, there are still some SME organizations that do not use it because they believe that this process is only helpful for larger organizations. The purpose of this study was to establish strategic management practices and their influence on performance of SMEs in Cyprus.

A theoretical framework was used for the process, regarding the effect of strategic management on SMEs performance. This included among others the definition of strategy, different types of strategy, Strategic management, competitive advantage. A descriptive statistic research method was applied for this study. The target population for this study was the top 50 SMEs of 2015 in Cyprus in Paphos, Limassol and Nicosia. The sample size of the study was 50 senior managers in the SMEs. For this study, a survey questionnaire was used as the primary collection of quantitative data. The questionnaire responses were cleaned, grouped into various categories and entered in the Microsoft EXCEL software to facilitate the analysis using descriptive statistics. The analyzed data was presented in distributions tables and pie charts for ease of understanding and analysis.

All firms have a strategy, even if it is informal, unstructured, and sporadic. All organizations are heading somewhere, but unfortunately some organizations do not know where they are going. The old saying “If you do not know where you are going, then any road will lead you there!” accents the need for organizations to use strategic-management concepts and techniques. The strategic-management process is becoming more widely used by small firms, large companies, nonprofit institutions, governmental organizations, and multinational conglomerates alike.

The process of empowering managers and employees has almost limitless benefits. Organizations should take a proactive rather than a reactive approach in their industry, and they should strive to influence, anticipate, and initiate rather than just respond to events. The strategic management process embodies this approach to decision making. It represents a logical, systematic, and objective approach for determining an enterprise’s future direction.

The stakes are generally too high for strategists to use intuition alone in choosing among alternative courses of action. Successful strategists take the time to think about their businesses, where they are with their businesses, and what they want to be as organizations and then they implement programs and policies to get from where they are to where they want to be in a reasonable period of time. The research indicated that the SMEs in Cyprus are aware of the importance of using strategic management practices and the role of external and internal factors which is a combination that helps for the growth and development of the companies. It has been found that strategic management practices enhance performance and competitive advantage of SMEs in Cyprus.

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CHAPTER 1 - INTRODUCTION

1.1 Background of the study

The contribution of Small and Medium Enterprises (SMEs) in the national economy is becoming increasingly important as 'it is a major source of employment, revenue generation, innovation and technological advancement'. Pushpakumari D. M. & Watanabe T. (2009, p.61)

This research aims to examine the strategic management practices and their implementation in Small and Medium sized enterprises in Cyprus which are the main vehicle for job creation, brings income and generates economic wealth which in turn reduces the level of poverty. This study will help to comprehend the importance of SMEs and strategic thinking because after the economic crisis in 2008, there is a need to find solutions and ways to develop Cyprus' economy.

The level of economic dependence on Small and Medium-size Enterprises (SMEs) in the global competitive environment has increased. SMEs have acted as the 'backbone of the economy' Analoui F. & Karami A. (2003, p.3) because they are important issues for all countries as they contribute greatly to the economic growth and business development. In the European Union there are almost 21 million of small and medium-sized enterprises, which represents more than 98 per cent of all the European companies. For the year 2012 it was estimated that share of the total staff within the SMES was around 67 per cent (more than 87 millions of employees) Buculescu M. M. (2013, p.104) In the globalization era, the business environment is characterized by fierce competition. Companies have to take appropriate actions to deal with challenges that rise through globalization and intense global competition. This is more so for SMEs as they strive to improve their competitiveness and expected level of performance. Organizations of all types and sizes are facing continually changing situations both externally and internally. From the 1980s

competitiveness has been increased within the existing businesses due to the formulation and implementation of small business strategies. "The global changes have shaped a new business environment requiring new strategies and a reconfiguration of resources, skills, and processes to sustain competitiveness". Todorov K. (2014, p.375)

The individual performance of each company determines economic efficiency; the application of strategy in SMEs can be a crucial element for keeping business to a sustainable development. Strategies need to focus on the factors that encourage SMEs to grow and become successful and be applied based on the technological or commercial innovation. Small and medium sized firms need to adopt approaches such as the strategic management in order to improve their performance and achieve competitive advantage. "Competitive strategy it is an enduring foundation and grounding point for thinking about the industry competition and positioning within industries to which other ideas can be added and integrated." Porter E. M. (1980, p.xiii)

1.2 Definitions

1.2.1 The Definition of Small and Medium Enterprises (SMEs)

Overall, SMEs could be defined and classified taking into consideration: quantitative, qualitative, and both quantitative and qualitative aspects.

The most common used *quantitative* criteria according to which the SMES are classified into categories are: number of employees, turnover, total balance sheet or a combination of the last two. There are other criteria like: net assets, initial capital, return, invested capital, industrial classification combined with number of employees, total produced quantity and their value, added value etc., but there are seldom used. Buculescu M. M. (2013, p.106-107)

Table 1: Examples of SME definitions suggested by CE, WB and OECD

	Micro-entities	Small enterprises	Medium-sized enterprises
European Commission	a. Average number of employees < 10; b. Annual turnover < 2 millions Euros or c. Total balance sheet < 2 millions Euros;	a. Average number of employees < 50; b. Annual turnover < 10 millions Euros; or c. Total balance sheet < 10 millions Euros;	a. Average number of employees < 250; b. Annual turnover < 50 millions Euros or c. Total balance sheet < 43 millions Euros
World Bank	a. Less than 10 employees; b. Annual turnover < 100.000 dollars c. Total balance sheet < 100.000 dollars	a. Less than 50 employees; b. Annual turnover < 3 millions dollars c. Total balance sheet < 3 millions dollars	a. Less than 300 employees; b. Annual turnover < 15 millions dollars c. Total balance sheet < 15 millions dollars
OECD	1. Between 1 - 4 employees (small micro) 2. Between 5-19 employees (micro-entities)	Between 20-99 employees	Between 100-500 employees

Source: Recommendation no. 2003/361/CE, World Bank definition. Organization for Economic Co-operation and Development (OECD) definition. Fitch (2006).

The number of employees is the most common because, predominantly, number of employees is one of the criteria which enterprises disclose easily, and is very easy to control it.

Likewise, number of employees does not vary with consideration to inflation rate compared to other criteria like sales. There are opposite opinion which consider that number of employees do not reflect the real picture of a small enterprises and could incorrectly suggest the fact that if an entity is bigger it would need more employees, and for developing it has to employ more people, which could mislead to the idea of inefficiency of the SMEs. Buculescu M. M. (2013, p.10)

Best known *qualitative* criterion in defining a SME is the independent ownership. Other qualitative criteria such as the relative size of the enterprise compared to other enterprises or non-dominant market share are considered ineligible criteria because it is not considered the fact that many SMEs

are specialized in certain market niches and often dominate their market segment or their specific unique industry.

"A *small business* is defined firstly as a business in which there is no public negotiability of common stock, and secondly as a business in which the owners must personally guarantee any existing of any planned financing." Osteryoung S. J. and Newman D. (1993, p.227) Small and medium-sized enterprises should be defined as entities which are not publicly traded and entities in which the owners must personally guarantee any existing funding.

1.2.2 The Definition of Strategy

Strategy was developed by the Greeks, who endowed the concept with a military connotation. The term derives from the Greek *strategos*, translated as a general in command of troops or the art of the general or plan to destroy enemies through effective use of resources. Strategy

was already considered as an organizational skill at the time of Pericles (450 BC), meaning management skills (administrative, leadership, public speaking, power). However, it was only after World War II that strategy fully entered into the business world. Emerson M. W. & Ferreira J.J. & Raposo L. M. (2014, p.44)

In Porter's words, 'strategy means performing different activities to those performed by rivals or performing the same activities differently'. Baker J. M. (2014, p.31)

"Strategy is the deliberate search for an action plan to develop and adjust the competitive advantage of a company. The differences between the organization and its competitors are the basis of its competitive advantage." Mintzberg H. & Quinn B. J. (1991, p.53)

The strategic plan also involves implementation of the strategy which is the process that turns strategies and plans into actions in order to accomplish strategic objectives and goals. Organization's strategy is not only about what it wants to do, but doing it. The organization's

strategy should take into account its key internal strengths such as capabilities and resources as well as the external opportunities and threats. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. "Developing a competitive strategy is developing a broad formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry out those goals." Porter .E. M. (1980, p. Xxiv)

1.2.3 Definition of Strategic Management

John A. Pearce defined strategic management 'as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization.' Alkhafaji A, Nelson A. R. (2011, p.32)

"Strategic management is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible." Köster K. (2010, p.35). The term strategic management is used to refer to the entire scope of strategic-decision making activity in an organization. Currently, strategic management is one of the most necessary areas in the management field. It involves a set of management actions that enable company managers to keep it aligned with its environment, develop appropriate strategies and putting those strategies into actions.

1.3 Research Problem and Objectives

Although there are many advantages to use strategic management, there are still some SME organizations and practitioners or researchers that resist using it and they think that this process is only useful for larger organizations and due to this, they do not recognize that it is also very helpful for SMEs as a whole. This study aims to establish the strategic management practices by SMEs in Cyprus. It will be followed by these research questions:

What is the influence of strategic management practices on performance of SMEs in Cyprus?

This study aims to examine a selection of surveys and provide information about the strategic management practices and whether they can be use as a competitive tool in enhancing the growth and performance of small and medium enterprises in Cyprus.

What decisions and actions do managers adopt to ensure competitive advantage?

The aim of the research is to understand the importance of strategic management practices and how they need to be implemented by the managers of SMEs in order to achieve their objectives and goals. Furthermore the research will investigate the internal and external environments which are the two perspectives of competitiveness.

1.4 The Structure of the Dissertation

Chapter 1-Introduction makes the initial step and introduces to the reader the topic of the thesis including important definitions of key words and subjects that are used throughout the research. It identifies the findings of the literature review alongside the two main research questions of the research. Chapter 2-The literature review is to identify and present the theoretical background, concepts and frameworks which are related to the subject and will be tested and compared with the findings of this study. Chapter 3 discusses the methodology adopted by the researcher in carrying out the study. The chapter also presents the population that was studied, the methods used to sample it, the instruments used in data collection and procedures that were used in data analysis. Chapter 4-Data Analysis is the chapter which presents the analysis and interpretation of the data collected through questionnaire which included the responses of senior managers from 50 SMEs in Cyprus. Conclusions and recommendations discuss the research findings following by further suggestions for future research.

