BUSINESS STRATEGIES AND PERFORMANCE
DURING DIFFICULT ECONOMIC CONDITIONS

For the Department of Business Innovation and Skills (BIS)

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EXECUTIVE SUMMARY

Introduction and Research Objectives

• This report reviews the available literatures in order to: (i) identify the pressures, threats and opportunities facing businesses operating in difficult economic conditions such as those currently being experienced in the UK and globally; (ii) identify the strategies adopted by businesses that have experienced such conditions; and (iii) assess which strategies proved to be problematic and those that have allowed businesses to respond dynamically, survive and emerge strongly as economic conditions improved.

• Sources for the report include academic studies of business responses to recession and other ‘environmental jolts’, contemporary commentary on the current crisis, and the deliberations of a ‘think-tank’ involving leading academic experts on business strategy and management.

• The literature directly focused on business responses during recession is limited and partial. The search was, therefore, extended to wider literatures on business responses to environmental shocks/jolts, ‘endgame’ strategies in declining industries and business turnaround. These literatures provide support for the analysis presented, although their relevance to recession conditions has to be demonstrated rather than assumed.

Uncertainty

• Previous recessions provide pointers to possible business responses but, given the specificities of the current crisis, it is difficult to predict trends or prescribe courses of action with a high degree of confidence in their likely success.
• The increasing globalisation of economic activity – the interconnectedness of economic activity across national frontiers - renders the current crisis different from previous recessions.

• The current recession may well constitute a ‘structural break’ or ‘phase shift’ in the economy, in which the previously held assumptions about how it functions and economic models are open to question. The outcome of the current recession may be a new economic order, the nature of which cannot be fully understood today.

• Recessions impact unevenly on industries, countries, regions and firms. There is, therefore, no single ‘recession effect’ for businesses, nor any particular ‘best way’ to adapt to recession conditions applicable to all businesses. Recessions generate contradictory tendencies, for instance, declining aggregate expenditure and falling input prices.

**Empirical Research on Strategic Adaptation to Recession**

• **Creative destruction.** For some analysts, recessions are regarded as periods of ‘creative destruction’, during which some businesses and industries decline, often terminally, while new ideas, technologies, products and industries emerge and become the driving forces of subsequent economic activity and growth. Recession conditions contribute to this economic restructuring through stimulating business churn, the entry and exit of firms, and by motivating incumbent firms to adapt products and business processes. Think-tank participants believed that dynamic, innovative new businesses have an important role to play in leading the economy out of recession.

• **Organisational inertia and opportunity.** Adapting to environmental shocks, including recession, is a capability business leaders have to develop in order to survive. One view argues that, during recession, incumbent firms tend to suffer from organisational inertia, which prevents them from adapting appropriately to
environmental shocks. Conversely, the ‘pit-stop’ theory of business behaviour in recession treats firms as more willing to innovate because the opportunity costs of not undertaking such action are lower than during more buoyant times. Both UK and international data, for example, from Japan and Russia, suggests that recession imposes threats on businesses but also opens up new opportunities.

- **Business strategies.** Recessions present businesses with a dilemma: whether to cut costs to conserve resources, or to invest in new products and processes to exploit competitor weakness.

- In general terms, the literature identifies three broad categories of strategy in recession conditions: retrenchment, investment, and ‘ambidextrous’ strategies.

  - **Retrenchment strategies** involve cutting operating costs and divestment of non-core assets. These appear to be the most common approaches adopted by businesses to deal with recession conditions, especially in the short-term. Analysts report divestment of businesses, closure of establishments, reductions in employment, expenditure cuts on a wide range of activities including R&D, marketing and employee training.

  - **Investment strategies** involve expenditure on innovation and market diversification. Recession is regarded as an opportunity to implement strategic change that would otherwise not have occurred. Many of today’s household names launched successful businesses during recessions. The evidence on businesses adopting investment strategies to manage through recession, however, is patchy. Such strategies are risky and many firms are likely to be too preoccupied with short-term survival to think about innovation and growth, or lack the resources to implement such strategies effectively.

  - ‘**Ambidextrous’ strategies** combine retrenchment and investment. It is likely that most firms adapt under recession conditions through judicious cost/asset-cutting behaviour and through investment in product innovation and market
development. Choosing the appropriate investments to make and costs to cut takes on additional importance during recession when market selection pressures are at their most severe.

