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Business opportunities in recession

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BUSINESS OPPORTUNITIES IN RECESSION

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Abstract

This dissertation examines the extent to which certain business sectors of the Cypriot economy could offer, in the midst of the country's worst recession, important business opportunities. A recession normally is associated with a reduced customer base for companies and increased pessimism, but it is especially conductive for new entrepreneurial start-ups (Aggarwal, 2013). Further, a recession forces companies to reorganize their operations either by following traditional cost-cutting practices or incurring higher costs to maintain the existing capacity in order to be well placed when the recession ends (Michael and Robbins, 1998).

The results of the study have been derived from the processing of 64 questionnaires, filled in by top business executives, employed in various, Nicosia-headquartered, Cypriot firms in 2013. According to the Cypriot managers, the most promising sector for business opportunities in Cyprus are the *discount stores* sector, the *home maintenance* sector, the *consulting sector*, and the *auto-repair sectors*, while the least promising sector is the *rental agents and property management* sector. A logistic regression is then used to test the robustness of these results for the effect of sex, age, and the amount of managerial experience of the respondent.

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CHAPTER 1: INTRODUCTION

The economic crisis that culminated in Cyprus in 2012, with the official request on the part of the Cypriot government for a bailout package, was the greatest economic crisis ever experienced by the Republic of Cyprus. With no doubt, the main cause of the crisis was the very high credit exposure of the oversized (due to low corporate tax rate and the influx of Russian depositors) Cypriot banking system to Greek sovereign bonds, which were restructured in the spring of 2012 as a result of the *Greek debt crisis*. Secondary reasons for the crisis had to do with bad banking practices followed by the Cypriot bankers; these involved practices such as the exposure of the Cypriot banking system to overleveraged local property companies (Cypriot property bubble), inefficient loan-loss recognition, and cross-collateralization across loans. These two events led to the downgrading of the Cypriot government to junk status, which, in turn, made the financing of state expenses from the international markets extremely difficult.

After the haircut on the Greek bonds, the exposure of Cypriot banks to these bonds reached €22 bn, an amount greater than the gross domestic product of the country (Hadjipapas, 2011). In 2011, Cyprus received a five-year, 4.5%, loan of EUR 2.5 billion from Russia (Reuters, 2013), but this sum was insufficient to meet the borrowing needs of Cypriot republic; it just bought time for the then-reluctant government to take the necessary measures. So, the ensuing EUR 10 billion bailout (Kambas, 2013) package negotiated with the Troika lenders was a natural development in the course of events.

The onset of the recent banking crisis in Cyprus with the Troika-imposed mandatory downsizing of the domestic banking sector (Eurogroup Statement on Cyprus, 2013, p.1), which at March 2012 was worth 8 times the country's GDP (Cyprus Financial Assistance Programme, 2013, p.8), signaled the end of the Cypriot production model, which was mainly based on the provision of banking services to a wide clientele; the banking system was so concentrated that only two banks, Bank of Cyprus and Laiki Bank, held about half of the sector's assets. Further, the state can no longer be seen as the major customer of the private sector (government expenses, like the wage of public employees, have to be reduced), while the strategy of developing close relations with politicians and political parties as a key element for business success has (or is tending to) become obsolete. At the same time, under EU pressure, restrictions (imposed by The Enforcement of Restrictive Measures on Transactions in case of Emergency

Law of 2013 and the various decrees issued pursuant to the said law) on entrepreneurship are gradually being removed, and this, in conjunction with the reduced protectionism for specific pressure groups, increases the scope for competition in the product and labor market. So despite the economic downturn, and the resulting lack of bank financing, the prospects for young and established entrepreneurs are promising.

But the new looming entrepreneurship model can no longer be based on the development of relationships and access to privileged information. Rather, it must be based on innovation, and it must create value in a competitive environment, thus contributing in this way to better use of economy's resources.

1.1 AIM AND OBJECTIVES

In the wake of the Cypriot economic crisis that threw the economy deep in recession, the aim of this dissertation is to examine, according to the opinions of Cypriot business managers, if Cyprus still offers great opportunities for entrepreneurs (new and established one), and if yes which business sectors are the most cherished ones.

The dissertation's objectives are to examine the rankings given to each sector by the respondent; (b) to see if there are any differences in ranking given the respondent's sex, age, and managerial experience.

1.2 BAGROUND TO THE STUDY

1.2.1 The Phases of Entrepreneurship

Entrepreneurship is a process comprising four different phases (Xavier *et al.*, 2012), as shown in Fig.1.

The first phase, *Phase 1* of the entrepreneurship process begins with the involvement of *potential entrepreneurs,* i.e. those individuals who *believe* they possess the capabilities to start a new business, spot new business opportunities, and would not be dissuaded from doing so by fear of failing. For some potential entrepreneurs, their intentions to start businesses are underpinned by the perceptions society holds of entrepreneurs, the status these individuals enjoy in their society, and whether the media positively represents entrepreneurs (Xavier *et al.*, 2012).

Phase 2 of the entrepreneurship process involves the *nascent entrepreneurial activity*, (Xavier *et al.*, 2012) namely those starting new enterprises less than three months old. Given the challenges associated with starting a new business, many fledgling businesses fail in the first few months, hence not all nascent entrepreneurs' progress to the next stage of new business owners. Phase 3 involves the *new business owners* (Xavier *et al.*, 2012)**,** that is, former nascent entrepreneurs who have been in business for more than three months, but less than 3.5 years.

Nascent and new business owners together account for the *Total Early-stage Entrepreneurial Activity* (TEA) in an economy (Xavier *et al.*, 2012: 13). Indeed, GEM's primary measure of entrepreneurship is the *TEA Index*, which reports the incidence of start-up businesses (nascent entrepreneurs) and new firms (up to 3.5 years old) in the adult population (i.e. individuals aged 18–64 years (Xavier *et al.*, 2012: 14).

Finally, in *Phase 4* of the entrepreneurial process, one can find *established businesses***,** that is, companies that have been in existence for more than 3.5 years; some of these companies may discontinue or exit their current state.

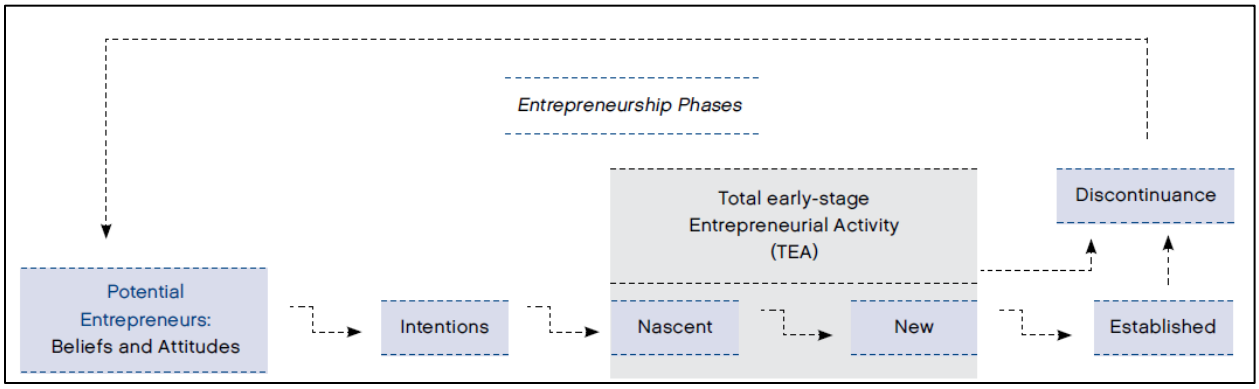

Figure 1: The Entrepreneurship Phases

Source: (Xavier *et al.*, 2012)

Note it is not necessary that one phase inevitably leads to the next. For example, an economy may have a large number of potential entrepreneurs but this may not necessarily translate into a high rate of entrepreneurial activity. Therefore, the arrows that connect the different phases are not straight lines (Fig. 1)

1.2.2 The Financial Crisis of 2007 and the Greek Debt Crisis

As it was argued previously, the Cypriot economic crisis was triggered by the Greek public debt crisis, which, in turn, it was exacerbated by the global financial crisis of the 2007. Hence there is a need to examine very briefly the underlying causes of the global financial crisis and the Greek debt crisis.

The Global Financial Crisis of 2007

The current financial crisis, which begun in the summer of 2007, is attributed to a number of interrelated causes: the low interest-rates in the aftermath of the 2000 dotcom crisis, the ballooning of the US housing market and the proliferation of the mortgages to subprime borrowers, the miscalculation of risk by rational investors who decided to invested in structured financial products based on the subprime loans, the highly (and short-term) leveraged investment banks, and the insufficiency of regulators.

According to Beori and Guiso (2008) the seeds of the credit boom, and the subsequent collapse of the property market, can be traced to the cut in short-term interest rates (i.e. the federal funds target rates) in response to the 9/11 attacks and the dotcom bubble. As Fig.2 shows, short-term interest rates were kept low after the aggressive interest rates cuts initiated by the Fed in the wake of the 2000 dot.com crisis.

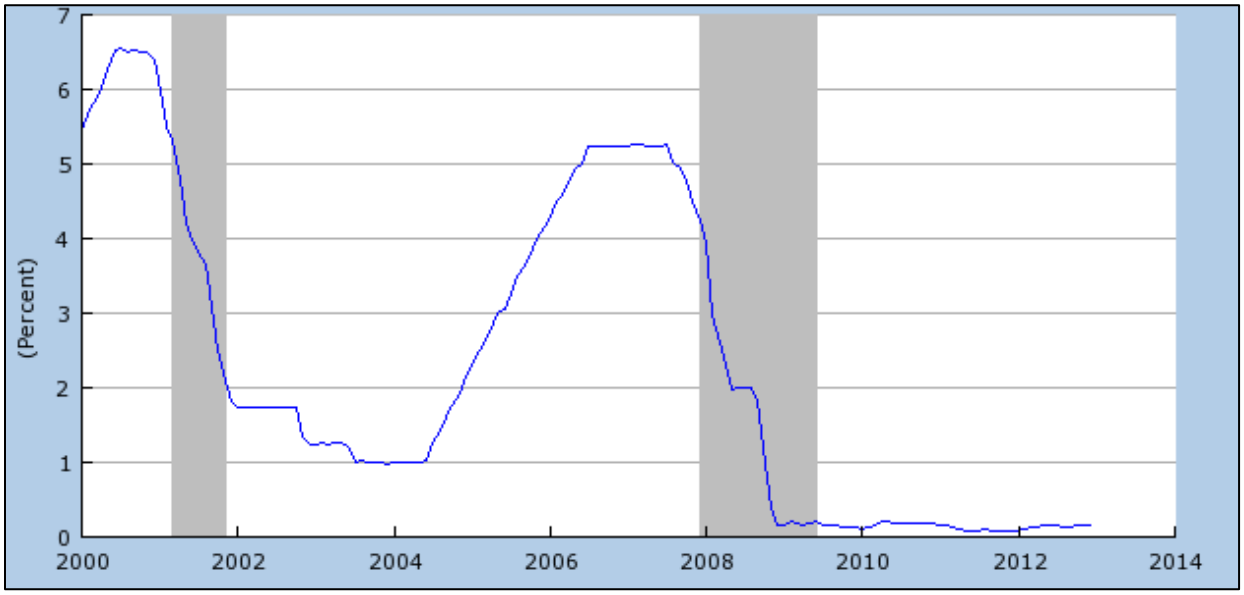

Figure 2: The Federal Funds Rate

Source: Federal Reserve Bank of St. Louis[1]
Note: Shaded areas represent US recessions

Also, over the last 5 years, long term real interest rates reached quite low levels, relative to the last two decades, in the aftermath of the collapse in investment in both emerging markets and developed countries after the crises in 1998 and the ICT bubble in 2001 (Kashyap *et al.*, 2008)**.**

The lax lending conditions in the US were a major contributor to the creation of the crisis. These conditions were the outcome of low interest rates (both short-term and long-term rates), the ability to securitize loans, the reduction in the perception of risk created easy credit conditions for a number of years prior to the crisis.