CHAPTER 2 - LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of literature related to the study. It covers the Theoretical framework on strategic management practices and the empirical review of small and medium size enterprises (SMEs). Literature review also covers the theory based on the nature of strategic decisions derived from the general concept of strategy and its structure.

‘The strategic management represents current direction of management’ Brezinova M. & Prusova J. (2014, p.1) and its implementation can increase competitiveness, reduce costs, improve decision making. There are different perspectives in analyzing *competitive advantage*. One of them is *environmental* factors. "Environmental analysis is a tool used by businesses to avoid strategic surprise and to ensure the long-term health of the business". Hunger D.J. & Wheelen L. T. (2003, p. 30). These factors, such as government regulation, competitors and socio-culture could be the opportunities that should be explored by SMEs.

In general, Strategic management is a broad term that includes determining the mission and objective of the organization in the context of its external and internal environments. The chapter focuses on these environments as sources of information to analyze how both external and internal analysis provide and influence the strategic management practices in SMEs.

2.2 The concept of Strategy

"A strategist's job is to see the company not as it is but as it can become." John W. Teets, David R. F. (2011, p.41) Strategists are the individuals who are familiar with the corporate environment and design the strategy and they are ‘responsible for the success or failure of an organization’.

David R. F. (2011, p 10). Their job is to help the organization collect, analyze and organize information, however all members of the organization need to take part in designing the strategy. This will increase the communication between the people, energize resources and activities.

Strategic planners usually serve in a support or staff role and are also responsible and supportive of strategic planning and its consequences. "In any organization, the strategists include all the people who influence an organization's overall strategies. These include the board of directors, the CEO, various management positions, outside planner and consultants, and sometimes those in middle management positions." Alkhafaji A, Nelson A. R. (2011, p.35). The role of a strategist is to see the organization as a whole, to comprehend the dynamics of the organization and to make decisions within the context of the environment which the organization operates.

Strategies are the means by which long-term objectives will be achieved. There are three main types of strategies; corporate, business and functional strategies. Choosing an appropriate strategy is important before formulating the strategy.

Corporate strategy usually imposed by top management. This first level of strategy determines what the business should be and how the activities should be structured and managed. "Strategy is responsible for defining the firm's overall mission and objectives, validating proposals emerging from business and functional levels and allocating resources with a sense of strategic priorities." Analoui F. & Karami A. (2003, p.54)

Business strategy is in the second level, which is concerned with maintaining competitive advantage in each strategies business unit. Business strategy or competitive strategies are concerned with how an organization is going to compete in a specific business or industry. Analoui F. & Karami A. (2003, p.54)

Functional strategy or operational strategies are the short-term (less than a year) goal-directed decisions and actions of the organization's various functional areas. Functional areas are such as marketing, operation, production, finance, and human resources. The company needs to maintain its competitive strategy from each functional area in order to support business & corporate strategy.

Analoui F. & Karami A. (2003, p.54)

Sun Tzu in his book, *The Art of War (2010)* describes the importance of war in military organizations which interlinked with businesses. The only difference is that business strategy is formulated, implemented, and evaluated with an assumption of *competition*, whereas military strategy is based on an assumption of *conflict*. However both business and military organizations try to use their own strengths to exploit competitors' weaknesses." If an organization's overall strategy is wrong (ineffective), then all the efficiency in the world may not be enough to allow success. Business or military success is generally not the happy result of accidental strategies."

David R. F. (2011, p.21)

Sun Tzu stated that 'brilliant strategists forge ahead with illusion, obscuring the area(s) of major confrontation, so that opponents divide their forces in an attempt to defend many areas. Create the appearance of confusion, fear, or vulnerability so the opponent is helplessly drawn toward this illusion of advantage.' David R. F. (2011, p.22)

The element of surprise can provide great competitive advantage in both military and business strategy although, information based on competitors' or opponents' strategies and plans are very important too. "If you know yourself, but not the enemy, for every victory gained you will also suffer a defeat". Tzu S. (2002, p.51)

2.3 Strategic Management Practices and their impact on Performance of SMEs

Currently, strategic management is one of the most prominent and relevant areas in the management field. Strategic management is the domain of management in SMEs and has different processes than those found in large organizations. SMEs need strategy since they will face more challenges in globalization era. The benefits of using strategic management in SMEs will prepare the company to get ready to confront any controlled and/or uncontrolled issues, evaluating the implementation of the strategy.

Strategic Management allows an organization to be proactive and formulate better strategies using a more systematic and reasonable strategic choice.

However ‘research studies now indicate that the process, rather than the decision or document, is the more important contribution of strategic management.’ David R. F. (2011, p.16)

Communication is a key element for success in strategic management through dialogue and participation between managers and employees as well as commitment to achieve objectives, to implement strategies and to work hard. A deeper understanding of others’ views and of what the firm is planning or doing is needed by the organizations. The firms need all employees on a mission to help the firm succeed and bring good results.

Managers and employees become surprisingly creative and innovative when they understand and support the firm’s mission, objectives, and strategies. According to David R. F. (2011, p.16) ‘a great benefit of strategic management, is the opportunity that the process provides to empower individuals. *Empowerment* is the act of strengthening employees’ sense of effectiveness by encouraging them to participate in decision making and to exercise initiative and imagination, and rewarding them for doing so.’

The strategic management process includes the stages: *strategy formulation, strategy implementation, and strategy evaluation.*

Strategy formulation is based on developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternatives strategies and choosing specific strategies to follow.

Peter Drucker says 'the prime task of strategic management is thinking through the overall mission of a business: that is, of asking the question, "What is our business?" This leads to the setting of objectives, the development of strategies, and the making of today's decisions for tomorrow's results.' David R. F. (2011, p.7)

Strategy implementation usually is called the 'action stage' of strategic management. Implementing strategy means 'mobilizing employees and managers to put formulated strategies into action.' David R. F. (2011, p.7) Often it is characterized as the most difficult stage in strategic management as it requires personal discipline, commitment and sacrifice. The successful implementation of strategy requires a planned effort from all members of the organization, not just from management. "However management must ensure that the proper tools, support, mechanisms, and lines of authority exist within the organizational structure to implement the strategy". Alkhafaji A , Nelson A. R. (2011, p.54)

Strategy evaluation is the final stage in strategic management. Managers need to know when the strategies are not working well. It is the strategy which obtains this information. All strategies are connected to future modification because external and internal factors are changing.

"Three fundamental strategy-evaluation activities are: (1) reviewing external and internal factors that are the bases for current strategies, (2) measuring performance, and (3) taking corrective

actions. Strategy evaluation is needed because success today is no guarantee of success tomorrow!"

David R. F. (2011, p.7)

Strategic management is an on-going process that evaluates and controls the business and the industries in which the company is involved; values its competitors and sets goals and strategies to meet all existing and potential competitors; and then reflect on each strategy to determine how it has been implemented and whether it has succeeded or needs changes by a new strategy to meet new circumstances, new technology, new competitors, a new economic environment, or a new social, financial, or political environment.

The lack of any long-term planning and the lack of strategic thinking often lead to the failure of SMEs businesses Analoui F. & Karami A. (2003, p.36). However, organizations that practice strategic management usually outperform those that do not. Analoui F. & Karami A. (2003, p.10)

Many researchers have associated business strategies with performance, distinguishing between strategies associated with high and low performance. According to Porter (1980) *'the company, to have good performance, must be correctly positioned in its industry'*.

"Performance has been defined as the results of activities of an organization or an investment over a given period of time. Accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed." (BusinessDictionary.com, 2008).

"Activities associated with high performing strategies also include emphasis on customer service and support, extensive advertising, and use of external finance. Further, because high performing strategies involve initiative-taking, they are often referred to as proactive strategies."

Pushpakumari D. M. & Watanabe T. (2009, p.72)

The effect of strategic management in SMEs performance can be measured from *financial* and *non financial* aspects. Company's performance is the measure of standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. It is the outcome of all of the organization's operations and strategies.

According to Richard et al. (2008) organizational performance encompasses three specific areas of firm outcomes: *financial performance* (profits, return on assets, return on investment, *market performance* (sales, market share, etc.) and *shareholder return* (total shareholder return, economic value added, etc.). Kotey and Meredith (1997) said that when firms are advertising more, identifying brand names for products, greater emphasizing customer service and credit, exploring marketing techniques, it leads to an increase in high performance. Pushpakumari D. M. & Watanabe T. (2009, p.72)

The successful performance of SMEs does not only depend on good economic performance, but rather on the way the entrepreneurs and employees work together and achieve their activities and objectives.

It is important for strategic analysis on how well an organization is performing. Firstly, it will give more accuracy on its competitive advantage; secondly, it will show if there is a failure between what they do and what it really is doing. Furthermore, using performance measurement will help to find appropriate strategy that companies need to use.

2.4 Strategic Planning

Sometimes strategic management is used synonymously with the term *strategic planning* which is referring only to strategy formulation. ‘The purpose of strategic management is to exploit and create new and different opportunities for tomorrow; *long-range planning*, in contrast, tries to optimize for tomorrow the trends of today.

"The history of strategic planning began in the military. A key aim of both business and military strategy is “to gain competitive advantage.” In many respects, business strategy is like military strategy, and military strategists have learned much over the centuries that can benefit business strategists today." David R. F. (2011, p. 21)

A strategic plan is, in essence, a company’s game plan. Just as a sports team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully.

Many organizations believe that planning within strategic-management process must involve lower-level managers and employees because ‘is learning, helping, educating, and supporting activity, not merely a paper-shuffling activity among top executives.’ Strategic-management dialogue and communication is more important than a nicely bound strategic-management document. David R. F. (2011, p.17) stated that the worst thing strategists can do is develop strategic plans themselves and then present them to operating managers to execute. Through involvement in the process, line managers become “owners” of the strategy.

Although making good strategic decisions is the major responsibility of an organization’s owner or chief executive officer, both managers and employees must also be involved in strategy formulation, implementation, and evaluation activities. Participation is a key to gaining commitment for needed changes. David R. F. (2011, p.17)

However some firms do not engage in strategic planning and some firms do strategic planning but receive no support from managers and employees. This might happen due to the lack of knowledge or training in strategic planning, poor reward structures (no reward in success, and punish in failure), firefighting crises within a company, belief that planning is a waste of time and expensive, laziness of people, fear of failure, overconfidence and other reasons.

Andersen's empirical study has been mentioned in an academic journal of Skokan K., Pawliczek A., Piszczur R. (2013 p. 59) and provided evidence that 'strategic planning is an important performance driver in all industrial settings, and enhances both economic performance and organizational innovation. According to Song (2011) the empirical evidence suggests that more strategic planning and more new product development projects lead to better firm performance.'