**Strategy and Performance**

- **No single strategy.** Business performance is highly variable under recession conditions, and no particular strategy can guarantee survival and success. Much depends on contingent factors, for example, business resources and relations with other stakeholder groups – partners, competitors, customers, suppliers, government and others.

- **Business characteristics and performance.** The literature suggests that business performance under recession conditions does not map closely on to organisational characteristics such as business size or sector. Small enterprises are not necessarily more vulnerable to recession than larger organisations, despite media headlines that often present a contrary position.

- **Past and future performance.** Individual business performance rankings differ across the economic cycle. Pre-recession performance is not a reliable indicator of within- or post-recession performance. This suggests that businesses might be able to adapt to recession conditions in superior ways that lead to advantages over competitors.

- **Cost efficiencies might not be sufficient.** Think-tank participants argued that business strategies should involve more than simply securing cost efficiencies. Firms adopting an ambidextrous approach, combining cost efficiency drives with significant innovation and exploration activity, might be more likely to create, or take advantage of, market opportunities during recession.
Business size can affect how recession conditions impact on businesses and their ability to respond. The more limited resource base of small enterprises compared with larger firms, particularly in terms of finance and management capabilities, can affect their ability to scan, analyse and respond to major environmental change. Conversely, small firms often possess the flexibility to adjust resource inputs, processes, prices and products quickly in response to environmental shocks. Strategic flexibility, the ability to respond quickly to changing competitive conditions has a positive influence on performance after a crisis. The research suggests, however, that there is no overall simple ‘net’ effect of recession by size of firm.

Throughput and prices. Macro-level, quantitative studies of asset prices and quantities indicate that quantities vary more than prices over the business cycle, including during recession periods. This implies that most firms respond to macroeconomic shocks such as recession by maintaining prices, with the consequence that fewer units are sold.

Current business strategies. Commentators report both retrenchment and investment strategies in the period up to early 2009. Sources identify various cost-cutting activities, including reduced staff levels, owners working longer hours, and pay freezes and pauses. Others describe the recession as an ‘unexpected opportunity’ to identify new markets and develop new products to secure a competitive advantage. Understandably, commentators are less able to explore the outcomes of firms’ actions. Data is lacking as to the long-term, and even the short-term, consequences of firms’ adaptations under recession conditions.

The role of government The literature suggests that government has a role in encouraging innovation and being more flexible in the delivery of support. This might involve promoting cross-sector and cross-specialism linkages and dialogues with organisations in order to spark ideas for innovation. Propping-up outmoded
business models or industries in structural decline, a process accentuated by recession, may be less desirable than more experimental forms of intervention.

**Assessment/interpretation**

- Studies of business adaptation under recession conditions vary in scope and quality. Much analysis and commentary is descriptive, and often prescriptive, rather than explanatory. Sources often provide little explanation of why businesses adapt in the ways they do, the conditions that enable, or constrain, particular adaptations, or the specific factors that affect performance outcomes.

- Few academic studies specifically explore the causes, processes and consequences of strategic adaptation under recession conditions. There is, therefore, a need to draw on studies of adaptation to environmental shocks/jolts, endgame strategies in declining industries and business turnaround. The relevance of such studies to understanding business adaptation under recession conditions has to be argued for rather than assumed.

- Many studies identify particular adaptations under recession conditions, such as adjustments in marketing, R&D, training, and pricing. They tend not to report, however, whether such changes constitute a fundamental strategic change, for example, as part of a retrenchment or investment strategy, as distinct from an operational change.

- In an increasingly global economic system, where competitors, customers and supply chains operate across national frontiers, the stakeholders whose actions influence firms’ strategic adaptations and performance are frequently non-UK actors. The literature focusing on organisational responses to recession conditions rarely takes such global influences explicitly into account. Perhaps this relates, at least in part, to the previous UK recession occurring nearly 20 years ago when globalising tendencies were less prominent than they are today.
There are several major gaps or weaknesses in the literature: (i) a lack of rigorous academic studies focusing specifically on strategic adaptation under recession conditions; (ii) a simplistic approach, failing to elaborate the internal (business) and external (market, institutional, cultural) conditions that make particular strategic adaptations possible, or impossible; (iii) a limited understanding of the powerful influence of globalising tendencies upon firms’ strategic adaptations under recession conditions; (iv) a failure to link business strategy with performance outcomes, or to explain why some organisational strategies are more successful than others; and (v) the limited relevance of prior research to the conditions of the current crisis.
1. INTRODUCTION, RESEARCH OBJECTIVES AND METHODS