Later, however, as interest rates picked up, an increasing number of subprime borrowers started defaulting on their mortgage payments. The decline in mortgage payments also reduced the value of *mortgage-backed securities*, which in turn eroded the net worth of banks (Allen and Carletti, 2008). These losses sparked a widespread loss of confidence in banks and other financial intermediaries, as investors suddenly became much less willing to bear credit risks, and, by mid-2007, they had started to retreat from structured credit products, like mortgage-backed securities (Allen and Carletti, 2008). The banks decided, in the first place, to extent credit to subprime borrowers because, through securitization, they were able to part with the risk of default, thereby reducing the incentives to look carefully at their borrowers' credit records.

Each one of the aforementioned underlying factors of the crisis could not trigger itself the big crisis, but it was the combined effect that set the process in motion and led to a vicious circle of bankruptcies and falling prices of financial assets in the US; this later spread worldwide, mainly in Europe, in European banks that had been exposed to the American risks. Panic and fear ensued, and as a result capital and money markets were clogged.

But the low level of interest rates was not only the result of policy making on the part of the Fed. According to Kashyap *et al.* (2008), the worldwide excess of desired savings over actual investment – the so called savings glut resulted in low levels of real interest rates. In theory, low real interest rates imply too much saving (traditionally done by households) relative to the amount people want to invest (traditionally undertaken by firms). A major contributor to this global savings glut was the accumulation of foreign exchange reserves by China (Fig. 3).

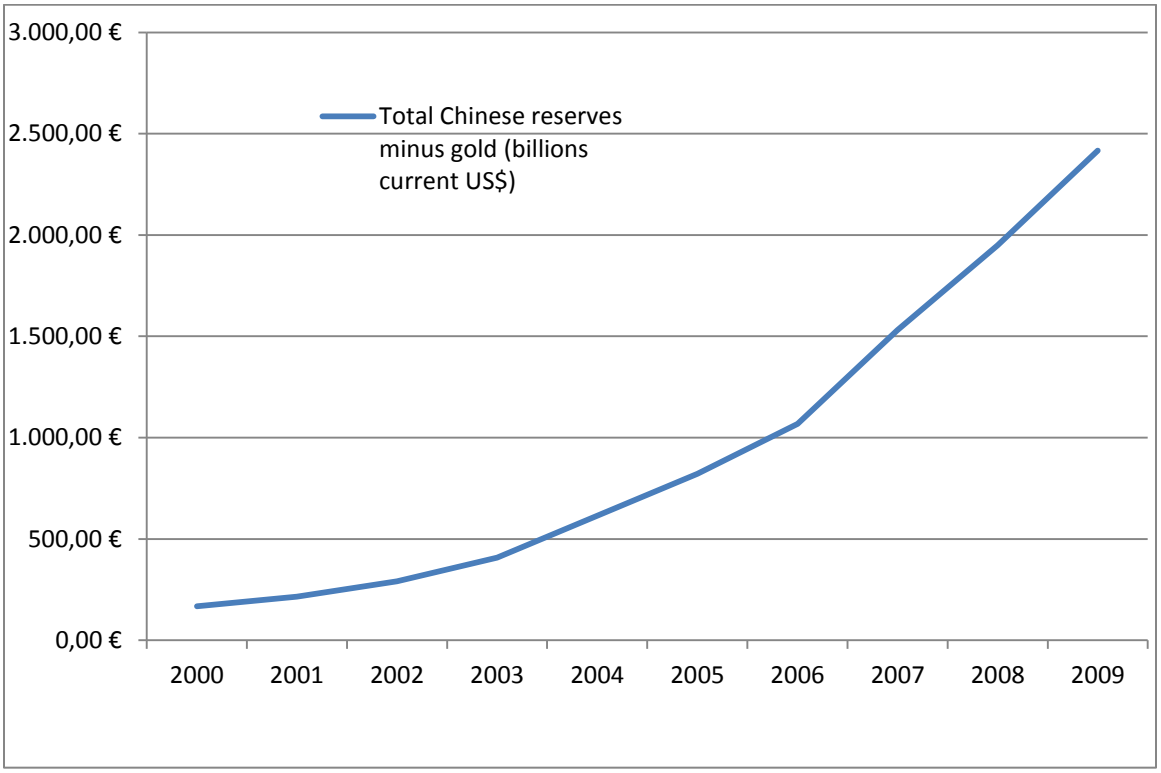

Figure 3: The Chinese Foreign Currency Reserves (in $bn)

Source: World Bank Data Base

China built an enormous stock of foreign exchange reserves, as Fig.3 shows, for three reasons. The first had to do with the big surpluses in the current account of the balance of payments. Indeed, for the last thirty years China achieved an exceptional growth record by relying on its exports of industrial goods to the US. These exports led to enormous surpluses in the Chinese trade balance and to an accumulation of foreign currency reserves. The second reason involved the significant capital inflows (in the Chinese economy) for foreign direct investments (FDI) and *portfolio investments*. The third reason had to do with the exchange rate policy followed by the Chinese. Specifically, as the surpluses in the current account and the massive capital inflows in China started exerting appreciation pressures on the Yuan (since there was a surge in demand for the Chinese currency), the Central Bank of China had two options: it could let the Yuan to appreciate or it could absorb the excess supply of foreign currency by giving foreign investors the domestic currency they needed; the latter option (which is what China chose) however results in rapid accumulation of foreign exchange (mostly dollars). At the same time the Chinese authorities did not relax the restrictions on capital outflows thus allowing

their citizens to hold (if they wish) any amount of foreign financial assets (like stocks, bonds, or bank deposits); this policy measure would result in an increase the supply of Yuan (from the Chinese citizens and not from the Central Bank), and in turn it could offset part of the increase in the demand for the Chinese currency without the Central Bank having to build up an enormous stock of foreign assets (The Economist, 2006, p.74).

So, a global savings glut and the Chinese appetite for American assets (The Economist, 2006, p.74) kept the longer-term rates at bay. Note a savings glut is possible even when the saving rate is falling, so long investment demand, is falling even faster. This has been most pronounced and long-lasting in Japan, where corporate saving soared after the bubble economy collapsed in the early 1990s (The Economist, 2005, p.73). Burdened with bad debts after a period of massive overinvestment, Japanese firms have been net savers for a decade. The only exception to the above has been China, where investment has been rising sharply, but savings have still been growing faster (The Economist, 2005, p.73).

The financial crisis was transmitted to the real economy when banks, lacking capital and liquidity, reduced their credit to companies and the households. In the fourth quarter of 2008, after the collapse of Lehman Brothers the international trade took a hit, and the economies of all countries were influenced, irrespective of the economic policy they followed in the past, since all economies were to greater or a smaller extent were interlinked.

The fiscal and monetary authorities reacted immediately without repeating the errors of the 1930's. Specifically, the central banks reduced their policy interest rate and devised new ways of providing liquidity to the system. Governments for their part increased the lower minimum limit in state guarantees for the bank deposits, provided rescue packages to financial institutions that were deemed "too-big-to-fail, and, in general following the (failed - judging by the Japanese experience) Keynesian traditional recipe for fighting recessions, they increased the budget deficits. Deficit spending may shore up aggregate demand in the short run, but it is more likely to be detrimental in the medium term. This is the case when the crowding out and the Ricardian Equivalence Principle set in motion. That is, on the one hand, the financing of budget deficits crowds out private investments, which could otherwise grow the economy out of the recession on a more permanent basis, and other the other hand (assuming that households' spending habits are influenced by changes in *permanent income)*, the expectation of higher taxes in the future

(need to service the accumulation of public debt) increase private savings now, and thus reduce consumption.

The Greek Debt Crisis

Greece faced a solvency problem, as the (consolidated) debt of the general government was 127.5% of GDP at the end of 2009. This resulted in punitive cost of borrowing for the Greek state and in a call for foreign agencies to help Greece deal with its problems. The Greek debt crisis typically set off in in May 2010, when the markets realized that Greece faced an acute funding problem. The problem was addressed by an official rescue package from the euro area and the IMF of €110 billion to make up for the lost funding from the capital markets, which were demanding high interest rates from the Greek state.

1.2.3 Basic Facts about the Cypriot Economy

Economic activity in Cyprus significantly dropped in 2012, when real GDP contracted by 2.4% (Table 1-1). This was the result of a marked contraction in aggregate demand because of falling domestic consumption and private investment. The current-account balance remained in a dire state because of the deterioration of the investment income balance stemming from developments in the financial sector, particularly through its financial activities in Greece.

Despite the sizeable fiscal consolidation implemented in 2012, the budget remained in deficit, as the tax intake stagnated due to less tax-rich growth, lower corporate profitability and deteriorating labour market conditions. Expenditure reduction was lower than expected, in particular due to the increased number of early retirements and growing unemployment albeit investments were being reduced. The debt-to-GDP ratio reached 86.5% in 2012, due to the deficit, nominal GDP developments, and the participation in a bank recapitalization.

	2009	2010	2011	2012
Population ('000)	819.1	840	862.0	877
Nominal GDP (€ mn)	16,853	17,406	17,979	17,887
GDP per capita (€)	20,576	20,726	20,858	20,404
Real GDP growth (%)	-1.9	1.3	0.5	-2.4
Inflation rate (%)	0.3	2.4	3.3	2.4
Budget balance, accruals basis (% of GDP)	0.9	-5.3	-6.3	-5.1
Public debt (% of GDP)	58.5	61.3	71.1	85.6
Current -account balance (% of GDP)	-10.7	-9.8	-4.7	-11.7
Tourism arrivals	2,141,193	2,172,998	2,392,313	2,464,903
Exports of goods (€ mn)	1,001	1,137	1,411	1,439
Imports of goods (€ mn)	-5,293	-5,801	-5,760	-5,291
Trade balance (€ mn)	-4,292	-4,664	-4,349	-3,853
Services balance (€ mn)	3,363	3,583	3,585	3,404
Exports of services (€ mn)	5,779	6,049	6,262	6,168
of which:				
Travel	1,561	1,614	1,846	2,024
Transport	1,541	1,447	1,509	1,463
Financial services	807	820	659	505
"Other" business services	1,423	1,808	1,921	1,906
Imports of services (€ mn)	-2,416	-2,467	-2,676	-2,765
Inward foreign direct investment (€ mn)	2,499	578	987	660

Table 1-1: Main Economic Indicators for Cyprus
Source: Central Bank of Cyprus; Ministry of Finance; Eurostat.