Skokan K., Pawliczek A., Piszczur R. (2013 p. 59) divided companies in terms of business strategy development into three categories. '1) Companies that have a detailed *strategic document* should have utilized modern management methods and techniques as PEST, Porter five forces, marketing mix, SWOT and others. The strategic document covers future period of at least three years and is often compared with real situation and updated (at least once a year). 2) Companies that have strategic document drawn up in some *written* but concise form, with insufficient details in all important chapters. Many enterprises briefly address just mission and vision and some partial strategic issues, such as production, marketing or finances; However other important chapters stay unelaborated. 3) Companies that have *no written* strategic document. There is never clear if the strategy is kept in mind of top management (e.g. alone self-employed entrepreneurs), some pieces are subject of company culture or does not exist at all.'

2.5 The SME sector in Cyprus

The economy of Cyprus is dominated by small enterprises. Almost all enterprises (99,9%) employ less than 250 persons whereas the overwhelming majority (95%) employs less than 10 persons. The total number of SME's in Cyprus is 61.041.

The government of Cyprus emphasized the need for a regulatory climate conducive to investment, innovation and entrepreneurship stressed the need to lower costs of doing business and to remove unnecessary procedures which act as a barrier against the development of SME's in Cyprus. It is well understood that enterprise policy in Cyprus must ensure competitiveness in all areas of economic activity.

One of the primary objectives of the government development policy concerns the restructuring and modernization of the productive fabric of the economy in order to assist enterprises to meet the challenges of globalization and accession to the European Union. To this end, various support schemes have been introduced in the different sectors of economic activity. Although the schemes do not generally distinguish between micro, small, medium or larger units, in view of the predominance of SME's in all sectors, size is one of the parameters which are taken into account in policy formulation.

Conforming to the EU policies, implies that the EU's philosophy on SME's should be incorporated in Cyprus policies and actions in a more systematic and explicit form.

In view of this, the Ministry of Commerce, Industry and Tourism and the Planning Bureau who have jointly the overall responsibility for the formulation of the Government Policy on SME's,

always take into account the particular needs and specific problems of SME's, in the process of promoting the various programs to support SME's.

The Government Policy for SME's is fully harmonized with that of the European Union, as it is outlined in the European Charter for Small Enterprises. The basic objectives, therefore, of the strategy of Cyprus, aiming at the support and development of SME's and entrepreneurship are the following:

- Introduction of a simplified legal, regulatory and procedural framework for the function of SME's.
- Improvement of the monetary and financial environment.
- Assist SME's to internationalize their activities, taking into account the European perspective of Cyprus and to reorient accordingly the applied strategy, through the improved systems and information services.
- Strengthen the competitiveness of SME's.
- Improve the access of SME's to research, technological upgrading, training and information services.[Source: Press and Information Office, Republic of Cyprus, 2005]

2.6 Environmental Factors

"Environmental factors refer to external influences on a business that it has limited control over but that it must consider as part of strategic planning." Brezinova M. & Prusova J. (2014, p.5)
Typically, environmental factors addressed by companies fit into four categories; social, legal, political and economic. These factors affect small businesses in different ways than larger competitors.

Social environmental factors include societal movements, changes in public values and attitudes people in the marketplace have toward working for your business. If you operate a small casual dining restaurant, you must recognize societal trends toward healthy lifestyles and food consumption habits. Doing so allows you either to promote alternative values to fit your current offering or to adjust your operation to compensate for the trend. Maintaining a positive public image improves your ability to attract local workers as well.

For a small company, political factors relate to your interaction with local governments and agencies. In general, you want to have a good working relationship with the mayor and city council members in a city or town in which you operate. This increases your ability to influence laws and codes that affect your business. Access to local funding and tax subsidies is a political issue as well.

The legal environment is similar to the political landscape in the way it affects your business. Changes in laws or city ordinances may affect your business directly. If your target market is teens, for instance, a new curfew that requires people under 18 to be home by 11 p.m. may affect your hours of operation. New health and safety regulations affect restaurants and food vendors.

In general, shifts in the nature of the local economy can help or hinder a business. If you sell lower-priced or value-priced goods, buying activity may pick up when economic conditions are weak and unemployment is high. People have more budget concerns during poor economies. On the contrary, luxury goods and services businesses thrive more when the economy is good and people have stable employment. Changes in loan interest rates and banking regulations are also economic factors that affect small businesses.

2.6.1 SWOT Analysis

The SWOT is an acronym that stands for Strengths, Weaknesses, Opportunities and Threats. SWOT analysis is the combination of external and internal analyses which is an essential process for evaluating the present situation or condition of an organisation in terms of its environment. It is a very beneficial tool which allows you to consider internal and external factors that affect or could affect the business. (Olsen E. 2010)

"Before an organization begins the process of strategy formulation it should scan its external environment to identify threats and opportunities, and its internal environment to identify strengths and weaknesses". Hunger D.J. &, Wheelen L. T. (2003, p. 30)

SWOT analysis is an excellent basis for good decision making because it collects information which help developing a well-informed business- management and development strategy.

Strengths and weaknesses

Strengths and weaknesses are often internal to the organization. Business strengths provide the company with opportunities whether the weaknesses pose a threat.

In order to carry out the SWOT analysis successfully the firm should start by identifying the strengths as well as think them in relation to its competitors. These could include healthy cash flow, market-leading products, high-calibre employees, an enviable customer base, spacious premises in a good location etc. The company needs to be realistic and face any unpleasant truth by itemize its weaknesses which could be lack of capital, renting premises, skills shortage, being stock-heavy, overdependence on a few customers, paying minimum wages, etc.

Identifying and evaluating organizational strengths and weaknesses in the functional areas of a business is an essential strategic management activity. Organizations strive to pursue strategies that capitalize on internal strengths and eliminate internal weaknesses. David R. F. (2011, p.12)

Opportunities and threats

Opportunities and threats generally relate to external factors of a company. *External opportunities* and *external threats* refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization in the future. A useful approach when looking at business opportunities is to look at the strengths and see whether these open up any opportunities for the organization. For example, healthy cash flow offers the opportunity to borrow money to develop a business, while having the latest technology might develop a new product or increase current output. A market-leading position might enable the organization to buy a competitor and secure a larger market share.

Finally by looking the weaknesses of a business it indicates whether opportunities could open up by eliminating them. For example, overdependence on a few customers will have serious repercussions if one of them goes bust or decides to buy from another supplier, while only paying minimum wages can force good employees to go elsewhere.

2.7 External Analysis

External analysis is the process of exploring and evaluating an organization's external environment. "External environment analysis attempts to identify, aggregate and interpret environmental issues as well as provide information for the analysis of the internal environment

and the development of the directional strategies." Swayne E. L. & Duncan J. W & Ginter M. P (2006, p.57)

Regardless of industry 'the external environment is critical to a firm's survival and success' Ireland D.R. & Hoskisson E. R. & Hitt A.M. (2007, p. 35). Analyzing external environment is very important for both researchers and firms, since it can help researchers to understand the motivations of company's activities and also help company to take more appropriate actions. Firm's external environment is divided into three major areas: the general, the industry, and competitor environments.

The general environment is composed of dimensions in the broader society that influence an industry and the firms within it included several environmental segments, such as demographic, economic, political/legal, sociocultural, techno-logical and global. Ireland D.R. & Hoskisson E. R. & Hitt A.M. (2007 p. 37).

The industry environment is the set of factors that directly influences a firm and its competitive actions and competitive responses: the threat of new entrants, the power of suppliers, the power of buyers, the threat of product substitutes, and the intensity of rivalry among competitors. In total, the interactions among these five factors determine an industry's profit potential. The greater a firm's capacity to favorably influence its industry environment, the greater the likelihood that the firm will earn expected returns. Ireland D.R. & Hoskisson E. R. & Hitt A.M. (2007 p. 37).

Competitor's environment: Competitor Environment is the part of a company's external environment that consists of other firms trying to win customers in the same market. It is a segment of the industry that includes all immediate rivals. It's very important for firm to understand the competitor's environment through competitor analysis. Competitor analysis is focused on

predicting the dynamics of competitor's actions, response, and intentions. In combination, the results of the three analyses the firm uses to understand its external environment influences its vision, mission, and strategic actions. Ireland D.R. & Hoskisson E. R. & Hitt A.M. (2007 p. 38).

2.7.1 PEST Analysis

PEST analysis is known for analyzing the influence of SMEs which include four main factors; Political, Economic, Socio cultural, and Technology developed by Johnson and Scholes. This technique was created for indicating the external influences on business firm. PEST analysis is used as a strategic tool to understand the market share, market growth rate, consumer tastes and habits, political stability of the state, business position, foreign business prospects, environmental opportunities and threats etc.

Political factors of a region and country to which the SMEs companies relate have greater impact on its growth and stability. 'The government plays a huge role as the planner, promoter and regulator of business companies. The political environment is influencing the growth of business because the stability of industry environment is an important aspect for their business practices.'

Rakesh C. (2014, p.21)

'*Economic* factor such as economic growth, unemployment issue, interest rates impact the competition in industry. The economic environment of business refers to overall state of the country's economy. The industry and business depend on the purchasing power of people which is dependent on economic environment.

Socio cultural factor affect consumer purchasing power such as social trends which consist of lifestyle, music, dressing, and values that characterize the society in which the firms operate. A

socio-cultural component of the environment influences the ability of the firm to obtain resources, market its services and function within the society. This helps the SMEs to identify the opportunities and threats for their business organization.

Technology factors such as new innovation, speed internet connection, net working and other technological change affect the ways organization run its business. Technology and business are interrelated and interdependent. Technological changes provide new opportunities as well as causing threat by making existing systems antiquated. The advancement of technology can reduce or improve opportunities for a firm.' Rakesh C.(2014, p.22)

In general, this analysis emphasis in general environment for particular industry sector includes customer, supplier and competitors which are linked each other.

2.7.2 Porter's Theory of Competitive Advantage

The key aspect of the firm's environment is the industry or industries in which it competes. According to a practitioner on strategy David R. F. (2011, p.9) 'in today's economy gaining and sustaining a *competitive advantage* is harder than ever. This term can be defined as anything that a firm does especially well compare to rival firms.'