This review seeks to:

• Identify the pressures, threats and opportunities facing businesses operating in difficult economic conditions such as those currently being experienced in the UK and globally;
• Identify the strategies adopted by businesses that have experienced such conditions;
• Assess which strategies proved to be problematic and those that have allowed businesses to respond dynamically, survive and emerge strongly as economic conditions improved.

Forecasts vary as to the severity of the current global downturn. In March 2009, the International Monetary Fund (IMF) predicted the world economy would shrink by 1.3 per cent during 2009, the first contraction for 60 years (IMF 2009a), despite the fiscal stimulus implemented by many of the G20 governments; this contrasts with the forecast of 0.5 per cent growth in January (IMF 2009b). In May, the National Institute for Economic and Social Research (NIESR) suggested a decline of 0.5 per cent (NIESR 2009a). In June, the World Bank reported a more pessimistic outlook, predicting global Gross Domestic Product (GDP) will contract 3 per cent,¹ a marked drop from its March 2009 estimate of 1.7 per cent (World Bank 2009).

Key economic indicators tell the story of the recession in the UK. GDP has fallen for three successive quarters – 0.7 per cent in Q3 2008, 1.6 per cent in Q4 2008 and 1.9 per cent in Q1 2009 (ONS 2009a) - and financial commentators predict a further contraction during 2009 and, possibly, 2010. Forecasts for 2009 include the Chancellor’s estimated 3.5 per cent decline (HM Treasury 2009a), with others ranging from -1.3 per cent through to -4.5 per cent (HM Treasury 2009b; CBI 2009a; IMF 2009a; NIESR 2009a) – many of which are more pessimistic than forecasts made at the start of the year. One

very recent estimate suggests that the rate of decline may be slowing: NIESR report that GDP declined only 1.5 per cent in the three months to April and only 0.9 per cent in the three months to May (NIESR 2009b).

The crisis has been particularly keenly felt in the UK because of the degree of dependence on the hard-hit financial services sector and the high level of household indebtedness. The economic outlook regarding the depth and duration of the downturn remains highly uncertain (Bank of England 2009). Some suggest the UK will return to growth in 2010 (HM Treasury 2009; NIESR 2009b), while others predict further decline (IMF 2009a). The UK FTSE100 index shows that share prices have fallen by a quarter during the 12 months to June 2009. Business and consumer confidence in the UK have fallen substantially. Profit warnings hit a 7-year high in 2008 (Ernst & Young 2009) and a string of recent surveys highlight the decline in sales, employment, investment and expectations (BCC 2009a; CBI 2009b, c; SERTeam 2009; IFF Research 2009). One study suggests that one in 56 UK businesses will fail during 2009 with a further one in 50 failing during 2010 (BDO Stoy Hayward 2009). Many UK-based companies have already reported substantial job losses while others have closed down. UK unemployment rose to 2.22 millions in March 2009 (ONS 2009b), further reducing consumer purchasing power and confidence. UK house prices have fallen almost 16 per cent in the year to May 2009. Repossessions for the first three months of 2009 show a 50 per cent increase over the same period a year ago. Low aggregate demand is reflected in falling prices. The retail price index for April 2009 showed a fall in the annual rate for the second consecutive month, to -1.2 per cent, the lowest figure since records began in 1948 (ONS 2009c). Such difficult economic conditions pose major threats to, but perhaps also offer important opportunities for, businesses.

The review focuses on the advanced economies, principally OECD countries (Western Europe, North America, Japan) during the post-1970 period in order to inform analysis of prevailing UK conditions, although where relevant, experience in other parts of the world is drawn upon. These economies have changed substantially in recent decades,
making comparisons across time and space difficult, but sources are explored to see if there are any lessons that can be drawn from business responses to the macroeconomic shocks of the 1970s, 80s, 90s and the ‘dotcom bubble’ of 2000-1. Crucially, globalisation processes have intensified during the past thirty years, with economic activities increasingly interconnected (e.g. Frieden 2007). The evolving global landscape of economic activity reshapes the threats businesses face and the opportunities available to them; firms must adapt to this changing context if they are to survive and thrive during good times and bad.