CHAPTER 2: LITERATURE REVIEW

2.1 The Responses of Firms during a Recession and the Benefits of it

Normally, a recession forces companies to make one selection from two available choices (Michael and Robbins, 1998), and the choice to be made is of utmost importance since a healthy economic recovery is mainly based the growth of small businesses and entrepreneurship (Matlay, 2012; Rae, 2010).

The first choice involves the traditional cost-cutting practices (i.e. workforce downsizing, product variety reduction, wage pay freezes) in order to ensure a short-run survival, but at the expense of diminishing the company's productive capacity, which, presumably, will have to increase when recovery sets in (Michael and Robbins, 1998). There could be many justifications for cost cutting during a recession.

When the economy of a country is thrown into a recession it may seem not an ideal opportunity to start a new business, since an economic downturn is associated with a number of drawbacks for the economy (see Hurlbert, 2007). The first and the most important is that a high (or low) level of unemployment (or employment) dents consumer demand, which is the driving force behind any developed country's economy. A further weakening of consumer demand comes from difficulties, or delays, of companies in paying their wage bills; so even those who still have jobs during a recession, they may reduce their consumption spending because of the cash flow problems they may face, and because of low consumer confidence. The negative effect of a recession on consumer demand is further strengthened by the presence of tight credit markets, which make it impossible for people to borrow money to make up their income shortage.

The second choice involves incurring higher costs in the short-run in order to maintain the existing capacity, which apparently will be used when recovery comes. Undoubtedly, decisions taken during recession will shape future capabilities and profitability of companies as the economy emerges from recession.

A recession, despite the reduced customer base it creates for businesses, could offer a number of benefits for starting new businesses, or even developing existing ones, and the economy as a whole.

To begin with, a recession implies lower opportunity costs for any new entrepreneurial beginning. Though starting a business may mean quitting a secure and lucrative job in times of boom, the alternative for the unemployed may be less risky. Recessions also change the way in which businesses operate, clients consume, and competitors compete, all of which can be advantageous to a new business.

Also, recessions are especially conducive for the setting up of start-ups (Aggarwal, 2013). The reason has as follows. First, consumers, during a recession, are likely to loosen their brand loyalties, as they shop around for cheaper alternatives, and this presents a unique opportunity for new companies to expand or enter into the fields of the old companies. Second, companies also are likely to find innovative ways to reduce costs, instead of just spending money for convenient but more expensive solutions. In boom times when credit is loose, it may be easier to obtain funding for an "off-the-wall idea", but in an economic downturn, entrepreneurs are forced to refine their thinking and develop more solid business plans for the future (Aggarwal, 2013).

Moreover, start-up companies are also more likely to have a more committed start-up team to work with, as employees are more committed to the companies' success. Most importantly, there is an urgent need for new ideas and solution to address critical requirements in the marketplace. Finally, during a recession all companies have at their disposal a wider pool of job applicants to choose from, as unemployment soars. (Rae, 2010) presented evidence that indeed start-ups tend to rise during recession, the author attributed this increase to necessity entrepreneurship, which results when companies downsize and workforce is released from paid employment.

But what is the actual response of firms during a recession? This question must be considered in light of the fact that recessions triggered by financial crises affect the small businesses disproportionally (Chow and Dunkelburg, 2011), presumably because of the restricted access to bank credit, the main source of finance for most small businesses. At the same time, during a recession, small firms are seen as a far bigger investment risk compared with their larger peer companies (Shanin *et al.,* 2011).

Kitching *et al.* (2011) examined how the responses of London-based small firms, employing fewer than 250 employees (the overwhelming majority employed less than 10 employees), to the 2008-9 recession affected their post-recession performance in 2010-11. The authors drew on primary data, derived from an online/mail survey (conducted during the period January-March

2011) of 221 small business owners, and face-to-face/telephone interviews with (conducted during the period March-May 2011) 28 owners. The respondents were asked whether their firm, during the recession of 2008-2009, headed for cost cutting ("cost-cutters") or for income generation ("revenue-generators").

The results showed that there was a somewhat substantial difference in sales; almost 53% of revenue-generators landed in 2010 higher sales compared with just 44% of cost-cutters. However profit margin performance in 2010 was different; just 44% of revenue-generators had in 2010 higher profit margin compared with 42% of cost-cutters. So, revenue generation did not help firms to achieve higher profit margins in the post-recession year of 2010. Also, the authors found that there was a significant relation between actions taken prior to the recession and actions taken after the recession. So, cost-cutting actions taken during the period 2008-9 were likely to be followed by the same actions in 2010.

2.2 Notable Companies that were Born or Grew during a Recession

Many well-known companies have started their business activities amid a recession. Procter & Gamble was founded, in Cincinnati, as a small household-goods business, during the panic of 1837, by William Procter, a candle maker and James Gamble, a soap maker (Maltby, 2013). The company survived the greatest economic decline since the birth of US, triggered by a wave of bank failures[1], went on to score lucrative contracts to supply necessities to the Union Army during the Civil War (Maltby, 2013).

The panic of 1873 churned out two notable companies. The first was General Electric Co., which began operations in the aftermath of the panic of 1873, when the collapse of Jay Cooke & Co., an investment firm, caused the NYSE to shut down for a number of days (CNN, 2013). The ensuing recession lasted for six years, with the economic conditions remaining dire well into 1896. Three years after the onset of the panic, in 1876, Thomas Edison set up a facility in Menlo Park, N.J., where, in 1879, produced the first light bulb and 20 years later, he started a company he called "Edison General Electric Company." (CNN, 2013)

[1] The Coinage Act of 1873 demonetized silver, pushing investors away from making long-term loans and U.S. banks collapsed.

The second was IBM, founded during the depression of 1873-1896 (CNN, 2013b). The company in its constituent components included three start-ups - the *Tabulating Machine Company*, the *International Time Recording Company* and the *Computing Scale Corporation* – which produced much-needed technologies during that time. For example, the developed the time clock for recording the hours employees work, and the *tabulating machine* to tally up the expanding population (a innovation of great importance during immigration wave). These three companies merged in 1911 as the Computing-Tabulating-Recording Company, which changed its name to IBM several years later (CNN, 2013b).

General Motors (GM) was founded during the panic of 1907 (that caused the failure of trusts and banking institution) by William Durant, a leading manufacturer of horse-drawn vehicles, who in trying to exploit a new technology called the automobile founded GM on Sept. 16, 1908 in Flint, Mich. (CNN, 2013c).

Another example is that of Hewlett Packard, which was born out of the Great Depression (Aggarwal, 2013) Some more recent examples include Microsoft Co., which started in the 1970s, and Sun Microsystems, Compaq Computer Co., and Adobe Systems Inc., that began operations in the 1980s' recession (Aggarwal, 2013). In fact 16 of the 30 companies that make up the Dow industrial average begun in the middle of a recession (Aggarwal, 2013).

Further, other, also well-known, companies expanded during a recession. For example, McDonald's continued to grow in the 1970s downturn even though restaurants generally suffered as people cooked rather than going out to eat. Likewise, Toyota was opening new American plants during the downturn of 1990s, when the America's "Big Three" were closing their plants due to falling car sales.

2.3 Hopeful Businesses Opportunities in a Recession

This section suggests some presumably hopeful business opportunities that may arise in a recession. The basic line of reasoning in suggesting such lines of business are to think of what consumer needs may emerge in a recessionary environment (Hurlbert, 2007). For example, since during recession unemployment increases dramatically and unemployed people need assistance in finding new jobs, an entrepreneur could consider starting an *employment agency*, a job skills training program, or a resume-writing service.

In what follows, we consider in more detail some business opportunities arising for entrepreneurs during a recession. These opportunities can be found in sectors, which, according to the author, are expected to benefit from a recessionary environment, or, at least, not to be seriously impacted by the downturn. The most anticyclical sector of the economy, which is of course the food sector (see Simons (2009), is excluded from the discussion, since its value added in a small market cannot significant profit potential.

Accountants

Even during recession, both households and businesses have to pay taxes and keep their finances in order. And it could easily be argued that during a recession it is more important to keep accounting concerns in check. Further, since many people and small businesses may require the help of an accounting professional to ensure they are take advantage of all the tax benefits available to them. At the very worst, some business may require the services of an accountant if they're forced to file for bankruptcy.

For all the above reasons, accountants are very likely to experience an increase in the demand for their business during a recession.

Healthcare Providers

Even during recession, people get sick. For this reason, the healthcare industry isn't likely to experience the same level of cuts or job losses as in other industries because many people will still require this service regardless of economic conditions.

Approximately 60,000 health travellers visited Cyprus in 2010, with the overwhelming majority coming from the UK, followed by Germany, Israel the Middle East, Sweden and Italy (Cyprus Profile, 2013). The EU Cross Border Healthcare Directive, approved in 2011, has resulted in an increase of individuals looking for alternative health tourism destinations. Cyprus has been promoting the development of this sector and offers opportunities for partnerships between private companies and local government. Several investment opportunities exist to build and transfer or operate centres offering care in fields including pathology, general chirurgical, heart operation, plastic chirurgical, ophthalmology, gastroenterology, paediatrics, otorhinolaryngology, obstetrics and gynaecology, urology and orthopaedics. Particular interest has been shown in centres providing specialised services from cardiac surgery interventions,

kidney transplants and renal insufficiency care to oncology services, surgical remedial or aesthetic surgeries and neurosurgery. There is also good scope for the establishment of rehabilitative services for patients with mental and respiratory problems as well as for people who need long recovery after surgery. Other areas of opportunity include the provision of preventive and diagnostic tests and dental treatments.

Auto Repair and Maintenance

During tougher economic times, people are far less likely to purchase new cars, as they are more likely to go for the choice of repairing their old car. Because of this, auto repair and maintenance shops can rake in the cash during times of recession when people are more likely to fork over a few hundred dollars for repairs than pay larger monthly sums toward a car loan.

Home Maintenance Stores (Not Builders)

Similar to the decision to repair car rather than replacing it, many people will choose to repair things in their homes rather than purchasing new ones. For example, instead of replacing the dishwasher, one may choose to have it repaired. Further, companies in the business of providing tools and materials for do-it-yourself (DIY) projects are likely to see an increase during recession, as will many appliance or home repair service people.

Rental Agents and Property Management Companies

Individuals who may not afford a new home during recession, or who were forced to sell their property for economic reasons still need a place to live. These individuals will likely turn to renting if they don't have other options available to them. So, rental agents, and property management companies can thrive during recession, when renting is likely to become a more appealing option to those who are unable to take on a mortgage.

Grocery Stores

When people don't want to pay a premium for restaurant food, they're more likely to start preparing meals at home. Rather than having social gatherings and parties in restaurants or bars, people may start to host home parties instead. For this reason, grocery stores will often see an increase in sales as people choose to cook more meals at home.