Competitiveness as a term originated from the Latin word "competer", which means involvement in a business rivalry for markets and this term has been expounded by a number of scholars' works." (D'Cruz & Rugman, 1992) consider competitiveness in the terms of price and nonprice qualities and also define it as an ability to provide and sell products in a higher level than other firms in the market. While (Singh, 2012) elaborates the definition by saying that competitive advantage does not only mean the outperforming competitors by better financial performance, but also the generating a superior value for the customer and in the same time attaining the dominant

position. The competitive advantage is the multifaceted concept. It is a cornerstone of each company's strategy and also related to industry sector." Krajnakova E. , Navikaite A., Navickas V. (2015, p.328)

In formulating strategy, it is important for the strategist in the business to analyze the industry in which the business operates. Analoui F. & Karami A. (2003, p.77). On the other hand Cleghorn Professor of Management studies, Henry Mintzberg believes that most of the time, strategists should not be formulating strategy at all; they should be getting on with implementing strategies they already have." David R. F. (2011, p.251)

Researches with an emphasis on competitive advantage of SME's have increased in the past years. (Slevin & Covin, 1995) introduced a 12-factor measurement framework to assess the "total competitiveness" of SME's. The framework includes such elements like the firm's structure, culture, human resources, product/service development and others. Considering to this model it can be assumed again that competitiveness is a multidimensional concept.

Many researchers relate competitiveness as a synonymous with a word "success" and that means an achievement of firm's objectives. In associating competitiveness with success (Storey, 1994; Peterson, 1989) found that SME success could be attributed to the managerial skills of the entrepreneur or owner manager.

The key role of SMEs is to enhance their competitive levels in order to survive in more demanding and changing markets (Ploss, 1991). The review of features that stem from different business context of SME's serves as a help to realize internal and external elements that provide unique initiatives for this particular field. SME's are usually more flexible and controllable, and able to react faster and to take advantage of niche markets (Corbit & Nabeel, 2004), especially due to the

fact that small businesses are closer to the market. Krajnakova E. , Navikaite A., Navickas V. (2015, p.328)

According to Porter M. (1998) Knowledge management is not only challenging but also necessary for a firm. Knowledge management can be viewed as a proactive approach that helps organizations gain and sustain competitive advantages. Don W. (2002, p.297)

Pearce A. J. and Robinson B. R. stated that Harvard Business Professor, Michael Porter, 'is a pioneer with regard to the concept of industry environment and industry analysis.' Pearce A. J. & Robinson B. R. (2003, p. 67). Porter's competitive forces approach is the dominant paradigm in strategy; 'Porter's five forces model is the most commonly used analytical tool for examining a business's competitive environment' Dess *et al* (2010, p. 56).

According to Porter E. M. (1985, p. 4), competition in an industry depends on five forces; *entry barriers, threat of substitution, bargaining power of buyers, bargaining power of suppliers* and *rivalry* among industry incumbents-determine the inherent profit potential of an industry or sub segment of an industry. The approach can be used to help the firm find a position in an industry from which it can best defend itself against competitive forces or influence them in its favor. (Porter, 1980)

The threat of new *entrants* or new competitors increases the competitiveness of firms within the industry. "Entry barrier is an obstruction that makes it difficult for a firm to enter the industry. Some of the factors which act as possible entry barriers to an industry are: Low production costs, economies of scale, Governmental policies and restrictions, access to resources such as financial or skilled human resources, product differentiation and access to marketing and distribution channels." Analoui F. & Karami A. (2003, p.82)

Threat of substitute products and services are those which appear to be different but are not. According to Porter E. M. (1985) the following factors are the determinants of effective substitution threat: Relative price performance of substitutes, switching costs, buyer propensity to substitute. The existence of substitutes enables buyers to make a comparison of products in terms of prices and quality. Analoui F. & Karami A. (2003, p.83)

Bargaining power of buyers refers to the impact of the client on an industry. "It has been suggested that satisfying buyers' needs is at the core of the success of any businesses and it is indeed a crucial factor for an industry and the firms that operate within it." Analoui F. & Karami A. (2003, p.84)

According to Porter E. M. (1985) the following factors are the determinants of buyer power: Bargaining leverage and price sensitivity. Porter argues that bargaining leverage includes factors such as buyer concentration, buyer volume, and buyer switching costs, buyer information, and ability to step back and substitute products. The price sensitivity impacts on quality performance, buyer profit and decision making.

The *bargaining power of suppliers*, can affect the industry profile. When the suppliers are powerful, they can put pressure on the producers to capture some of the industry's profits. One of the indicators of the power of suppliers in an industry is the number of suppliers in the industry. A supplier group is powerful if the industry within which it operates is dominated by only a few companies. Hunger D.J.&, Wheelen L. T. (2003, p 39). When an industry is dominated by suppliers, it means that the cost of switching suppliers is high and the suppliers are said to be more powerful in an industry.

Rivalry among existing firms is another crucial element for the process of competitive advantage. A competitive move by one firm can be expected to have an effect on the other competitors.

According to Porter E. M. (1985) intense rivalry is related to the presence of several factors such as: the industry growth rate and capacity, fixed costs and value added, product or services characteristics, brand identification, switching costs, informational complexity, diversity of competitors and exit barriers. Analoui F. & Karami A. (2003, p.83)

This 'five-force' framework provides a systematic way of thinking about how competitive forces work at the industry level and how these forces determine the profitability of different industries and industry segments. . Some industries or subsectors of industries become more 'attractive' because they have structural impediments to competitive forces.

In contrast, Mintzberg's notion of "crafting" strategies embodies the artistic model, which suggests that strategic decision making be based primarily on holistic thinking, intuition, creativity, and imagination. Mintzberg and his followers reject strategies that result from objective analysis, preferring instead subjective imagination. "Strategy scientists" reject strategies that emerge from emotion, hunch, creativity, and politics. Proponents of the artistic view often consider strategic planning exercises to be time poorly spent. The Mintzberg philosophy insists on informality, whereas strategy scientists (and this text) insist on more formality. Mintzberg refers to strategic planning as an "emergent" process whereas strategy scientists use the term "deliberate" process. The answer to the art versus science question is one that strategists must decide for themselves, and certainly the two approaches are not mutually exclusive. In deciding which approach is more effective, however, consider that the business world today has become increasingly complex and more intensely competitive. There is less room for error in strategic planning. David R. F. (2011, p.301)

2.8 Internal Analysis

Internal analysis is the process of ‘evaluation of all organization’s resources and capabilities to determine strengths and opportunities for competitive advantage, and to identify organizational vulnerabilities (threats) that should be corrected.’ Harrison J.& John St. C. (2014, p.5)

Analyzing the external environment of the organization could lead to the identification of the opportunities and threats for the company in the market. However it is not enough to provide a firm with distinct competitive advantages because the SMEs need to access their internal environment strengths and weaknesses too.

The internal environment ‘is a corporate environment that is in the organization and normally has direct and specific implications on the company.’ Internal environment factors included organizational structure, owner structure, firm resources, management style and culture, etc. Primiana I. & Indris S. (2015, p.190)

Managers of companies should look into the company to identify internal strategic factors, namely the strengths and weaknesses that will determine whether the company is able to take advantage of existing opportunities while avoiding threats. There are many opinions on how a company in analyzing the internal environment.

Peters and Waterman created the concept of the *seven S* framework for analyzing the strengths and weaknesses of the company while Porter introduced an internal analysis method known as *value chain analysis* (value chain). Although there are many ways to analyze the internal environment, the simplest way to analyze the internal environment is through functional analysis.

Analysing the internal environment of the firm is concerned with identifying and developing the firm’s resources.

2.8.1 Resource-Based View and SMEs

The resource-based approach in organizational analysis has emerged as an important new conceptualization in the field of strategic management. Analoui F. & Karami A. (2003, p.88)

According to Pearce and Robinson, the analysis of the company's internal environment includes the resources, capabilities and competencies held by the company, this is known to approach *Resource Based View (RBV)*.

This theory was developed by Birge Wenefeldt in 1984. It is a method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities and intangibles as an organization.

In the RBV approach the resources owned by the company is far more important than the structure of the industry in gaining and sustaining competitive advantage. According to the RBV approach, the main concern is a firm resources and capabilities.

Pearce A. J. & Robinson B. R. (2013, p. 164), divides the resources into three: (1) Assets are visible, include production facilities, raw materials, financial resources, and computers; (2) invisible assets (intangible assets) are included in the brand, reputation, moral enterprise, technical knowledge, patents, trademarks, and accumulated experience of a company; (3) Capability organization, the skills and the ability of combining assets, people, and processes that can be used by companies to transform inputs into outputs.

In the context of this theory, it is evident that the resources that a firm has will play a big role in the strategic implementation process. This is because no matter how good the strategies are, without the necessary resources to enable the implementation, they remain in the planning phase. The resource-based approach sees firms with superior systems and structures being profitable not

because they engage in strategic investments that may prevent entry and raise prices above long run costs, but because they have markedly lower costs, or offer markedly higher quality or product performance.

2.9 Porter's Generic strategies in the SMEs

Developing a *Competitive Strategy* is vital for SMEs. *Competitive Strategy* is defined as the long term plan of a particular company in order to gain competitive advantage over its competitors in the industry. It is aimed at creating defensive position in an industry and generating a superior ROI (Return on Investment). This type of strategy plays a very important role when industry is very competitive and consumers are provided with almost similar products.

According to Michael Porter, competitive strategy is devised into 4 types:

Cost Leadership: the objective of the firm is to become the lowest cost producer in the industry and is achieved by producing in large scale which enables the firm to attain economies of scale. High capacity utilization, good bargaining power, high technology implementation is some of factors necessary to achieve cost leadership.

Differentiation leadership: Under this strategy, firm maintains unique features of its products in the market thus creating a differentiating factor. With this differentiation leadership, firms target to achieve market leadership. And firms charge a premium price for the products (due to high value added features)

Cost focus: Under this strategy, firm concentrates on specific market segments and keeps its products low priced in those segments. Such strategy helps firm to satisfy sufficient consumers

and gain popularity. Cost leadership strategy is not attractive for SMEs. 'Cost leadership assumes that costs can be reduced, for example through economies of scale, and this is important to customers. Small businesses cannot achieve the economies of scale of large firms; a cost leadership strategy is likely to pose an unattractive alternative as they seldom have the large capital to invest constantly in new technology.' Analoui F. & Karami A. (2003, p.134)

Differentiation focus: Under this strategy, the firm aims to differentiate itself from one or two competitors, again in specific segments only. This type of differentiation is made to meet demands of border customers who refrain from purchasing competitors' products only due to missing of small features.' It is a clear niche marketing strategy. When a small firm focuses on a narrow target market segment combine with the focused differentiation it is said to pursue a niche strategy. This is a very attractive strategy for SMEs.' Analoui F. & Karami A. (2003, p.135)

Review of the chapter: The strategist must analyze the objectives in light of the environment. Management must determine the company's strengths, weaknesses, opportunities and threats (SWOT). Then the strategist needs to match the strengths to the possible environmental opportunities and decrease the weaknesses facing environmental threats. (SWOT analysis) Management uses the SWOT analysis to make decisions to develop an overall strategy for the company.