Sources were identified using searches of library materials, electronic databases, Google Scholar and other Internet sources. A substantial amount of ‘grey literature’ providing commentary and analysis of the current crisis, and business responses to it, has appeared, including newspaper articles and studies by business bodies, management consultants and others. Sources vary in their aims – whether description, explanation or prescription - and quality. The review places greatest weight on sources that present convincing explanations as to why businesses adapt in the ways they do, linking business responses to the conditions that enable or constrain them to adapt in particular ways, and demonstrating how adaptation influences performance. Sources focusing specifically on firms’ strategic adaptations under recession conditions, however, are few.

The report is structured as follows. Next, we define ‘difficult economic conditions’, provide some theoretical approaches to understanding economic crises and offer a brief diagnosis of the current situation. The third section proposes a framework for understanding firms’ strategic adaptations to recession conditions. The fourth discusses the academic literature and the fifth examines contemporary commentary on the current crisis. The sixth section provides a summary of an expert ‘think tank’ discussion of the current situation and business strategy. Key findings are presented and relevant issues of concern to policy makers identified in a concluding section.

33 http://news.bbc.co.uk/1/hi/business/8051510.stm
2. RESEARCH CONTEXT

2.1 Defining Difficult Economic Conditions

This section defines ‘difficult economic conditions’ in order to establish the scope of the materials eligible for inclusion. Difficult economic conditions are defined primarily in terms of macroeconomic recession (falling national GDP) and, secondly, in terms of environmental jolts, shocks or hostility, including secular decline in the fortunes of particular industries. This permits a distinction to be made between businesses experiencing performance decline during periods of recession, or other environmental shock, and those suffering decline due to failure to adapt successfully to competitive pressures in buoyant conditions.

Market economies have historically been prone to fluctuations - booms and slumps - in aggregate activity over time. Analysts claim to have detected a pattern in these fluctuations, referring to changes in economic activity in terms of an economic cycle or as long waves of capitalist development. These fluctuations, or long waves, were brought to international attention by Kondratiev in the mid-1920s (Mager 1987). Investigating international data on prices from the late-18\(^{th}\) century through to the start of the 20th, Kondratiev identified three phases of the economic cycle - expansion, stagnation and recession – each complete cycle taking approximately 50 years. At that time, Kondratiev claimed to have identified three cycles. Economists have subsequently claimed to have detected a fourth and a fifth ‘Kondratiev wave’ based around oil, cars and mass production, and information and communications technologies respectively (e.g. Freeman 1984).

Although many analysts accept that economic fluctuations occur, there is less agreement as to their causes. Some attribute fluctuations to the bunching of innovations; others link fluctuations to the collapse of aggregate demand, itself due to declining investment and ‘animal spirits’ among businesspeople; yet others view the recurrent upswings and downturns as an inherent feature of the market system rather than as a consequence of shocks such as new innovations. Under the latter view, market economies are perceived
as prone to over-accumulation as firms’ pursuit of profit encourages continued investment until a situation of over-capacity is created, with too many goods and services produced relative to the level of aggregate demand. Over-capacity ultimately leads to a crisis of declining profitability, business failure, rising unemployment, and declining consumption – a ‘consumption crisis’. Access to credit can support consumption for a period of time, but not indefinitely. If credit becomes restricted, or consumers become unable to service their debt, then consumption is likely to decline with consequences for GDP and other macroeconomic indicators.

Regulation theory provides a way of understanding how economic, social and cultural institutions and norms play a role in stabilising market economies and creating the conditions for continued business profitability (e.g. Jessop 1990). Economic crisis encourages Governments to reconstruct the conditions for profitable business activity through redesigning the institutional and cultural framework within which firms operate. There is no guarantee, however, that any specific set of Government policies will resolve the crisis. Regulation theorists perceive successful policies as only temporary ‘fixes’ to the problem of continued accumulation, owing to the crisis-prone nature of market economies, rather than as a permanent resolution. Advanced market economies are argued to have passed through distinct historical periods, characterised by specific modes of regulation which provide particular fixes to particular crises; periods have been referred to as Fordism, Postfordism and After-Fordism (e.g. Peck and Tickell 1994; Beynon and Nichols, 2006). The UK, and indeed the world, economy may be approaching another ‘structural break’ or ‘phase shift’ and be about to enter a further distinctive period of economic development. Such a break would have important implications for the organisation of economic activity and for the strategies of incumbent and new enterprises.