Outsourcing

In discussing the prospects of outsourcing, KPMG's report on the state of outsourcing industry in 2013 will be considered. The survey was conducted between December 2012 and February 2013. According to this report, the outsourcing plans are dominated by IT and Finance & Accounting administrative processes (KPMG, 2013). Fig.4 presents the business drivers behind the companies' outsourcing decision making. For enterprises, the main incentive of outsourcing processes is cost reduction (87%), greater scale of operations (82%) and process standardization (74%). Also, when they decide to outsource, companies focus on accessing better talent (70%) and gaining access to better technology (62%).

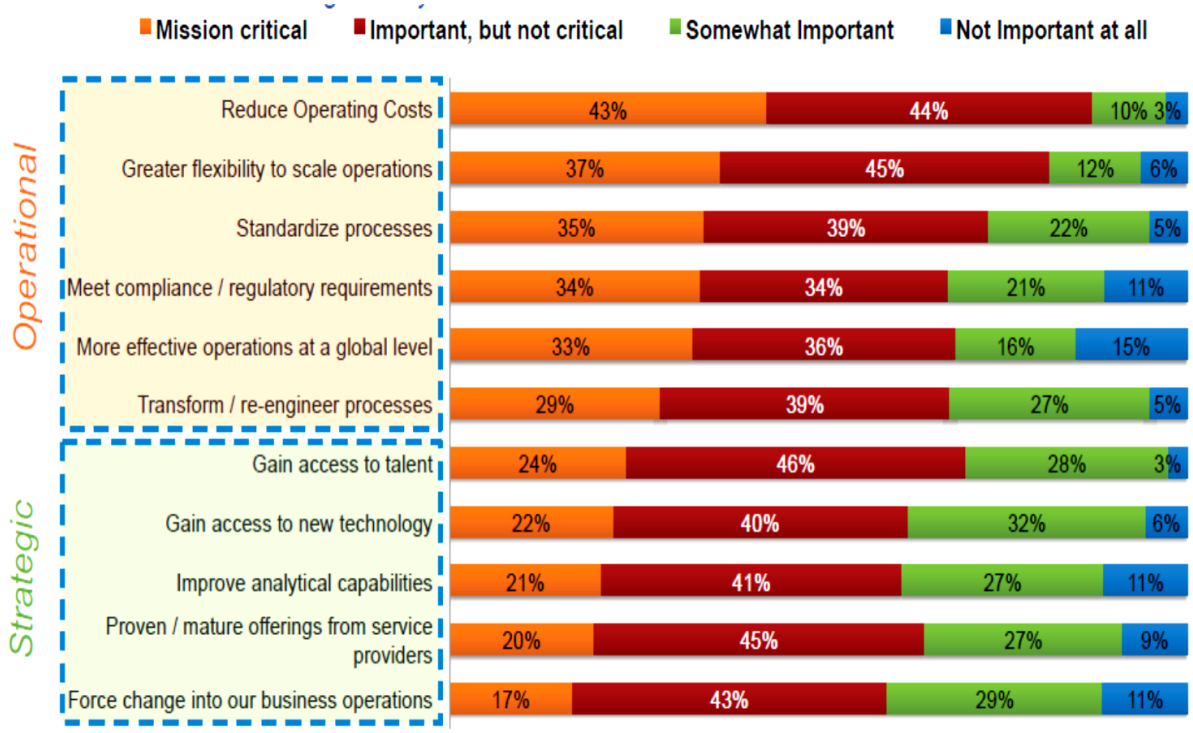

Figure 4: The Drivers of Outsourcing: Shows the importance's of outsourcing regarding KPMG which is one of the big four audit and accounting firm.

Source: KPMG (2013)

When it comes to the intentions to increase or decrease the outsourcing activity in the next 12 month, almost 50% of companies plan to start/expand outsourcing activity in the area of Application Development & Maintenance, and about 40% in the area of Financial and Accounting (Fig.5)

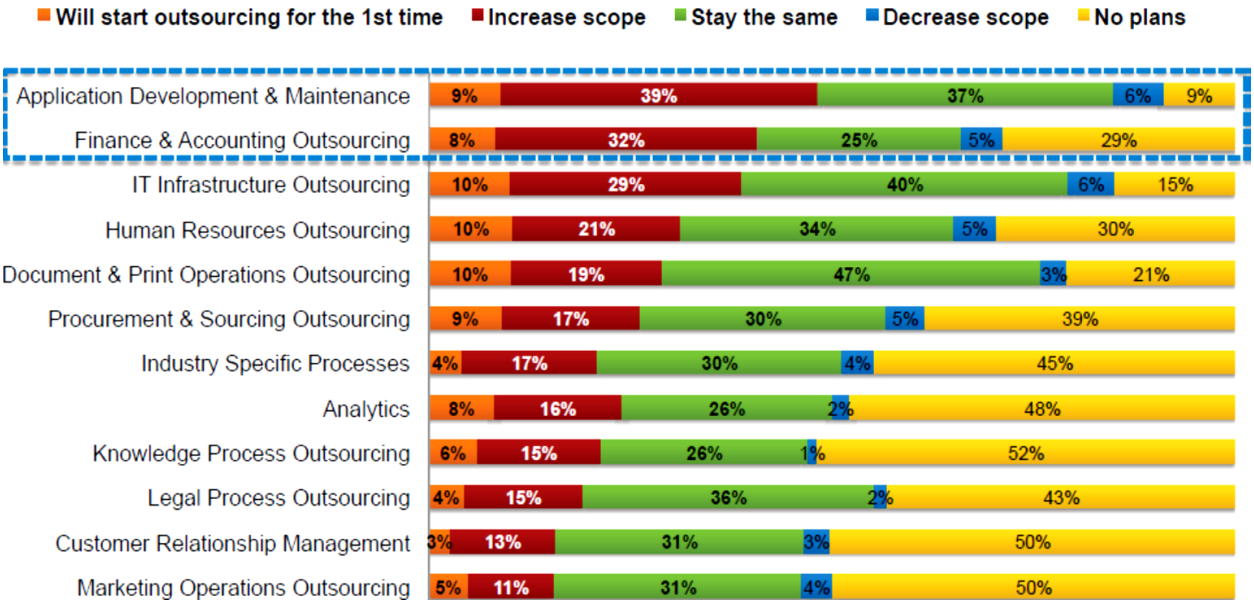

Figure 5: How Likely is to Expand the Outsourcing Activity?

Source: KPMG (2013)

Consulting

The consultancy business offers a variety of services to start-ups as well as existing businesses, in order to increase their profitability and to achieve their goals.

There are three basic categories of consultancy services that can be offered. The first category involves the provision of business services, such as business planning and analysis, pricing and cost reduction policies, business support, corporate recovery services and project and client management. The second category involves the provision of marketing services, such as marketing consultancy, and social marketing consultancy and training. The third category involves the provision of financial services, such as stock valuation, feasibility studies, cash and banking checks, stock management control, and cash management.

Energy Sector

Cyprus offers great investment opportunities in the energy sector, and more particularly, in the subsectors of Oil and Gas, and the Renewable Energy sector.

In the *Oil and Gas sub-sector*, the main pole of attraction for prospective investments is the deep-water natural gas reserves located in the Cyprus Exclusive Economic Zone (EEZ). US-based Noble Energy has estimated natural gas reserves in just one of the 12 offshore licensing blocks at between 5 and 8 trillion cubic feet, enough to allow Cyprus to become a gas exporter. Noble begun drilling in June 2013 and further exploration is due to start in 2014 by global oil and gas giants Total, Eni and Kogas, which won licences for five other blocks in early 2013. With the energy developments in neighbouring countries, the prospects may be there for Cyprus to become an energy hub in the Eastern Mediterranean. For the time being, exploration licenses have been granted for 6 offshore blocks within Cyprus' EEZ to 3 internationally renowned oil & gas companies and their partners (Invest Cyprus, 2013).

When it comes to the subsector of *renewable energy*, the energy production from Renewable Energy Sources (RES) is expected to experience considerable growth in the next years, since considerable investments will be required in order for Cyprus to meet the targets for electricity capacity from RES set in the National Action Plan (NAP), issued by the Ministry of Energy, Industry, Commerce & Tourism. Specifically, in May 2013, total electricity capacity from RES in Cyprus reached 181 MW, while the objective is to reach a minimum capacity of 584MW by 2020, which will be equal to 16% of the total electricity production in Cyprus and 3% higher than the target set by the EU (Invest Cyprus, 2013).

To these one must add certain important facts related to the Cypriot energy policy like the liberalisation of the electricity and oil sector, the establishment and operation of a strategic oil stock terminal, the implementation of development programmes related to the use of energy conservation, technologies, the utilization of ingenious RES and the protection of the environment from industrial pollution, and the promotion of oil products and other sources of environmentally-friendly energy, such as natural gas. The liberalization of the electricity market took place by scraping the monopoly of the Electricity Authority of Cyprus (EAC) on the generation and supply of electricity and by allowing the market forces to supply the 35% of electricity output (Ministry of Energy, 2013). The liberalization of the oil sector came into effect after the abolishing of the pricing control system and the cross-subsidization between the

different oil products and the adjustment of the prices on the basis of the market events and the excise duty in force (Ministry of Energy, 2013).

Discount Stores

Discount stores, which normally offer products at a lower price than many other retail stores (Colla, 2003), are the norm when it comes to meeting the changing consumer needs during a recession (Piercy *et al.* 2010). This price reduction is possible because of the efficiency in the methods of distribution. Other distinctive characteristics of discount stores are the *high degree of self service,* the low- cost fittings, and the relative isolation of the location of these stores from conventional shopping areas. Examples of major discount stores (which also happen to be chain stores) are Wal-Mart and K-Mart, while among the most well-known grocery discount stores (which hae grow rather rapidly in the European grocery sector) are retailers like *Aldi* or *Lidl*

Normally, consumers with their purchasing power dented during a recession turn to discount stores, like Wal-Mart, so that they can still enjoy the feeling of treating themselves. However, not all discount retailers do well at any time. They often suffer in good times as people flush with money buy higher-quality goods at competing outlets. To remain competitive, they are forced to upgrade their product lines and change the focus of their business from thrift to quality. In hard times, however, these retailers excel by going back to core products and using vast economies of scale to provide cheap goods to consumers.

Designers and producers of lower-end products also see an upswing as more people jump from brand names to make their pay checks go further. People may not like discount retailers, but in a recession most people end up shopping there.

2.4 Business Incentives in Cyprus

The Cypriot government has introduced a variety of incentives aimed at attracting investment in industries that will enhance the development and reconstruction of the economy.

A number of investment incentives are (still) available in Cyprus (Cyprus Profile, 2013b). To begin with there was the standard corporate tax rate of 10 per cent with zero tax on certain types of income, accompanied with low personal tax rates and social insurance contributions. Cyprus with was the “lowest-tax EU jurisdiction”, which was not offshore, was now a premier holding,

finance, royalty and trading company jurisdiction. However the bailout package from the Troika lenders demanded an increase in the corporate tax rate from 10% to 12.5%. Despite this marginal increase, the corporate tax rate in Cyprus remains one of the lowest in the Euro zone.

Other investment incentives include industrial free zone and exemption from customs and excise charges for operations in the industrial free zone; industrial training schemes; subsidised industrial estates; grants and other financial assistance to investors, particularly in the areas of energy and environment, industrial development, technology, research and development and trade and services. Finally, one may add that securities trading is essentially a tax-exempt activity, since any gains on the sales of securities, irrespective of whether these gains are part of a company's trading activity or is of a capital nature, is exempt from income tax. The same hold (i.e. tax-exemption status) for dividends received from abroad.