CHAPTER 3 - RESEARCH METHODOLOGY

3.1 Introduction

"Research in common parlance refers to a search for knowledge. One can also define research as a scientific and systematic search for pertinent information on a specific topic. In fact, research is

an art of scientific investigation. "Kothari R. C (2004, p. 1). The Advanced Learner's Dictionary of Current English lays down the meaning of research as "a careful investigation or inquiry especially through search for new facts in any branch of knowledge." Redman and Mory define research as a "systematized effort to gain new knowledge." Some people consider research as a movement, a movement from the known to the unknown. "It is actually a voyage of discovery. We all possess the vital instinct of inquisitiveness for, when the unknown confronts us, we wonder and our inquisitiveness makes us probe and attain full and fuller understanding of the unknown. This inquisitiveness is the mother of all knowledge and the method, which man employs for obtaining the knowledge of whatever the unknown, can be termed as research." Kothari R. C (2004, p. 2).

Research is an academic activity and as such the term should be used in a technical sense. According to Clifford Woody research comprises defining and redefining problems, formulating hypothesis or suggested solutions; collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulating hypothesis. D. Slesinger and M. Stephenson in the Encyclopaedia of Social Sciences define research as "the manipulation of things, concepts or symbols for the purpose of generalizing to extend, correct or verify knowledge, whether that knowledge aids in construction of theory or in the practice of an art." Research is, thus, an original contribution to the existing stock of knowledge making for its advancement. It is the per suit of truth with the help of study, observation, comparison and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research. "The systematic approach concerning generalization and the formulation of a theory is also research. As such the term 'research' refers to the systematic method consisting of enunciating the problem, formulating a hypothesis, collecting the facts or data, analyzing the facts and reaching certain conclusions either

in the form of solutions towards the concerned problem or in certain generalizations for some theoretical formulation." Kothari R. C (2004, p. 1).

Research comprises "creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of humans, culture and society, and the use of this stock of knowledge to devise new applications." Kothari R. C (2004, p. 2). It is used to establish or confirm facts, reaffirm the results of previous work, solve new or existing problems, support theorems, or develop new theories. A research project may also be an expansion on past work in the field. To test the validity of instruments, procedures, or experiments, research may replicate elements of prior projects, or the project as a whole. The primary purposes of basic research are documentation, discovery, interpretation, or the research and development (R&D) of methods and systems for the advancement of human knowledge. Approaches to research depend on researchers which vary considerably both within and between humanities and sciences.

The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet. Though each research study has its own specific purpose, we may think of research objectives as falling into a number of following broad groupings is to gain familiarity with a phenomenon or to achieve new insights into it .Then it has to portray accurately the characteristics of a particular individual, situation and to determine the frequency with which something occurs or with which it is associated with something else.

This chapter discusses the methodology adopted by the researcher in carrying out the study. The chapter also presents the population that was studied, the methods used to sample it, the instruments used in data collection and procedures that were used in data analysis.

3.2 Research Design

"The research problem having been formulated in clear cut terms, the researcher will be required to prepare a research design, i.e., he will have to state the conceptual structure within which research would be conducted. The preparation of such a design facilitates research to be as efficient as possible yielding maximal information."Kumar R. C (2008, p. 13).

In other words, the function of research design is to provide for the collection of relevant evidence with minimal expenditure of effort, time and money. But how all these can be achieved depends mainly on the research purpose. Research purposes may be grouped into four categories, (i) Exploration, (ii) Description, (iii) Diagnosis, and (iv) Experimentation. A flexible research design which provides opportunity for considering many different aspects of a problem is considered appropriate if the purpose of the research study is that of exploration. But when the purpose happens to be an accurate description of a situation or of an association between variables, the suitable design will be one that minimizes and maximizes the reliability of the data collected and analyzed.

3.3 Quantitative Research

Descriptive statistic research was adopted for this study. It was chosen because it helped to generalize the findings to a larger population. Descriptive statistic method provided quantitative data from the chosen population. The descriptive research collects data in order to answer questions concerning the current status of the subject under study.

"Quantitative research uses numbers and statistical methods. It tends to be based on numerical measurements of specific aspects of phenomena; it abstracts from particular instances to seek general description or to test casual hypotheses; it seeks measurements and analyses that are easily

replicable by other researchers. Researchers seek explanations and predictions that will generalize to other persons and places. Careful sampling strategies and experimental designs are aspects of quantitative methods aimed at produce generalize able results. In quantitative method the researcher's role is to observe and measure."Murray R. T (2003, p.2)

The advantages of quantitative method are as follows: "It can be used when large quantities of data need to be collected, the result is usually numerical (quantifiable) and hence considered more “objective”, the data is considered quantifiable and usually generalize to a larger population, It can allow to see changes overtime and help develop quantitative indicators and It can provide a clear, quantitative measure to be used for grants and proposals." Stroie E. R (2011, p.4)

The disadvantages are: "The results need to be calculated using Excel, Access, or data analysis software (such as SPSS), which may not always be accessible to a country program, time consuming, as the researcher try to enter, clean and then analyze the data, the larger the sample, the more time it takes to analyze the data and analyze results, the larger the sample the more time it takes to collect data and last, the quantitative data ignores a very important human element." Stroie E. R (2011, p.4)

3.4 Population of the Study

The target population for this study was the top 50 SMEs (2015) in Cyprus. 50 SMEs companies, survey participants were required to submit data on several financial indicators; Such as business confidence outlook, human resource policies, involvement in corporate social responsibility, and the role played by innovation in their operations

3.5 Data Collection

A questionnaire was used as the primary data collection instrument. The questionnaire was designed to give a brief introduction of SMEs. The questionnaire was divided into sections representing the various variables adopted for study. For each section of the chosen study include closed structured and open ended questions which collected the views, opinion, and attitude from the respondent which was not captured by the researcher. The questionnaire was administered through drop and pick method to the respondents working in the selected SMEs. The respondents comprised of senior managers of the selected SMEs. The questionnaire collected qualitative and quantitative data. Drop and pick method was used so as to give the respondents enough time as possible to fill the questionnaire. The questionnaire responses were cleaned, grouped into various categories and entered in the Microsoft EXCEL software to facilitate for analysis using descriptive statistics. The analyzed data was presented in distributions tables and pie charts for ease of understanding and analysis.

CHAPTER 4 - DATA ANALYSIS, PRESENTATION AND INTREPRETATION OF FINDINGS

4.1 Introduction

This chapter presents the analysis and interpretation of the data collected through questionnaire. The respondents were senior managers from 50 SMEs sampled. A total of 62 questionnaires were distributed, out of which 50 were successfully completed and returned. This represents a response rate of 76%. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% rated very well.

4.2 Demographic Information

In this section, the study presents the general information of the respondents since it forms the basis under which the study can rightfully access the relevant information. The general information captured includes issues such level of age, education level, number of years worked in the organization and the size of the organization.

The respondents were asked to indicate their age; the results are shown in Figure 1

What is your Age?				
25-34	35-44	45-54	55+	
4	30	14	2	

Table 2 : Age of the Respondents

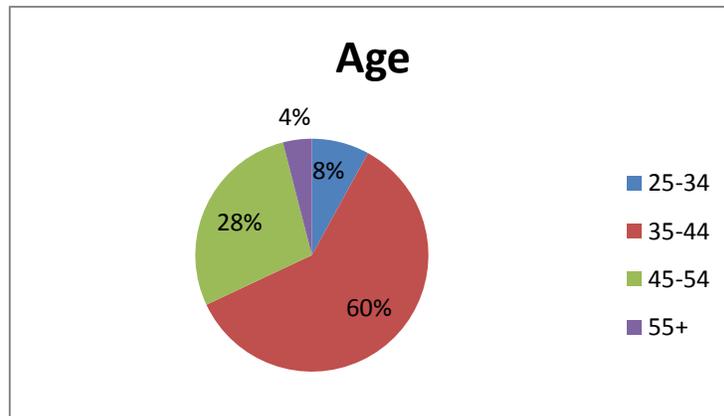


Figure 1: Age of the Respondents

Figure 1 shows that most of the respondents (60.0%) were between 35-44 years of age while 28% revealed that they were between 45-54 years of age. Majority of the respondents fell between these two age brackets. However, the study established that some of the organizations had young managers as 8% of the respondents were between 25-34 years of age. 4% of the respondents were 55 years old and above.

The respondent were asked to indicate their level of education, the results are shown in Figure 2

What is your highest qualification achieved?	
Diploma	3
Under Graduate degree	40
Post Graduate	7
PhD	0
Other	0

Table 3: Level of Education

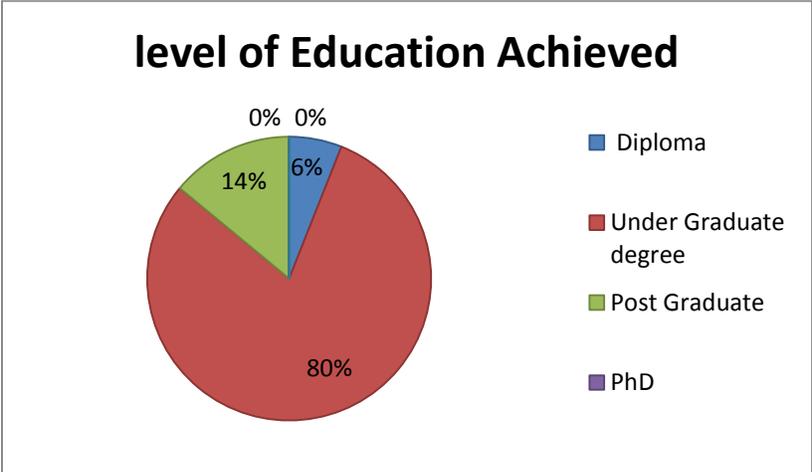


Figure 2: Level of Education

As shown in the Figure 2, the study revealed that majority of the respondents (80%) had attained an undergraduate degree while 14% had reached the post graduate level. This shows that majority of the managers in the SMEs were well educated and this would translate to better strategies for their organizations. Only 6% of the respondents had attained a diploma as their highest level of education.