For some commentators, recessions are periods of ‘creative destruction’, of economic restructuring, during which industries decline, often terminally, while new ideas, technologies, products and industries emerge and become the driving forces of subsequent economic growth (e.g. Bryson 1996). Recession conditions contribute to economic restructuring through at least two distinct processes: first, through business
churn – the entry and exit of firms; and, second, by motivating incumbent firms to adapt products and processes in order to increase or maintain business performance. Hence, *economies* adapt through changes in the population of businesses and through changes in the behaviour of incumbent firms. Our focus is primarily on adaptation by existing firms but a complete account should also explore cyclical effects on new firm formation and exit.

Recessions impact unevenly on industries, countries, regions and firms (e.g. Connaughton and Madsen 2009) and contribute to structural economic change as resources are transferred between existing industries, and from existing to new industries. Particular recessions present particular threats to, and enable particular opportunities for, particular firms with implications for strategy and performance. A key issue, therefore, is what lessons the experience of previous recessions provides to businesses and policy makers. We endeavour to draw these lessons out.

### 2.2 The Current Crisis

Particular recessions have particular causes that shape the depth and duration of the downturn. The worldwide recession of 1973-4, for example, was influenced by the embargo imposed by oil-producing countries and the subsequent rise in oil prices. This contributed to ‘stagflation’ in the advanced economies - high price inflation combined with weak economic growth - from which the UK recovered slowly throughout the 1970s. The early-1980s UK recession was induced largely by Government policies to restrict the money supply in order to contain inflationary pressures. The impact on interest rates and sterling led to intense difficulties for UK firms unable to access investment finance, and for exporters. The early-1990s UK recession was, in part, caused by UK Government attempts to peg sterling to the European Exchange Rate Mechanism (ERM), culminating in ‘Black Wednesday’ which saw interest rates rise five per cent in a single day before withdrawal. This, again, impacted particularly strongly on UK exporters. The UK experienced a sustained period of economic growth from 1992, with GDP rising every quarter even during the ‘dotcom bubble’ slowdown of 2000-1. This slowdown led to a market re-evaluation of ‘over-priced’ technology companies, although GDP recovered with few apparent longer-term repercussions for the UK
economy. The present crisis exhibits similarities with the crisis of 1929. Both were preceded by high credit growth and an asset price bubble that led to substantial losses in the banking sector (von Mehren 2009).

While the precise causes of the present global crisis, and the weight to be attached to them in particular national contexts, continue to be debated, a number of points are widely accepted. The immediate trigger for the recession was the financial crisis, embracing banks and other organisations in many countries, engendered by the widespread default of ‘subprime’ mortgage holders in the USA. But, commentators argue, for such defaults to generate widespread damage to the global financial system and the world economy, a range of contributing conditions needed to be in place (e.g. Glyn 2006; Blackburn 2008; Peston 2008; Hildyard 2008; Cable 2009; Wong 2009; Rapp 2009; Jain 2009; Cloke 2009; Swan 2009; House of Commons Treasury Committee 2009).

Causes of the current recession reportedly include: the limited reach of the regulatory framework, that required banks to weight assets according to their risk but also permitted the creation of new, structured finance products to escape regulatory requirements; the availability of funds to Western capital markets, including considerable amounts from China, facilitating lending; low interest rates, stimulating the demand for credit for investment and consumption, and consequent high levels of indebtedness; the emergence of a ‘shadow banking system’ enabling financial organisations to take on certain banking functions and loosening the rules governing borrowing and lending; the financialisation of debt, enabling the conversion of consumer debt into tradeable securities (including mortgage-backed securities) whose value, and associated risks, were difficult to establish\(^4\); the global trading of such securities, that transmits problems internationally; finance providers’ remuneration systems that encourage ‘excessive’ risk-taking with little concern for borrower default, partly motivated by traders’ beliefs that Government will intervene in the case of market

\(^4\) One commentator has described the market for derivatives as a giant pyramid scheme, whereby some initial investment can generate 40 times the initial investment without any change in the ‘real economy’ underlying such transactions (Hutton 2009). An estimate of the global trade in derivatives puts the figure at 12 times the entire global capital base (Cloke 2009).
instability; the failure of credit rating agencies and auditors to assess the value and risk of financial assets and products appropriately; and the housing and asset bubbles, that encouraged investors, businesses and consumers to take on debt. Volatility in energy prices during 2008 also contributed to the climate of economic uncertainty.