The main attractiveness of Cypriot policy include the flexible company formation procedures, tax planning, trusts, foreign exchange trading and fund administration are all strong segments of the business services industry, the double taxation treaties (with over 50 countries), and a legal system based on English common law.

CHAPTER 3: RESEARCH METHODOLOGY

There are various stages in the research process. The first stage has to define the research design of the research (Section 3.1). The next stage involves a decision on the design of the methods of data collection (Section 3.2); the main methods of data collection involve either using secondary data or gathering primary data. The third stage involves the sampling procedure, that is, the way to select the sample of the study (Section 3.3).

3.1 THE RESEARCH DESIGN

Every study must have a well-established research design. According to Churchill (2005) the *research design* refers to an overall strategy that facilitates the process of data collection and their subsequent analysis. The three main types of research design in social sciences are the *exploratory*, the *descriptive*, and the *causal* (Ghauri and Gronhaug, 2005). This dissertation involves a descriptive research

The *descriptive research* design is suitable when a study attempts to "determine the frequency with which something occurs", to "describe the characteristics of certain groups", and to "estimate the proportion of people in a specified population who behave in a certain way" (Churchillm, 1995:145, 163). To illustrate, in this dissertation, we are interested to know the proportion of managers who believe that there are business opportunities in a specific line of activity.

3.2 DATA COLLECTION METHODS

3.2.1 Primary Data

The data used in this dissertation are *primary data,* i.e. data that have been originated by the researcher to suit the study's aim and objectives. These data were obtained through the distribution, by mail, of questionnaires to a number of Cypriot managers. The questionnaire used was structured and undisguised, in that it included fixed-alternative, multichotomous, questions, while the purpose for which the questionnaire was administered had been clearly communicated to the respondents. The questions were of this type in order to avoid the use of open-ended questions, which cannot be easily modelled statistically.

Various types of primary data were collected with the study's questionnaire. First, there are demographic and socioeconomic characteristics (see Churchil, 1995:337), since subjects are asked about their sex, age, and their position in the company. The second type of primary data used in this research involve opinions (see Churchil, 1995:339), since subjects are asked to express their opinions on the growth potential, amid a recession, of a certain business lines in the post-crisis Cyprus. The scale of measurement for the opinion-type of primary data is ordinal, since the responses in each question are allowed to vary from 1, which captures the "least level of agreement" to the specific question, to 5, which captures the highest level of agreement.

3.3 THE SAMPLING PROCEDURE

The procedure for drawing the sample consists of four steps: a) define the population and the sample frame; b) select the sampling procedure, c) determine the sample size; and d) select the sample elements (Churchill, 1995:575).

3.3.1 Population and Sampling Frame

Obviously, the population for the purpose of our study is the total number of managers working for companies, with headquarters in Cyprus. The sampling frame involves the listing of all elements from which the sample will be drawn, and it is very much related to the selection of sampling procedure (Churchill, 1995: 578).

3.3.2 The Sampling Procedure and the Non-Sampling Errors

Since the study's sampling frame consisted of the personal awareness of the researcher on a number of companies the managers of which could be contacted, non-probability sampling methods were used.

More particularly a convenience sample was used, that is, the elements (i.e. respondents) entering the sample have been chosen for the sheer convenience of the researcher. Specifically, it was decided that the survey's participants come from companies located in Cyprus' main business centre, namely Nicosia. The whole process starting from sending the emails to their collection (84 were actually collected) lasted for about three months, from January to March 2013.

This specific sampling procedure creates a large scope for non-sampling errors; such errors, in contrast with the *sampling errors*, do not decrease as the sample size grows larger (Churchill,

1995: 653). In considering non-sampling errors we need to keep in mind that these errors fall into two categories: non-observation errors and observation errors (Churchill, 1995:656). Non-observation errors may arise either because parts of the population of interest were not included (*non-coverage bias*), or because some chosen of the sample did not respond (*non-response bias*). The non-coverage bias arises because only managers from one Cypriot business center were considered, namely that of Nicosia. Since the capital of Cyprus, Nicosia, is the country's main business center, the non-coverage bias is expected not to have great impact on the study's results

The non-response bias can be illustrated with the use of Fig. 6., which shows how the non-responses (solely due to refusals) and the lack of eligibility resulted in reducing the sample size from 110 to just 64 eligible cases. Eligible respondents were considered those managers, who completed the whole questionnaire.

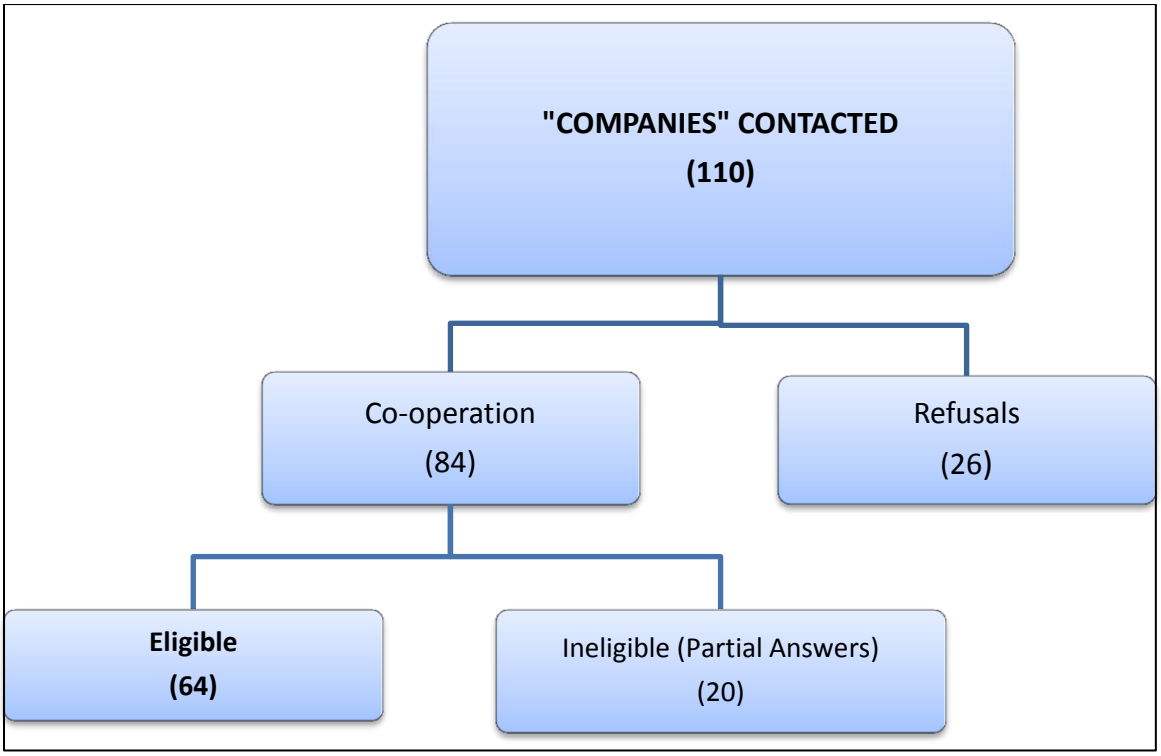

Figure 6: The Structure of Responses and Non-Responses in the Sample

Source: Adopted from Churchill (1995: 656)

To begin with, out of the 110 companies' managers contacted 26 of them refused to take part in the survey, thus yielding a refusal rate of 23%; this rate may be down to the method of communication chosen, since mail questionnaires constitute the less effective way to obtain primary data (Churchill, 1995:667). Then, of the remaining 84 companies 18 cases were considered to be ineligible because of partial completion of the questionnaire. The response rate is the ratio of the number of completed questionnaires to the number of eligible responses (Churchill, 1995:662). The number of completed responses was 66 and the number of ineligible responses was 18; hence the eligibility percentage was 78%[=66/(66+18)]. Applying this percentage to the number of non-respondents (26) gives 20 (=0,78 ×26) eligible non-respondents. So the total number of eligible responses is 86, i.e. 66 eligible responses from the respondents plus 20 eligible responses from the non-respondents, and hence the response rate is 76.7%(=66/86)

At this point we should underline that no strategy was followed in order to reduce the non-response bias.

CHAPTER 4: EMPIRICAL RESULTS

4.1 DESCRIPTIVES

Table 4-1 shows some basic descriptive statistics computed from the data of the sample. The overwhelming majority of the respondents (68.8%) were male managers, employed in, mainly middle-sized, companies with an annual turnover of less than €1,000,000; these companies constituted 68.8% of the total sample.

SEX				
		Frequency	Percent	Cumulative Percent
	male	44	68,8	68,8
	Female	20	31,3	100,0
	Total	64	100,0	
AGE				
Range	20-30	2	3,1	3,1
	31-45	32	50,0	53,1
	46-55	24	37,5	90,6
	56+	6	9,4	100,0
	Total	64	100,0	
COMPANY TURNOVER				
Range	<1,000,000	44	68,8	68,8
	1,000,001-5,000,0000	11	17,2	85,9
	5,000,000+	9	14,1	100,0
	Total	64	100,0	
MANAGERIAL EXPERIENCE				
Range	0-5	16	25,0	25,0
	6-11	19	29,7	54,7
	12-20	23	35,9	90,6
	20+	6	9,4	100,0
	Total	64	100,0	

Table 4-1: Basic Descriptive Statistics

Table 4-2 presents two cross-tabulations tables for the effect of sex on the type of company employed and the amount of managerial experience. These tables can help in answering the

following type of questions: Are women more likely to be employed in middle-sized firms than men? Or are men more likely to have more managerial experience? Cross-tabulations is a basic technique for depicting relationships between nominal or ordinal variables, i.e. the type of variables used in this dissertation.

The sex-company cross tabulation is considered first. For each sex the majority of respondents are employed in companies with a turnover of less than €1,000,000. Then, the rows of the table show conditional probabilities. For example, for the sex-company crosstabulation the probability of being employed in a company with a turnover of less than €1,000,000 given that the respondent is a male is Pr(<€1,000,000| male) = 29/44=65.9%; likewise the probability of being employed in a company with a turnover of less than €1,000,000 given that the respondent is a female is 75%. So, women have a 10 percentage point higher probability of being employed in a company with a turnover of less than €1,000,000. For all the respondents the probability of being employed in company with a turnover of less than €1,000,000 is 68.8%.