The respondent were then asked to indicate the duration the organization has been in operation, the result are shown in Figure 3

How many years have this organization been in operation?	
1-5 years	0
6-10 years	10
11-15 years	16
16-20 years	16
21 years and	8

Table 4: How many years have this organization been in operation

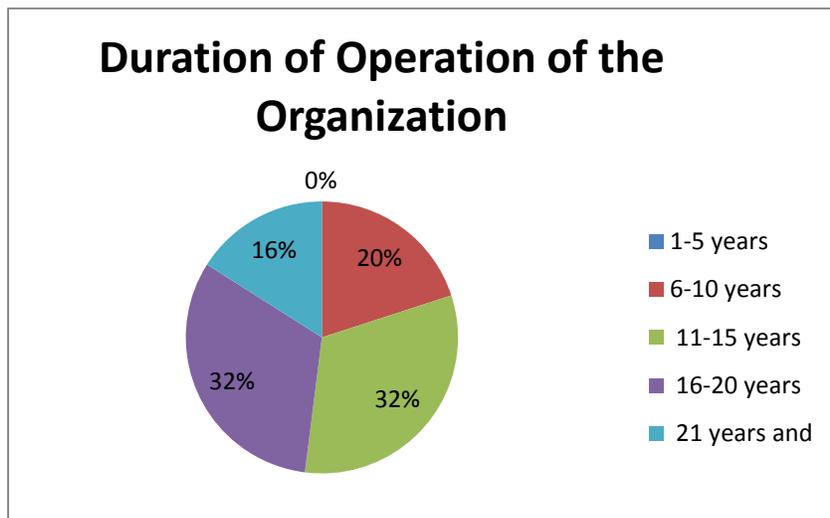


Figure 3: How many years have this organization been in operation

As indicated in Figure 3, the study established that most of the organizations (32%) have been in operation for 11-15 years and 16-20 years respectively while 16% of the respondents further indicated that their organization had been in operation for 21 years and over. This shows that most of the organizations had been in operation for long hence the managers understood their business environment well which would have an impact on the strategic management practices adopted these organizations.

The respondent were also asked to indicate the size of the organization in terms of number of employees, the result are as shown in Figure 4

What is the size of your organization in terms of number of employees?	
1-25 employees	9
26-50 employees	39
51-75 employees	2

Table 5: what is the size of your organization in terms of number of employees?

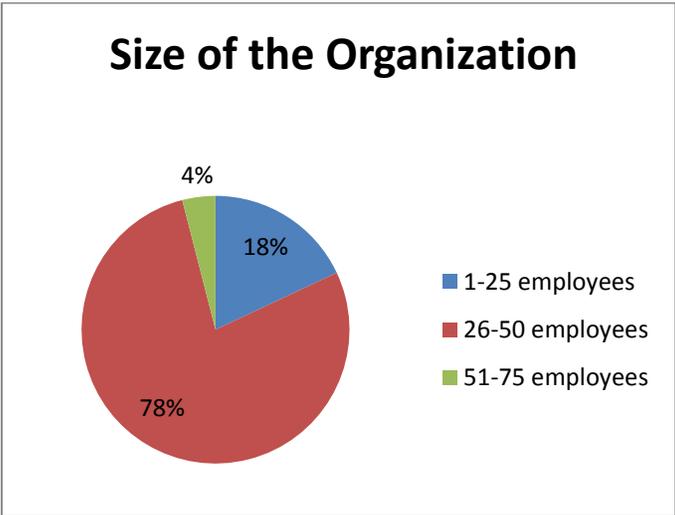


Figure 4: what is the size of your organization in terms of number of employees

As shown in Figure 4, the study established that most of the organizations had between 26-50 employees as revealed by 78% of the respondents while 18% revealed that their organizations had between 1-25 employees. Only 4% of the respondents indicated that they had 51 employees and above.

4.3 Strategic Management Practices on Performance of SMEs

In this section, the study aimed to establish whether the SMEs in Cyprus had adopted strategies in the past, the external factors that contributed to the adoption and the influence of the various strategic management practices adopted on performance.

Please answer each of the following questions.							YES	NO
							47	3
Have you adopted any strategies for your organization in the last five years?							94%	6%

Table 6: Strategies adopted in the last five years



Figure 5: Strategies adopted in the last five years

As shown in Figure 5, the study established that 94% of the respondents indicated that their organizations had adopted strategies in the last 5 years, while 6% of the respondents revealed that they had not adopted any new strategies.

This section of study, similarly aimed to establish the external factors that contributed to the adoption of new strategies. The results are as shown below in Figure 6.

To what extent has the following external factors contributed to your business adoption of new strategies?					
	no extent	little extent	moderate extent	to a great extent	to a very great extent
1 Political factors	20	18	12	0	0
2 Economic factors	0	0	11	31	8
3 Social factors	4	13	15	13	5
4 Technology/information systems	0	4	6	21	19
5 Competition	0	0	9	14	27
6 Others	0	0	0	0	0
	40%	36	24	0	0
	0%	0	22	62	16
percentage	8	26	30	26	10
	0	8	12	42	38
	0	8	12	42	38
	0	0	18	28	54

Table 7: what extent has the following external factors contributed to your business adoption of new strategies

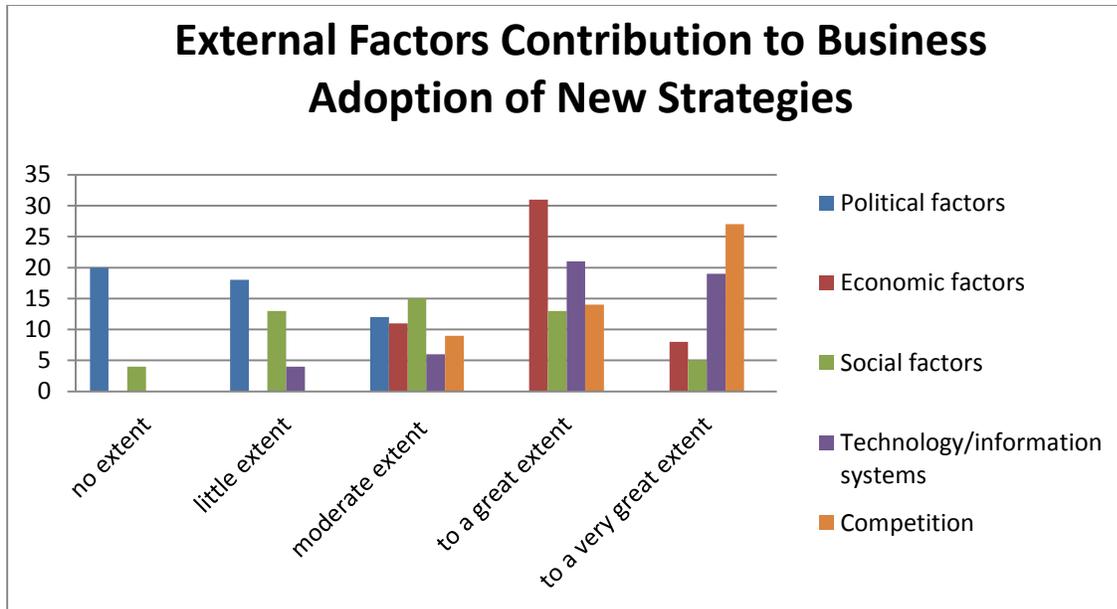


Figure 6: what extent has the following external factors contributed to your business adoption of new strategies

As indicated in Figure 6, external factors contribute to adoption of new strategies. 62% of the respondents indicated that economic factors contributed to adoption of new strategies to a great extent while 16% to a very great extent. Furthermore, 42% of the respondents indicated that technology/ information systems contributed to adoption of new strategies to a great extent while 38% reported to a very great extent. On the other hand, majority of the respondents (54%) reported that competition influenced adoption of new strategies to a very great extent while 28% reported to a great extent. However, 40% of the respondents reported that political factors did not influence their organization’s adoption of new strategies while 36% indicated that political factors contribute to the adoption to a little extent.

In this section, the study also sought to establish the influence of strategic management practices on performance of the SMEs. The results are as shown below in Table 8.

To what extent do you agree with the following statements on strategic management practices and performance?					
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1 Internal factors affect the company"s strategic decision making	0	0	5	10	35
2 External factors affect the company"s strategic decision making	0	0	6	13	31
3 Our organization adopts new strategies to achieve competitive advantage	0	0	0	19	31
4 The company do the external analysis and internal analysis to know the strategies to adopt	0	0	4	14	32
5 Strategy management affects company"s performance	0	0	6	17	27
	0	0	5	10	35
percentage	0	0	6	13	31
	0	0	4	14	32
	0	0	6	17	27

Table 8: To what extent do you agree with the following statements on strategic management practices and performance

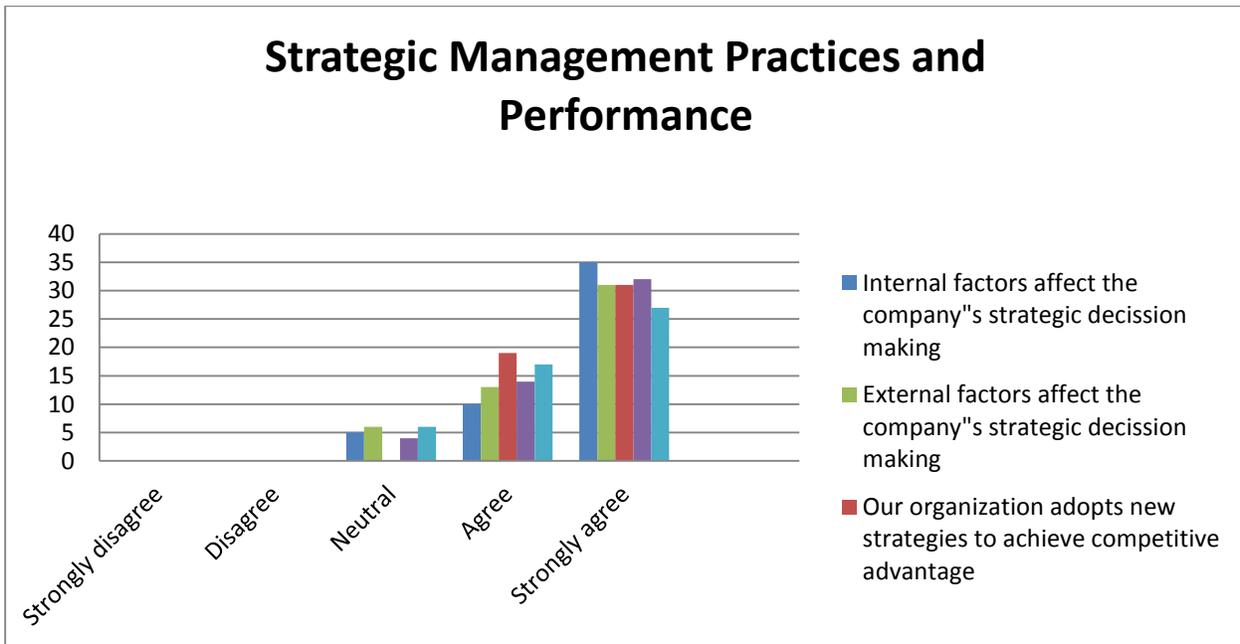


Figure 7: To what extent do you agree with the following statements on strategic management practices and performance