Each of these factors has arguably contributed to the present crisis, first by impacting finance providers’ balance sheets and, second, by influencing the demand for, and supply of, credit to businesses and individuals. Defaults on subprime mortgages triggered defaults on other financial products, as payments to creditors holding derivative products could not be made. This encouraged investors to recover their investments, stimulating a run on a number of institutions, exemplified by the case of Northern Rock. Fear of exposure to what have become known as ‘impaired’ or ‘toxic’ assets caused banks to reduce lending to each other and this stimulated a general contraction of liquidity in the wholesale finance markets. The global nature of the financial services industry led to problems originating in the US subprime mortgage sector being transmitted throughout the world. The crisis has led to the collapse, Government bail-out or partial nationalisation of major financial institutions in the US and Europe; to major programmes of fiscal and monetary reform; and to support for businesses and homeowners in the UK and elsewhere to combat the crisis (HM Treasury 2009; IMF 2009a).

Previous recessions can provide pointers as to possible responses by UK businesses and policy makers but, given the specificities of the current crisis, it is difficult to predict trends precisely or to prescribe courses of action with a high degree of confidence in their likely success. One key feature of the present situation with strong implications for business responses, and one which renders it different from previous recessions, is the increasing globalisation of economic activity. Globalisation refers to the multiple forms of interconnectedness between people and places via flows of goods, services, finance, people and information (e.g. Holton 2005; Perrons and Posocco 2009; Hazakis and Siousouras 2009), including the cross-border value-chains of multinational enterprises (Prakash and Hart 2000). Such processes have been encouraged by the declining costs of transport and communications, reduced barriers to trade, the collapse of command
economies and the influence of liberal market ideologies (Gilpin 2002; Harvey 2007). Globalisation processes are complex to comprehend, and even more difficult to manage (Micklethwait and Wooldridge 2003), as business activities and outcomes are influenced by the actions of distant others and, reciprocally, local action influences those far away (e.g. Hutton and Giddens 2001; Giddens 2002). Globalisation creates new opportunities and threats (Prakash and Hart 2000), adds substantial complexity to business decision-making, and generates endemic volatility and uncertainty in market processes that increases the risks of choosing and implementing particular strategies. Market instability has been particularly pronounced in the finance sector, where the scale and velocity of financial movements across national borders has increased the vulnerability of national Governments to sudden shifts (Gilpin 2002; Glyn 2006; Allen and Gale 2008). Currency speculators can have a serious impact on national Government aims and policies, as happened in the UK in 1992. Even large, powerful multinationals may find it difficult to manage global influences that inevitably shape business adaptation and performance under recession conditions, whether or not business owners/managers are even aware of them.

The global nature of the crisis, it might be argued, has the potential to generate more far-reaching consequences than other post-1970 recessions because of the effects on the supply of bank finance. The recent IMF review of recessions and recoveries in 21 advanced economies found that recessions associated with financial crises, and recessions that are highly synchronised across countries, have been more severe and longer lasting than recessions associated with other shocks (IMF 2009a: ch3). Recovery tends also to be slower. Credit restrictions impact upon businesses directly by limiting access to finance for investment or working capital purposes, and indirectly by limiting customers’ capacity to purchase the goods and services businesses provide. With Bank of England base rate at its lowest in its 300-year history, 0.5 per cent, the issue is raised as to whether there are more fundamental reasons for the recession than credit restrictions.
3. ANALYTICAL FRAMEWORK

An analytical framework for examining business strategy and performance during difficult economic conditions is presented in Figure 1. Business strategy and performance vary with resources and capabilities, owner/manager perceptions of the threats faced and opportunities available (e.g. Thomas et al. 1993), and the wider organisational, market, institutional and cultural contexts (e.g. Clark and Mueller 1996; Schoenberger 1997; Whitley 2007). The capital, labour and product markets within which firms operate, their sensitivity to economic downturn, and the wider institutional context, including the quantity and quality of government support to business, are major influences on how firms adapt to recession conditions, and their subsequent performance.