Sex and Company Turnover Crosstabulation						
			Company Turnover			Total
			<1,000,000	1,000,001-5,000,0000	5,000,000+	
sex	male	Count	29	8	7	44
		% within sex	65,9%	18,2%	15,9%	100,0%
	Female	Count	15	3	2	20
		% within sex	75,0%	15,0%	10,0%	100,0%
Total		Count	44	11	9	64
		% within sex	68,8%	17,2%	14,1%	100,0%

Sex and Managerial Experience Crosstabulation							
			Managerial Experience				Total
			0-5	6-11	12-20	20+	
sex	male	Count	9	16	14	5	44
		% within sex	20,5%	36,4%	31,8%	11,4%	100,0%
	Female	Count	7	3	9	1	20
		% within sex	35,0%	15,0%	45,0%	5,0%	100,0%
Total		Count	16	19	23	6	64
		% within sex	25,0%	29,7%	35,9%	9,4%	100,0%

Table 4-2: Cross Tabulations

Of course, from the crosstabulation alone, it's impossible to tell whether these differences are real or due to chance variation. For this reason the chi-square test is used to establish if there are any statistical significant differences. The chi-square test measures the discrepancy between the observed cell counts and what you would expect if the rows and columns were unrelated. The two-sided (asymptotic) significance of the chi-square statistic for the sex-company turnover cross tabulation is greater than 0.10 (it is .74), so it's safe to say that the differences in the employment patterns between men and women are due to chance variation. Likewise, the two-sided (asymptotic) significance of the chi-square statistic for the sex-managerial experience cross tabulation is also greater than 0.10, which implies that the differences in the years of managerial experience between men and women are due to chance variation.

4.2 EMPIRICAL RESULTS

In order to assess whether a particular sector is deemed to be important in offering business opportunities in Cyprus, the following transformation has been applied to the original primary data: a particular sector is considered to offer important business opportunities if the respondent has marked 4 or 5 in his response for the importance of the specific sector. This way a dummy variable is created taking the value of zero if a specific sector is considered not to offer great opportunities for business and 1 otherwise.

Based on this codification, Table 4-3 presents the percentages of the respondents who evaluated the various sectors as important for business opportunities. Table A-1 in Appendix A shows the exact frequencies for each sector considered.

Sector	Percentage of Respondents that Consider the Sector Important
Accounting	68.8
Outsourcing	73.4
Home Maintenance	45.3
Healthcare Provisions	71.9
Rental Agents and Property Management	34.4
Autorepair and Maintenance	81.3
Consulting	81.3
Energy	68.8
Discount Stores	96.9
Grocery Stores	64.1

Table 4-3: Importance of Sectors

Source: author's calculation

As it can be seen from the above table, by far the most promising sector for business opportunities in Cyprus is considered to be the *discount stores* sector, with an "approval rate" of 96.9% given by the respondents. Further, the least promising sector for business opportunities in Cyprus are considered to be the *rental agents and property management* sector, with an "approval rate" of just 34.4% given by the respondents, and the *home maintenance* sector with an approval rating of 45.3%. Other promising sectors for business opportunities in Cyprus include the *consulting* and the *auto-repair sectors* with an approval rating of 81.3%, the outsourcing sector, with an approval rating of 73.4%, and the *healthcare provisions sector* with an approval rate of 71.9%.

To what extent the unconditional probabilities shown in Table 4-3 are affected by the fact that the respondent was employed or not employed in this particular sector? Previously, in Table 4-2, it was seen that the probability of considering the accounting sector as an important sector for business opportunities in Cyprus is 68.8%. In theory, people still employed in the accounting sector are more likely to consider the sector important than those who were not employed in this sector. Bayes' theorem can be used to calculate the probability that the person considers the sector important.

To see how this is done, let I represent the event that the accounting sector was considered important, and E denote the event that person was employed in this sector. The probability that I

occurs is $P(I) = 0.688$ (see Table 4-2). It was also found (not shown in any table) that 25% of those who considered the accounting sector as important were also employed in that sector; this probability is denoted as $P(E|I) = 0.25$. Likewise, it is was found that 10% of those who did not consider the accounting sector as important happened to be employed in that sector, or $P(E|N) = 0.10$, where N is the complementary event of I, i.e., the event that the accounting sector was considered to be unimportant, with $P(N)$=0.313.

The goal is to calculate the probability that the accounting sector was considered important, given the fact that the person was employed in that sector, $P(I|E)$. Using the formula for Bayes' theorem it yields:

$$\Pr(I|E) = \frac{\Pr(I \cap E)}{\Pr(E)} = \frac{\Pr(I)\Pr(E|I)}{\Pr(I)\Pr(E|I) + \Pr(N)\Pr(E|N)} \qquad \textbf{4.1}$$

And upon substitution

$$\Pr(I|E) = \frac{(0.688)(0.25)}{(0.688)(0.25) + (0.313)(0.1)} = 0.8462$$

i.e., the probability that the accounting sector was considered important, given that the person was employed in that sector, is 84.6%.

The same line of reasoning can be used to calculate the probability that the accounting sector was considered important, given the fact that the person was not employed in that sector, $P(I|E')$. Again the probability that I occurs is $P(I) = 0.688$, while the probability that the accounting sector was considered to be unimportant, with $P(N)$=0.313. It was also found that 75% of those who considered the accounting sector as important were not employed in that sector; this probability is denoted as $P(E'|I) = 0.75$. Likewise, it is was found that 90% of those who did not consider the accounting sector as important were not employed in that sector, or $P(E'|N) = 0.90$. Using the formula for Bayes' theorem, the probability that the accounting sector was considered important, given the fact that the person was not employed in that sector, $P(I|E')$, has as follows:

$$\Pr(I|E') = \frac{\Pr(I \cap E')}{\Pr(E')} = \frac{\Pr(I)\Pr(E'|I)}{\Pr(I)\Pr(E'|I) + \Pr(N)\Pr(E'|N)} \qquad \textbf{4.2}$$

The numeric answer can be obtained by substituting the above values into this formula. This yields

$$\Pr\left(I \middle| E'\right) = \frac{(0.688)(0.75)}{(0.688)(0.75)+(0.313)(0.9)} = 0.6471$$

Table 4-4 shows the conditional probabilities for the importance of each sector given the respondent's employment in that sector. In many sectors the conditional probability of the sector being important given the employment in this sector is 100%. This occurs only when those who did not consider the sector as important happened to be employed in that sector, i.e when $P(E|N) = 0$. Put differently, of those respondents that did not consider the sector as important none was employed in the past in that sector.

Sector	SECTOR IS IMPORTANT GIVEN THAT THE PERSON	
	Employed in Sector	Never Employed in Sector
Accounting	84.62	64.71
Outsourcing	100.00	67.92
Home Maintenance	50.00	45.00
Healthcare Provisions	100.00	68.97
Rental Agents and Property Management	100.00	30.00
Autorepair and Maintenance	100.00	79.66
Consulting	93.33	77.55
Energy	100.00	67.21
Discount Stores	100.00	96.67
Grocery Stores	100.00	59.65

Table 4-4:Conditional Probabilities for the Importance of Each Sector

Source: author's calculation

Then a binary logistic regression can be used in order to examine the importance (if any) of individual characteristics in shaping the respondents' answer concerning the importance of a specific sector. Logistic regression is useful for situations in which the objective is to predict the presence or absence of a characteristic or outcome based on values of a set of predictor variables. It is similar to a linear regression model but is suited to models where the dependent variable is

dichotomous; this is case 1 represents a “positive” answer given by the respondent and 0 a “negative” answer. Logistic regression coefficients can be used to estimate odds ratios for each of the independent variables in the model.

In this type of regression, an unobserved continuous variable, Z, can be thought of as the "propensity towards" the event of interest. In this case, Z represents a respondent’s propensity to assume that a specific sector is important for business opportunities, with larger values of Z corresponding to greater probabilities of giving a characterization of importance. In the logistic regression model, the relationship between Z and the probability of the event of interest is described by this link function.

$$\Pr\left(y_i = 1 \middle| \mathbf{x}_i\right) = \frac{\exp Z_i}{1+\exp Z_i} = \frac{\exp \mathbf{x}_i'\boldsymbol{\beta}}{1+\exp \mathbf{x}_i'\boldsymbol{\beta}} = \frac{1}{1+\exp\left(-\mathbf{x}_i'\boldsymbol{\beta}\right)} = \\ = \Lambda\left(\mathbf{x}_i'\boldsymbol{\beta}\right) \qquad \textbf{4.3}$$

where $\Lambda\left(\mathbf{x}^i\boldsymbol{\beta}\right)$ is the logistic regression, $\boldsymbol{\beta}$ is the vector of regression coefficients and $\mathbf{x}_i$ a vector of characteristics for respondent i. The variable Z is linearly related to the predictors $\mathbf{x}$ for each respondent. The regression coefficients $\boldsymbol{\beta}$ are estimated by iterative maximum likelihood.

The estimation of the **model of logistic regression** actually has as follows (see Pindyck and Rubinfeld, 1991:258).

$$\ln \frac{\Pr\left(y_i = 1 \middle| \mathbf{x}_i\right)}{1-\Pr\left(y_i = 1 \middle| \mathbf{x}_i\right)} = \mathbf{x}_i'\boldsymbol{\beta} \qquad \textbf{4.4}$$

In other words, the logistic regression model predicts the logit, i.e. the natural log of the odds of having made one or the other decision. Based on the coding used in the analysis $\Pr(y_i = 1)$ is the probability that the respondent i gives a ranking of 4 or more to the importance of a specific sector, and $1 - \Pr(y_i = 1)$ is the (predicted) probability of giving a rank of 3 or lower; $\mathbf{x} = (X_1, X_2, X_3, X_4)$ is the vector of the predictor variables, which in this case are *sex*, *age*, company turnover (*turn*), and managerial experience (exp).

Table 4-5 presents the estimated coefficients $\widehat{\boldsymbol{\beta}}$ from fitting the logistic regression model, shown by Eq. (4.4).

Variable	SECTOR					
	Accounting Sector	Outsourcing Sector	Home Maintenance	Health Care Provisions	Rental Agents and Property Management	Auto Repair and Maintenance
Sex	-,857	-,253	-,749	-,413	-,958	,957
Age	,164	,508	-,481	2,625*	1,468*	,047
Turn	,666	,650	-,072	,385	,599	,155
Exp	-,128	-,521	-,421	-,149	-,251	-,581
Constant	,901	,394	3,056	-4,787	-3,512	1,345

Note: *statistically significant estimate at the 5% level of confidence.

Variable	SECTOR			
	Discount Stores	Consulting	Energy	Grocery Stores
Sex	18,013	-1,730*	-,927	1,557*
Age	-1,076	-,286	-,209	-,551
Turn	-,184	-,950*	-,036	,013
Exp	,782	,392	-,041	,075
Constant	-13,466	5,239	2,714	-,162

Note: *statistically significant estimate at the 5% level of confidence.

Table 4-5:Estimates from the Logistic Regression

The interpretation of these coefficients $\widehat{\boldsymbol{\beta}}$ has to be done with caution. To begin with, for the predictor variable of *sex* the negative sign indicates that women, with a specific set of traits, are less likely to consider a specific sector as important in offering business opportunities compared with men, with the same characteristics. For example, in the case of the accounting sector, being a woman decreases the predicted log odds of giving a positive answer by 0.857.