As shown in Figure 7, majority of the respondents (35) strongly agreed while 10 agreed that internal factors affect the company’s strategic decision making. Furthermore, 31 strongly agreed while 13 agreed that external factors affect the company’s strategic decision making. The respondents agreed that their organizations adopt new strategies to achieve competitive advantage; this is revealed by 31 who strongly agreed while 19 also agree. Moreover, 32 of the respondents

strongly agreed while 14 agreed that their companies carried out external analysis and internal analysis to know the strategies to adopt. On the relationship between strategy management practices and performance; majority of the respondents (27) strongly agreed while 17 agreed that strategy management practices affected company's performance.

to no extent	little extent	moderate extent	to great extent	to a very great extent
0	3	4	8	35
	6%	8%	16%	70%

Table 9: To what extent has the strategies adopted by your organization improved the performance of your business

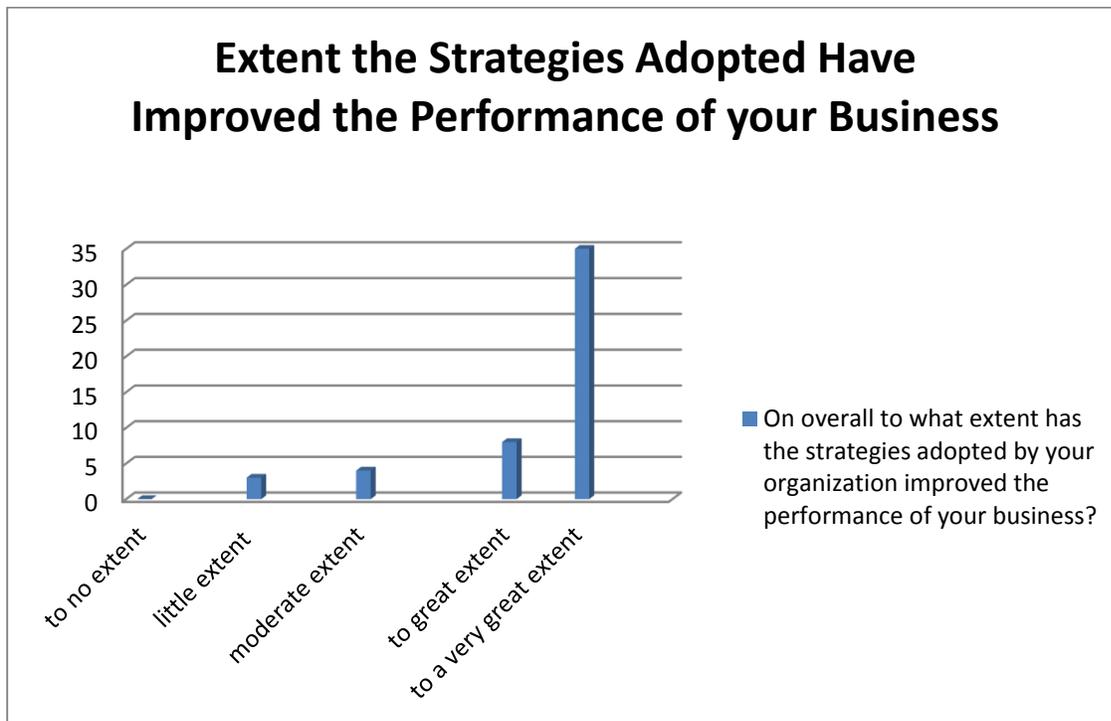


Figure 8: To what extent has the strategies adopted by your organization improved the performance of your business

As shown in figure 8, 70% of the respondents reported that the strategies adopted by their organizations had improved the performance of the business to a very great extent while 16% revealed that it had improved performance to a great extent. 6% of the respondents indicated that

it had improved performance to a little extent while 8% reported that the strategies had improved performance to a moderate extent.

4.4 Strategic Management Practices and Competitive Advantage

This study here aimed to establish the extent to which the organizations adopted the various strategic management practices in order to achieve competitive advantage. The respondents were then asked to indicate to what extent their organizations adopted various strategic management practices to achieve competitive advantage, the result are shown in Figure 9.

To what extent has your organization adopted the various strategic management practices to achieve competitive advantage?					
	no extent	little extent	moderate extent	to a great extent	to a very great extent
1 Market strategy	0	0	11	25	14
2 Products reputation	0	3	5	13	29
3 Customers differentiation	0	6	11	15	18
4 Product pricing	0	0	3	14	33
5 Cost control	0	4	7	13	26
6 Technology	0	6	9	10	25
7 Quality of the product	0	3	6	14	27
8 Product and service innovations	4	8	9	20	9
9 Customer service	2	4	6	11	27
10 Extensive Advertising	3	5	20	12	10
	0	0	22	50	28
	0	6	10	26	58
	0	12	22	30	36
percentage	0	0	6	28	66
	0	8	14	26	52
	0	12	18	20	50
	0	6	12	28	54
	8	16	18	40	18
	4	8	12	22	54
	6	10	40	24	20

Table 10: To what extent has your organization adopted the various strategic management practices to achieve competitive advantage

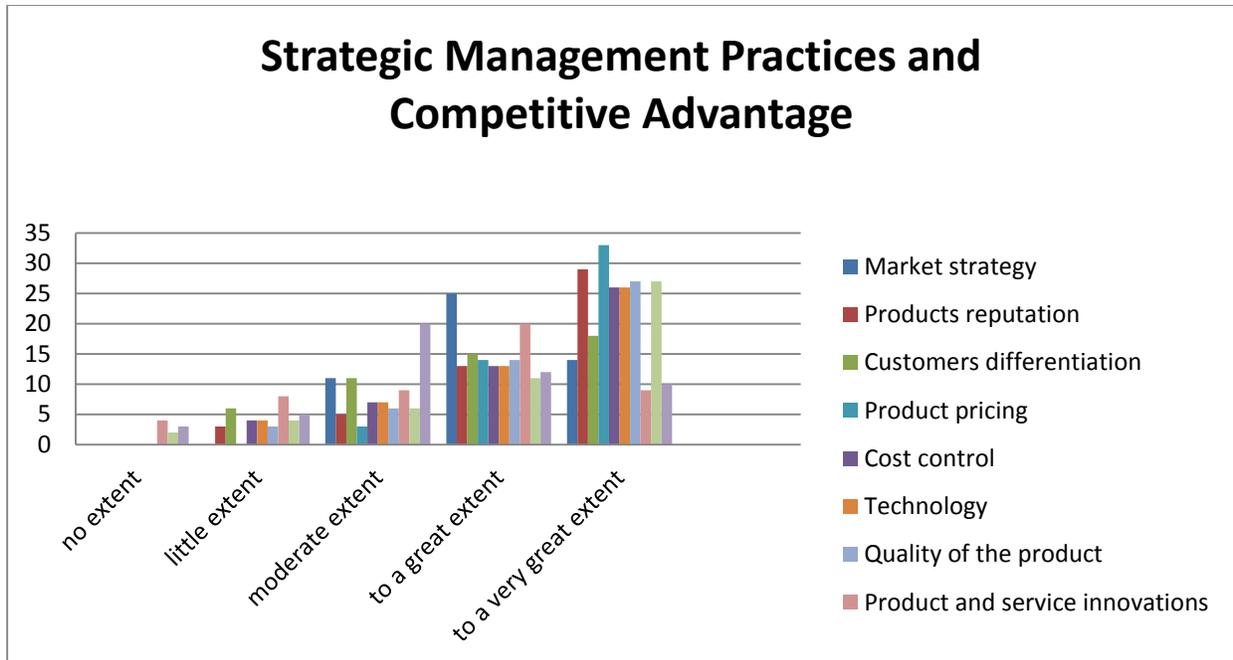


Figure 9: To what extent has your organization adopted the various strategic management practices to achieve competitive advantage

As shown in figure 9, 28% of the respondents indicated that they had adopted market strategy to a very great extent in order to achieve competitive advantage; 50% agreed to a great extent. 58% of the respondents further agreed to a very great extent while 26% agreed to a great extent that they had adopted strategies to enhance products reputation in order to achieve competitive advantage. On product pricing, 66% of the respondents agreed to a very great extent their organization had adopted this strategy while 54% of the respondents also agreed to a very great extent that they had adopted strategies to enhance quality of the products to achieve competitive advantage. Moreover, 36% revealed that their organization had adopted customer service strategies to a very great extent.

4.5 Discuss

The findings proved that strategic management practices allow organizations to compete and be efficient and effective. The managers who represent the Cyprus' SMEs reported that their firms had strategies in the last five years. Therefore strategic management has an interlinked relationship

with competitive advantage of the organizations. The majority of the SMEs adopted various strategies to a great extent in order to achieve competitive advantage. The findings showed that the external environment is a crucial aspect for the decision making of SMEs to adopt strategies. Managers agreed that external factors such as the economic situation, social factors, technology and competitive environment contributed to adoption of new strategies to a great extent.

According to the findings above it can be said that the internal environment of the organization also plays a crucial role to the firm's creation of new strategies; these factors depend on the top manager's ability to develop effective strategies, internal processes, firm's resources, organizations behavior and characteristics. On the influence of strategic management practices on performance of the SMEs, majority of the respondents agreed that internal factors affect the company's strategic decision making.