Firms’ resources and capabilities may be exploited to increase operational efficiency, or dynamic capabilities may be developed to explore new opportunities for revenue generation. To leverage their capabilities, firms implement a variety of strategies, for example, portfolio strategy (divestment, acquisition, alliance, new product development), growth strategy (for example, consolidation, withdrawal, launching new products, entering new markets), business strategy (for example, cost focus, differentiation or hybrid) and financing strategy (for example, debt rescheduling, raising equity). Strategies are implemented through a range of revenue generation and efficiency-enhancing actions. Performance outcomes include sales, profit and market share achieved.
Industry context (and degree affected by recession) -> Market (and degree affected by recession) -> Government (extent of bail-out)

Capabilities
- Organisation’s existing resources and capabilities
- Operational excellence/exploitation
- Organisation’s dynamic capabilities
- Innovation/exploration

Strategies
- Portfolio strategy (retrenchment, divestment, acquisition, joint venture, NPD)
- Growth Strategy (new products/new markets)
- Business strategy (cost, differentiation, hybrid)
- Finance strategy (loan rescheduling/equity etc)

Actions
- Measures taken (bottom line - efficiency, cost cutting, financing)
- Measures taken (topline – revenue-generating)

Performance
- Sales
- Profit
- Market share

Figure 1 Analytical Framework
Recessions generate contradictory tendencies, some constraining firms from achieving their objectives, while others are enabling. Falling GDP exerts downward pressure on consumer expenditure and confidence, with implications for business performance, while at the same time influencing asset prices downwards, which is enabling for resource acquisition. Declining aggregate demand is also likely to lead to business exits, particularly among new firms (Geroski et al. 2007), thereby enabling higher market shares for surviving firms. Both processes – constraining and enabling surviving firms - occur simultaneously, but unevenly, during recession. Firms experience, and contribute to, these tendencies in particular ways through their resource acquisition and mobilisation activities. There is no single ‘recession effect’ for businesses, nor consequently any particular ‘best way’ to adapt applicable to all businesses. Successful strategies to cope with recession are likely to be context-specific, varying across industrial and geographical settings.

Markets impart pressure on firms to adapt to changing circumstances, or to risk decline and exit. But businesses vary in their interpretation of market signals and expectations of stakeholders’ responses, including actual and prospective partners, competitors, customers, suppliers, investors and Government, among others. Identification of particular threats and opportunities, however, tells us nothing about how firms choose to adapt or why they do so in the ways they do, or what the consequences of adaptation are. Businesses always have some discretion regarding the strategies they adopt, although the degree of choice is often severely constrained by resources or circumstances (e.g. Whittington 1989). Larger enterprises, for example, might possess greater discretion concerning strategy choice owing to their superior resource base and higher resilience to environmental shocks. Firms take strategic decisions about which goods and services to provide (and, therefore, which markets to enter or exit), and how to produce them, set prices, and attract particular kinds of customers. This is true of businesses during recessions and in buoyant times.

All businesses are involved in a network of relations with other stakeholders – competitors, for example – and this influences business strategy and performance. Industry recipes for action, and market size and stability/volatility, for example, influence
managerial behaviour and its outcomes. Firms operating in markets demanding frequent product innovation - for example, many consumer electronics markets - are likely to face pressures to innovate even during recessions. Innovation often requires continued investment in R&D, training and intellectual property rights. Firms with limited resources who are unable to secure additional finance might find it difficult to undertake strategies involving costly investment. Conversely, in price-sensitive markets, firms must consider whether price reductions, or price maintenance, is more likely to generate higher revenues, particularly where competitors are doing the same. Recession conditions might, of course, stimulate sales for particular kinds of goods, for example, where customers switch to lower-priced providers in order to reduce expenditure. Insolvency services firms, for instance, might increase sales as the number of business exits rises and demand for such services expands. Recessions generate a diversity of threats, opportunities and business responses.