To see what this really means, the estimates in the above table can be used to predict the odds that a respondent will rank a specific sector as important for business opportunities. In general the odds in favour of the event that the random variable Y will take on the value of 1 given a set of characteristics $\mathbf{x}$, that is, $y_i = 1|\mathbf{x}_i$, i.e. the respondent i ranks the sector as important, has as follows (Zitarelli and Coughlin, 1989:307)

$$ODDS_{(y_i=1|\mathbf{x}_i)} = \frac{\Pr\left(y_i = 1 \middle| \mathbf{x}_i\right)}{1 - \Pr\left(y_i = 1 \middle| \mathbf{x}_i\right)} \qquad \textbf{4.5}$$

In other words, the odds in favor of respondent *i* considering that a specific sector is important for business opportunities is simply the ratio of the probability that respondent *i* considers the specific sector important for business opportunities to the probability that he does not consider it important.

So, based on Eq. (4.4) the odds in favor of respondent *i* considering a specific sector important for business opportunities has as follows

$$ODDS_{(y_i=1|\mathbf{x}_i)} = \exp\left(\mathbf{x}_i'\boldsymbol{\beta}\right) \qquad \textbf{4.6}$$

For example, if the respondent is a woman (sex = 2), aged 31-45 (age=2), with up to five years of managerial experience (exp=1), and employed in a company with an annual turnover of less than €1,000,000 (turn=1), then this woman is 1.054 as likely to consider the accounting sector important for business opportunities as she is to consider it non important .

$$\begin{aligned} ODDS_{(y_i=1|\mathbf{x}_i, sex=2)} &= \exp\left[0.901 + \left(-0.857 \times 2\right) + \left(0.164 \times 2\right) + \left(0.666 \times 1\right) + \left(-0.128 \times 1\right)\right] = \\ &= 1.054 \end{aligned}$$

Since the odds are not very informative, the odds can be converted to probabilities, so for women the probability of considering the accounting sector as important sector for business opportunities has as follows

$$\begin{aligned} \Pr\left(y_i = 1 \middle| \mathbf{x}, sex = 2\right) &= \frac{ODDS_{(y_i=1|\mathbf{x}_i, sex=2)}}{1 + ODDS_{(y_i=1|\mathbf{x}_i, sex=2)}} = \frac{1.054}{1 + 1.054} = \\ &= 0.5132 \end{aligned}$$

That is, the logistic model predicts that 51.32% of women aged 31-45, with up to five years of managerial experience, and employed in a company with an annual turnover of less than €1,000,000 will consider the accounting sector important for business opportunities. Now, if the

respondent is a man (sex= 1), and has the remaining characteristics the same, that is, he is aged 31-45 (age=2), with up to five years of managerial experience (exp=1), and he is employed in a company with an annual turnover of less than €1,000,000 (turn=1), then that man is 2.484 as likely to consider the accounting sector important for business opportunities as he is to consider it non important.

$$ODDS_{(y_i=1|\mathbf{x}_i,sex=1)} = \exp\left[0.901+(-0.857\times 1)+(0.164\times 2)+(0.666\times 1)+(-0.128\times 1)\right]= \\ = 2.484$$

Again the odds can be converted to probabilities,

$$\Pr\left(y_i=1|\mathbf{x},sex=1\right)=\frac{ODDS_{(y_i=1|\mathbf{x}_i,sex=1)}}{1+ODDS_{(y_i=1|\mathbf{x}_i,sex=1)}}=\frac{2.484}{1+2484}= \\ = 0.7130$$

That is, the model predicts that 71.30% of men aged 31-45, with up to five years of managerial experience, and employed in a company with an annual turnover of less than €1,000,000 will consider the accounting sector important for business opportunities. Table 4-6 presents the estimates concerning evaluation of each sector by men and women.

For the predictor variable of *age* the negative sign indicates that respondents of higher age, with a specific set of traits, are less likely to consider a specific sector as important compared with younger respondents, with the same characteristics. For example, if the respondent is a man (sex = 1), up to 30 years old (age=1), with up to five years of managerial experience (exp=1), and employed in a company with an annual turnover of less than €1,000,000 (turn=1), then he 3.79 as likely to consider the home maintenance sector important for business opportunities.

$$ODDS_{\text{aged 30}} = \exp\left[3.056+(-0.749\times 1)+(-0.481\times 1)+(-0.072\times 1)+(-0.421\times 1)\right]= \\ = 3.79$$

And the probability is

$$\Pr\left(y_i = 1 \middle| \mathbf{x}, age = 1\right) = \frac{ODDS_{\text{aged 30}}}{1 + ODDS_{\text{aged 30}}} = \frac{3.79}{1 + 3.79} =$$
$$= 0.7913$$

That is, the model predicts that 79.13% of men aged up to 30 years old, with up to five years of managerial experience, and employed in a company with an annual turnover of less than €1,000,000 will consider the home maintenance sector important for business opportunities. Now, if the respondent was aged 31-45 years old (age= 1), and has the remaining characteristics the same, then that man is 2.344 as likely to consider the home maintenance sector important for business opportunities

$$ODDS_{\text{aged 31-45}} = \exp\left[3.056 + \left(-0.749 \times 1\right) + \left(-0.481 \times 2\right) + \left(-0.072 \times 1\right) + \left(-0.421 \times 1\right)\right] =$$
$$= 2.34$$

Again the odds can be converted to probabilities,

$$\Pr\left(y_i = 1 \middle| \mathbf{x}, age = 2\right) = \frac{ODDS_{\text{aged 31-45}}}{1 + ODDS_{\text{aged 31-45}}} = \frac{2.34}{1 + 2.34} =$$
$$= 0.7010$$

That is, the model predicts that 70% of men aged 31-45, with up to five years of managerial experience, and employed in a company with an annual turnover of less than €1,000,000 will consider the accounting sector important for business opportunities.

Also the effect of managerial experience on the respondents' decision can be considered. For the predictor variable of *exp* the negative sign indicates that respondents with more years of experience, and with a specific set of traits, are less likely to consider a specific sector as important compared with younger respondents, with the same characteristics.

For example, if the respondent is a man (sex = 1), aged 46-55 (age=3), with up to five years of managerial experience (exp=1), and employed in a company with an annual turnover of less than €1,000,000 (turn=1), then he is 2.92 as likely to consider the accounting sector important for business opportunities.

$$ODDS_{(y_i=1|\mathbf{x}_i,\exp=1)} = \exp\left[0.901+\left(-0.857\times 1\right)+\left(0.164\times 3\right)+\left(0.666\times 1\right)+\left(-0.128\times 1\right)\right] = \\ = 2.94$$

And the probability that this specific executive considers the accounting sector as important sector for business opportunities has as follows

$$\Pr\left(y_i = 1|\mathbf{x},\exp=1\right) = \frac{ODDS_{(y_i=1|\mathbf{x}_i,\exp=1)}}{1+ODDS_{(y_i=1|\mathbf{x}_i,\exp=1)}} = \frac{2.94}{1+2.94} = \\ = 0.7454$$

That is, the logistic model predicts that 74.54% of men, aged 46-55, with up to five years of managerial experience, and employed in a company with an annual turnover of less than €1,000,000 will consider the accounting sector important for business opportunities. Now, if the respondent has the same characteristics, i.e. he is a man (sex= 1), aged 46-55 (age=3), is employed in a company with an annual turnover of less than €1,000,000 (turn=1), but he has 6-12 years of managerial experience (exp=2), then that man is 2.57 as likely to consider the accounting sector important for business opportunities as he is to consider it non important.

$$ODDS_{(y_i=1|\mathbf{x}_i,\exp=2)} = \exp\left[0.901+\left(-0.857\times 1\right)+\left(0.164\times 3\right)+\left(0.666\times 1\right)+\left(-0.128\times 2\right)\right] = \\ = 2.57$$

Again the odds can be converted to probabilities,

$$\Pr\left(y_i = 1|\mathbf{x},\exp=2\right) = \frac{ODDS_{(y_i=1|\mathbf{x}_i,\exp=2)}}{1+ODDS_{(y_i=1|\mathbf{x}_i,\exp=2)}} = \frac{2.57}{1+2.57} = \\ = 0.7203$$

That is, the model predicts that 72.03% of men aged 46-55, with up to 12 years of managerial experience, and employed in a company with an annual turnover of less than €1,000,000 will consider the accounting sector important for business opportunities.

Table 4-6 presents the estimates concerning evaluation of each sector by men and women.

Variable	SECTOR					
	Accounting Sector	Outsourcing Sector	Home Maintenance	Health Care Provisions	Rental Agents and Property Management	Auto Repair and Maintenance
Sex	71,30%	78,35%	70,10%	57,10%	23,40%	87,76%
(males)	51,32%	73,75%	52,57%	46,83%	10,49%	94,92%
(females)						
Age	67,83%	68,52%	79,13%	8,79%	6,57%	87,25%
(up to 30)	71,30%	78,35%	70,10%	57,10%	23,40%	87,76%
(31-45)						
Exp	74,54%	85,74%	59,17%	94,84%	57,00%	88,26%
	72,03%	78,13%	48,75%	94,06%	50,77%	80,78%

Variable	SECTOR			
	Discount Stores	Consulting	Energy	Grocery Stores
Sex	95,23%	91,52%	78,45%	59,41%
(males)	100,00%	65,68%	59,03%	87,41%
(females)				
Age	98,32%	93,49%	81,77%	71,75%
(up to 30)	95,23%	91,52%	78,45%	59,41%
(31-45)				
Exp	87,18%	89,02%	74,71%	45,76%
	93,70%	92,31%	73,92%	47,63%

Table 4-6:Evaluation of Each Sector based on the Logistic Regression

Notes: for *sex* the comparison is between males (sex=1) and female (sex=2) respondents up to 30 years (age=1) and respondents aged 31-45 (age=2).For *age* the comparison is between respondents up to 30 years (age=1) and respondents aged 31-45 (age=2)

CHAPTER 5: CONCLUSIONS

This dissertation examined the responses given by 64 senior company employees, employed in a number of Cypriot, Nicosia-headquartered, firms in 2013, to various questions, mainly related to the prospects of some business sectors in Cyprus. The responses concerned, among other things, which business sector was considered important for offering significant business opportunities in the post-recessionary business environment of Cyprus.

Two statistical methods were used to examine the importance attached by each respondent to an examined sector. The first method involved a simple aggregation of the ordered responses given into a binary-outcome variable taking the value 0 if the sector was seen as not important in offering business opportunities and the value of 1 otherwise. Based on this method, the *discount stores sector* was seen as the most promising sector for business opportunities in Cyprus. In theory, consumers with their purchasing power significantly diminished during a recession are expected to turn to discount stores, so that they can still enjoy the feeling of treating themselves. The least promising sector for business opportunities in Cyprus was considered to be the *rental agents and property management* sector. This finding is not surprising given the high rates of home ownership among Cypriot citizens and the citizens' perceptions against renting. So, it seems that there is no scope for development of the rental market.

Other promising sectors for business opportunities in Cyprus included the *consulting* and the *auto-repair sectors.* As expected during a downturn, people slash their expenditures on durable goods, with cars being on the top of the list of such goods. Hence, they are more likely to repair their old car than purchase a brand new. Oddly, the *energy* sector did not rank high despite the world-class gas reserves found and the fact that the Government of Cyprus is planning to create an infrastructure for bringing the natural gas onshore for local consumption, as well as liquefaction for export into Europe and other markets.