The findings also established that the majority of the respondents carried out external and internal analysis to know which strategies to adopt. Most of the respondents reported that strategies adopted by their organization had improved the performance of the business to a great extent. These strategies include market strategy, products reputation, customer differentiation, product pricing, cost control, technology, quality of the product, product and service innovations and customer service strategies.

Lastly the results of the organizations that were interviewed indicated that Strategic Management practices can enhance the performance and the Competitive advantage of SMEs in Cyprus.

CHAPTER 5 - CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The choice of a company's competitive strategy is concerned with choosing a favorable industry to operate is concerned with achieving profitability in the long term and which factors determine that, as well as establishing the factors that affect the company's position in the market. Competition is at the core of the success or failure of firms since it determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture and good implementation. Competitive strategy helps to search for a favorable competitive position in an industry, aims to establish a profitable and sustainable position against the forces that determine industry competition. Thus in order to succeed a company has to use more than one strategy or at least have a back up strategy in case the first one is a failure.

The purpose of this study was to find out how strategic management practices can be used as a competitive tool to enhance performance of SMEs in Cyprus.

This research indicated that the managerial approach is the expectation that it will help for the growth and development of Small and Medium size firms through strategic management which includes strategic-management activities, managers achieve a better operation of the organization.

The questionnaires proved that strategic management practices allow organizations to compete and to be efficient and effective. The majority of the respondents who represent the Cyprus' SMEs reported that their firms had strategies in the last five years.

In this research it was established that Strategic management has an interlinked relationship with competitive advantage of the organizations. The majority of the SMEs adopted various strategies to a great extent in order to achieve competitive advantage.

This study concludes that the external environment is a crucial aspect for the decision making of SMEs to adopt strategies. The majority of the respondents agreed that external factors such as the economic situation, social factors, technology and competitive environment contributed to adoption of new strategies to a great extent.

The study stated that the internal environment of the organization also plays a crucial role to the firm's creation of new strategies; these factors depend on the top manager's ability to develop effective strategies, internal processes, firm's resources, organizations behavior and characteristics. On the influence of strategic management practices on performance of the SMEs, majority of the respondents agreed that internal factors affect the company's strategic decision making.

The study established that the majority of the respondents carried out external and internal analysis to know which strategies to adopt. Most of the respondents reported that strategies adopted by their organization had improved the performance of the business to a great extent. These strategies include market strategy, products reputation, customer differentiation, product pricing, cost control, technology, quality of the product, product and service innovations and customer service strategies.

Both internal and external factors stimulate the initiation of a strategic decision as they are crucial factors for the operation of an organization. Lastly the results of the organizations that were interviewed indicated that Strategic Management practices can enhance the performance and the Competitive advantage of SMEs in Cyprus.

Several studies have found empirical support for the positive relationship between strategic planning and business performance. Baker (2003) executed a survey of 200 executives in five

food-processing industries to examine the relationship between formal strategic planning and financial performance. The study indicates positive results in terms of strategic planning and business performance.

Delmar and Shane (2003) note in a survey of 223 Swedish SMEs, the ability of strategic planning to facilitate the development of new ventures. The results show that by helping businesses to make decisions, strategic planning reduces the probability of business failure and accelerates the chances of new product development and new venture creation.

Sanchez and Marin (2005) examined 1 351 Spanish SMEs and linked strategic orientation to business performance. Furthermore, results in a study by Wilson and Eilertsen (2010) show the line managers' and staff professionals' perceived benefits of strategic planning during the 2009 financial crisis. The study mentions four major benefits. First, business organizations that utilized strategic planning during the financial crisis were better positioned to pursue growth opportunities during the crisis. Secondly, strategic planners were more confident about their future growth prospects than non strategic planners were. Thirdly, regular strategic planners were more prepared for the economic crisis and, therefore, were less affected by the crisis than non-regular planners were because they were prepared for it. Finally, businesses that employed strategic planning involved management in strategic planning and, as a result, achieved more revenue growth. The survey concluded that the use of strategic planning in decision-making enhances business success.

Similar findings about the positive impact of strategic planning on business performance are reported by other scholars such as McIlquham- Schmidt (2010), who employed a comprehensive meta-analysis procedure on 88 individual studies representing a total sample size of 32 472 observations. The study presents findings that suggest that strategic planning has a positive

influence on business performance. The study, however, points out that the positive relationship is weaker than the existing strategic management literature proclaims it to be. The results also showed that the effect of strategic planning on business performance is stronger when quantitative performance measures are used, as compared to qualitative measures. The conclusion provided by the study is that the determination of whether there is a relationship between strategic planning and business performance depends on the performance measure selected.

Another study by Efendioglu and Karabulut (2010) on the impact of strategic planning on financial performance of companies in Turkey highlights and reinforces the importance of strategic planning activities on business performance. The findings show that strategic planning had a positive and statistically significant impact on business performance. Strategic planning has a positively impact on SMEs' business performance.

5.2 Recommendations

The following recommendations for the practitioner were made based on the findings and conclusion of the study.

The Study established that external factors contributed to adoption of new strategies, it therefore recommended that appropriate external environment analysis and continuous review on the environment is conducted. Also strategic planners, strategic situation, strategic analysis and choice are put in place to accomplish the mission and objectives of the SMEs in the light of growth and profitability. The management also needs to have a positive rethink towards the use of strategic management and have the right resources as the success of a business or strategy depends primarily on the value judgment, energy and skill of its top managers and the strategic implementation within

the context and parameter of the uncertainty and ambiguity of the environment subjected to volatility.

The study further established that internal factors such as internal processes, top manager's ability to develop effective strategies, firm's resources, organizations behavior, therefore strategic training is recommended to top management and all employees in the SMEs in order to enhance their performance. Also it recommended that top management should undertake a comprehensive study and adoption of strategic management in all and every aspect and areas of its concern so as to synergies, restructure, re-engineer and reposition its operations and thus enhancing competitiveness and performance.

Adoption of strategic management practice is considered indispensable in small scale enterprises and especially in economies like Cyprus and it should form part of the SMEs method of improving organizational performance to enable them cope with the changes and challenges of the turbulent business environment and the global economy.

5.3 Research Questions

What is the influence of strategic management practices on performance of SMEs in Cyprus?

According the empirical findings, some common characteristics of strategic management of SMEs in Cyprus was found. Firstly, all company's decision making system seems centralized, in most occasion, the general managers make the final decisions. Secondly, all the companies have a clear vision and mission for the company; also they make sure all the employees within the organization know the company's objective. Thirdly, all of them use combination of formal and informal

structure during the strategic implementation process. Fourthly, they pay great attention to government's policy and change their strategies according to government's policy. The last but not the least, they all believed that strategic management can affect company performance from financial and non financial aspects.

What decisions and actions do managers adopt to ensure competitive advantage?

The crucial strategic management factors for firm's survival and growth in Cyprus are: understand the role of internal and external factors, and change their strategies according to external factors, examine the feasibility of strategy and build their competitive advantages through internal factors.

5.4 Suggestion for Further Research

The Methodology used in this study has limitations and the findings are not exhaustive; requiring further research. Further it will be interesting to have a full fledged study, that focuses on the precursors of each company impacting on their strategic management practices and establish the critical success factors for each of these firms.

The analysis of the empirical study has indicated a number of relevant issues that the thesis did not investigate, but which might be important for further research of strategic management in Cyprus SMEs.

Firstly, one should undertake a greater depth and broader range of research in order to uncover more detailed and comprehensive conclusions regarding the role of strategic management on SMEs performance. The study should involve more companies of Cyprus and explore the

characteristics of strategic management in order to obtain more holistic information about the awareness of strategic management in Cyprus SMEs.

Secondly, the study should be able to reveal and prove in detail how external and internal environment affect strategic making process. Further research should also pay more attention to the management style to obtain a deeper understanding regarding why similar companies took different action in the same or similar situation.

Finally, the further study should involve all the industries of SMEs in Cyprus. Moreover, one should undertake research in parallel industry in different cities in order to obtain more comparative conclusions.

"Without a strategy, an organization is like a ship without a rudder, going around in circles. It's like a tramp; it has no place to go." —Joel Ross and Michael Kami. Mercer L. J. (1991, p.159)

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APPENDICES

Appendix 1: Questionnaire

SECTION A: Demographic Information

1. What is your Age?

25 – 34 years () 35 – 44 years()

45 – 54 years () 55 and above()

2. What is your highest qualification achieved?

Diploma () Under Graduate Degree ()

Post Graduate () PhD ()

b). others (please specify.....)

3. How many years have this organization been in operation?

1 – 5 years () 6 – 10 years ()

11 – 15 years () 16 – 20 years ()

21 years and above ()

4. What is the size of your organization in terms of number of employees 1 - 25

employees () 26 - 50 employees ()

51-75 employees () 76-100 employees ()

Above 100 employees ()

SECTION B: Strategic Management Practices on performance of SMEs

5. Have you adopted any strategies for your organization in the last five years?

Yes () No ()

6.To what extent has the following external factors contributed to your business adoption of

new strategies. Use a scale of 1-5 where 1 is to no extent, 2- Little extent, 3- Moderate extent, 4- To a great extent and 5 to a very great extent.

Factors	1	2	3	4	5
Political					
Economic					
Social					
Technology/ information systems					
Competition					
Others:.....					

7. Which internal factors have influenced your organization adoption of new strategies?

.....

8.To what extent has your organization adopted the various strategic management practices to achieve competitive advantage? 1 is to no extent, 2- Little extent, 3- Moderate extent, 4- To a great extent and 5 to a very great extent.

Strategies	1	2	3	4	5
Market strategy					
Products reputation					
Customers differentiation					
Product pricing					
Cost control					
Technology					
Quality of the product					
Product and service innovations					

Customer service					
Extensive Advertising					

b).Specify other strategies that your organizations have adopted

.....

9. To what extent do you agree with the following statements on strategic management practices and performance? Use a scale of 1-5 where 1 is strongly disagree, 2- disagree, 3- Neutral, 4- Agree and 5 strongly agree.

Statements	1	2	3	4	5
Internal factors affect the company’ s strategic decision making					
External factors affect the company’ s strategic decision making					
Our organization adopts new strategies to achieve competitive advantage					
The company do the external analysis and internal analysis to know the strategies to adopt					

Strategy management affects company' s performance					
--	--	--	--	--	--

10. On overall, to what extent has the strategies adopted by your organization improved the performance of your business?

To no extent () To a Little extent () Moderate extent ()

To a great extent () To a very great extent ()