Also, one needs to underline that with the exception of the *home maintenance sector* and the *rental agents and property management sector* all other sectors received by the respondents a high approval rating, in excess of 50%. This general feeling of optimism on the part of the Cypriot managers may be down to the fact the Cypriot government introduced a variety of investment incentives aiming at attracting funds in various industries of the Cypriot economy. At the same time one needs to bear in mind that during a recession all factors of production will

be readily available at cheap prices, thus allowing new businesses to grow with a substantially less amount of capital.

The second statistical method used to examine the importance attached by each respondent to an examined sector involved fitting a logistic regression. From the results of the logistic regression it was seen that men in general were more likely to consider a specific sector as important for offering business opportunities; two exceptions to this rule were the *auto repair sector* and the *grocery stores* sector. It seems therefore that men managers were more optimistic than their female counterparts.

Among men, sectors that received an "approval" rating in excess of 80% were the *auto-repair* and *maintenance*, the *discount stores* sector, the *consulting* sector, and marginally (with an approval rating of 78%) the *energy* sector. Among women, sectors that received an "approval" rating in excess of 80% were the *auto-repair and maintenance sector*, the *discount stores sector*, and the *grocery stores* sector.

The effect of *age* in most cases was positive, that is, a greater percentage of older respondents tended to consider a specific sector as important. The interpretation of this result is that older managers are more optimistic than their younger peers. Apparently, because of their young age, only an 8.79% of respondents considered the health care provisions sector as important. For four sectors- the discount stores sector, the consulting sector, the energy sector, and the grocery stores sector, the effect of *age* was negative, that is, a greater percentage of younger respondents tended to consider a specific sector as important.

The effect of managerial experience was negative in seven sectors: the accounting sector, outsourcing sector, home maintenance sector, health care provisions sector, rental agents and property management sector, auto-repair and maintenance sector, and energy sector. So, for these sectors, a slightly lower proportion of managers with more management experience considered them to be important for business opportunities in relation to managers with a management experience of up to five years. However the differences between the proportions of respondents with different management experience were not large, with the exception of the outsourcing sector. So it seems safe to say that managerial experience does not influence the perception of a respondent concerning the business opportunities of a specific sector. For male managers with up to 12 years of managerial experience the top sector (i.e. sector with an

approval rating in excess of 90%) were the *health care provisions* sector, the *discount stores* sector, and the *consulting* sector.

At any rate, the main challenge for the Cypriot economy in the near term will be the stabilization of the domestic banking sector in order to fully lift the current capital controls and to ease the restricted domestic credit conditions due to financial sector deleveraging, This, in combination with the worsening of labour market, and a stronger-than-expected fall in house prices, is expected to put extra strain on the operations of small businesses. And the managers' actions during the recession (i.e whether they follow a policy of cost-cutting or revenue-growth) will be pivotal for the post-recession performance of these firms. Structural reforms in the Cypriot economy will also take place as part of the conditions of the ESM loan and these will support prudent fiscal management as well as improve the competitiveness of Cyprus.

Despite the significant challenges facing the economy in the next two years, the discovery of significant quantities of natural gas in Cypriot waters raises the prospect of a transformation of the Cypriot economy in the medium to long term. The use of gas for electricity production should have a positive impact on electricity prices, while Cyprus can also look forward to significant gas export revenue.

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Email interviews – Some of the managers who has been interviewed

1. A K Kotsomitis Accountancy & Tax Limited, Senior Manager, 7/10/2013, [Email interview]
2. American Heart Institute, Administrative Manager, 9/10/2013, [Email interview]
3. Aon Cyprus Ltd, Sourcing Manager, 7/10/2013, [Email interview]
4. Ayios Therissos M.R.I. Medical Diagnostic Centre Ltd, 8/10/2013, Administrative Manager, [Email interview]
5. Cyprosoft, Managing Director, 9/10/2013, [Email interview]
6. Deloitte Limited, Senior Manager, 10/10/2013, [Email interview]
7. FOX Smart Estate Agency, General Manager, 6/10/2013, [Email interview]
8. FX Global Markets (fxgm) Limited, Sales Manager, 11/10/2013,[Email interview]
9. K. Treppides & Co Ltd, Accounting Manager, 11/10/13, [Email interview]
10. KPMG Limited, Accounting Manager, 12/10/2013, [Email interview]
11. Kyros Auto Service, General Manager, 8/10/2013, [Email interview]
12. Leroy Merlin, Marketing Manager, 7/10/2013, [Email interview]
13. Lukoil Cyprus Limited, Sales Manager, 6/10/2013, [Email interview]
14. METRO Supermarkets, Marketing manager, 11/10/2013, [Email interview]
15. NICOLAS E. ARISTODEMOU Mechanical & Energy Engineering Consultants Ltd, General Manager, 9/10/2013, [Email interview]
16. Nike Discount Store, Store manager, 10/10/2013, [Email interview]
17. PwC, Senior Manager, 11/10/2013, [Email interview]
18. SMART DISCOUNT SHOPS, General Manager, 7/10/2013, [Email interview]
19. STAROIL, Marketing & Logistics Manager, 8/10/2013, [Email interview]
20. START 2 FINISH Property Management & Maintenance, General Manager, 6/10/2013, [Email interview]
21. SUPERHOME CENTER, Marketing Manager, 9/10/2013[Email interview]
22. UNICARS, General Manager, 9/10/2013, [Email interview]

APPENDIX A: RESULTS

Table A-1: Frequency Table

Accounting Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	20	31,3	31,3	31,3
	Importance B.O.	44	68,8	68,8	100,0
Outsourcing Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	17	26,6	26,6	26,6
	Important B.O.	47	73,4	73,4	100,0
	Total	64	100,0	100,0	
Home Maintenace Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	35	54,7	54,7	54,7
	Important B.O.	29	45,3	45,3	100,0
	Total	64	100,0	100,0	

Healthcare provisions Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	18	28,1	28,1	28,1
	Important B.O.	46	71,9	71,9	100,0
	Total	64	100,0	100,0	
Rental Agents & Property Management Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	42	65,6	65,6	65,6
	Important B.O.	22	34,4	34,4	100,0
	Total	64	100,0	100,0	
Auto Repair & Maintenance Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	12	18,8	18,8	18,8
	Important B.O.	52	81,3	81,3	100,0
	Total	64	100,0	100,0	
Consulting Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	Not Important B.O.	12	18,8	18,8	18,8
	Important B.O.	52	81,3	81,3	100,0
	Total	64	100,0	100,0	
Energy Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	20	31,3	31,3	31,3
	Important B.O.	44	68,8	68,8	100,0
	Total	64	100,0	100,0	
Discount Stores Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	2	3,1	3,1	3,1
	Important B.O.	62	96,9	96,9	100,0
	Total	64	100,0	100,0	
Grocery Stores Sector Importance					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Important B.O.	23	35,9	35,9	35,9
	Important B.O.	41	64,1	64,1	100,0
	Total	64	100,0	100,0	

Table A-2: Employment and Non Employment in the Sector

			Employed in Sector			Total
			Yes	No	Not sure/dont know	
Accounting Sector	Not Important B.O.	Count	2	0	18	20
		% within Accounting Sector Importance	10,0%	0,0%	90,0%	100,0%
	Importance B.O.	Count	11	4	29	44
		% within Accounting Sector Importance	25,0%	9,1%	65,9%	100,0%
Total		Count	13	4	47	64
		% within Accounting Sector Importance	20,3%	6,3%	73,4%	100,0%
Outsourcing Sector Importance	Not Important B.O.	Count	0	0	17	17
		% within Outsourcing Sector Importance	0,0%	0,0%	100,0%	100,0%
	Important B.O.	Count	11	4	32	47

		% within Outsourcing Sector Importance	23,4%	8,5%	68,1%	100,0%
Total		Count	11	4	49	64
		% within Outsourcing Sector Importance	17,2%	6,3%	76,6%	100,0%
Home Maintenace Sector Importance	Not Important B.O.	Count	2	0	33	35
		% within Home Maintenace Sector Importance	5,7%	0,0%	94,3%	100,0%
	Important B.O.	Count	2	2	25	29
		% within Home Maintenace Sector Importance	6,9%	6,9%	86,2%	100,0%
Total		Count	4	2	58	64
		% within Home Maintenace Sector Importance	6,3%	3,1%	90,6%	100,0%

Healthcare provisions Sector Importance	Not Important B.O.	Count	0	0	16	16
		% within Healthcare provisions Sector Importance	0,0%	0,0%	100,0%	100,0%
	Important B.O.	Count	6	1	39	46
		% within Healthcare provisions Sector Importance	13,0%	2,2%	84,8%	100,0%
Total		Count	6	1	55	62
		% within Healthcare provisions Sector Importance	9,7%	1,6%	88,7%	100,0%
Rental Agents & Property Management Sector Importance	Not Important B.O.	Count	0	1	41	42

		% within Rental Agents & Property Management Sector Importance	0,0%	2,4%	97,6%	100,0%
	Important B.O.	Count	4	2	16	22
		% within Rental Agents & Property Management Sector Importance	18,2%	9,1%	72,7%	100,0%
Total		Count	4	3	57	64
		% within Rental Agents & Property Management Sector Importance	6,3%	4,7%	89,1%	100,0%
Auto Repair & Maitenance Sector Importance	Not Important B.O.	Count	0	12	12	

		% within Auto Repair & Maitenance Sector Importance	0,0%	100,0%	100,0%	
	Important B.O.	Count	5	47	52	
		% within Auto Repair & Maitenance Sector Importance	9,6%	90,4%	100,0%	
Total		Count	5	59	64	
		% within Auto Repair & Maitenance Sector Importance	7,8%	92,2%	100,0%	
Consulting Sector Importance	Not Important B.O.	Count	1	0	11	12
		% within Consulting Sector Importance	8,3%	0,0%	91,7%	100,0%
	Important B.O.	Count	14	2	36	52
		% within Consulting Sector Importance	26,9%	3,8%	69,2%	100,0%
Total		Count	15	2	47	64
		% within Consulting Sector Importance	23,4%	3,1%	73,4%	100,0%
Energy Sector Importance	Not Important B.O.	Count	0	0	18	2

		% within Energy Sector Importance	0,0%	0,0%	90,0%	10,0%
	Important B.O.	Count	3	2	39	0
		% within Energy Sector Importance	6,8%	4,5%	88,6%	0,0%
Total		Count	3	2	57	2
		% within Energy Sector Importance	4,7%	3,1%	89,1%	3,1%
Discount Stores Sector Importance	Not Important B.O.	Count	0	0	2	2
		% within Discount Stores Sector Importance	0,0%	0,0%	100,0%	100,0%
	Important B.O.	Count	4	12	46	62
		% within Discount Stores Sector Importance	6,5%	19,4%	74,2%	100,0%
Total		Count	4	12	48	64
		% within Discount Stores Sector Importance	6,3%	18,8%	75,0%	100,0%
Grocery Stores Sector Importance	Not Important B.O.	Count	0	4	19	23
		% within Grocery Stores Sector Importance	0,0%	17,4%	82,6%	100,0%
	Important B.O.	Count	7	0	34	41
		% within Grocery Stores	17,1%	0,0%	82,9%	100,0%

		Sector Importance				
Total		Count	7	4	53	64
		% within Grocery Stores Sector Importance	10,9%	6,3%	82,8%	100,0%