The performance consequences of strategic adaptation are similarly variable. Firms adapting quicker and better – without knowledge of what constitutes ‘better’ in advance - will be more likely to survive the recession and position themselves well for the recovery. But, however firms choose to adapt during recession, their actions will generate longer-term consequences. Cutting investment expenditure in order to conserve resources, for instance, might ensure short-term survival but may also adversely affect firms’ ability to compete when the upswing comes (Smallbone et al. 1999a). Alternatively, maintaining resources at pre-recession levels might lead to slack capacity, excessive overheads and declining profitability.

4. THE BUSINESS STRATEGY AND MANAGEMENT LITERATURE

In this section, we review the academic literature from business strategy, management and organisation studies to address the following questions:

- How do businesses adapt to the competitive environment during difficult economic conditions in the ways they do and not otherwise?
- Why do businesses choose to adapt in the ways they do?
- What conditions enable, or constrain, particular types of strategic adaptation?
• How do such adaptations contribute to short- and long-term business performance?

There are a limited number of studies specifically addressing business responses under recession conditions, so the literature search was extended to include research on firms respond to ‘environmental jolts’ such as market turbulence, hyper-competition, secular industrial decline, and business turnaround. Adaptation to a changing environment is a necessary condition of organisational survival under both recession and buoyant conditions; failure to adapt leads to performance decline and exit. There may be useful lessons to learn from non-recession-specific sources.

4.1 Business Strategy: General Considerations

Business strategy is essentially about two questions: what kind of business is the firm in? And, given this choice, how do firms compete? Strategic management is concerned with how firms generate and sustain competitive advantage in order to generate superior profit. In developing strategy, firms undertake three sets of activities: strategic analysis, strategic choice and strategic implementation. Typically, businesses are reported to assess their strategic position by: (a) scanning the environment for potential market opportunities and threats; (b) evaluating their strategic capability; and (c) assessing the enablers and constraints of strategy. Firms differ in how they undertake these activities. In large enterprises, strategic analysis, choice and implementation are often distinct activities, carried out by different people, whereas in small firms, a single person might perform all three, often at the same time (Curran 1996; O’Gorman 2006).

There are two mainstream schools of strategy in the contemporary literature: the ‘positioning school’ and the ‘resource-based view’ (RBV). The positioning school, popularised by Porter (1980), views the firm as concerned with achieving ‘strategic fit’ with its environment; that is, with evaluating the competitive forces operating within the environment (Porters’ Five forces) to assess where and how best to compete. In the RBV school, initiated by Penrose (1959) and later developed by Rumelt (1984), Wernerfelt (1984), and Barney (1991), a firm’s competitive advantage lies mainly in the bundle of resources at its disposal and how it can stretch these to achieve competitive advantage.
Recent analysts have extended the RBV using the concept of ‘dynamic capabilities’ to refer to the firm’s ability to develop and extend resources and competences to adapt to a changing environment (Teece, et al., 1997; Eisenhardt and Martin, 2000; Teece, 2007). In a radically changing environment, such as the current recession, the concept of dynamic capabilities may be helpful in developing a framework for understanding why some firms succeed, some eke out survival, and some fail. There are, therefore, dual concepts of strategic fit and strategic stretch, or more colloquially looking at the firm from the outside in, or from the inside out. Both perspectives are important in explaining business behaviour, including adaptation under recession conditions.

4.2 Strategic Adaptation to Environmental Jolts, Turbulence and Radical Institutional Change

Adapting to environmental shocks is a capability all businesses have to develop in order to survive. Environmental shocks, or jolts, reshape the opportunities and threats the firm faces and are likely to render existing business strategies ineffective (Meyer et al., 1990). Different types of environmental shock can occur with which businesses have to cope; such shocks change the level of environmental munificence, the level of resources available in a particular environment. Recession, an environment of falling GDP, is one type of shock. Much strategy literature is concerned with strategic change in circumstances of environmental jolts, turbulence, radical institutional change, industry deregulation or hyper-competition. Although this literature does not always relate specifically to recession, certain themes may be relevant. Grewal and Tansuhaj (2001), for instance, show that strategic flexibility, the ability to respond respond quickly to changing competitive conditions (Hitt, et al., 1998) has a positive influence on business performance after a crisis. Others suggest that discontinuous change within an industry stimulates the formation of inter-organisational relationships, promotes experimentation with new organisational forms and precipitates affiliations spanning industry boundaries (Meyer, 1982). Inter-organisational networks absorb uncertainty arising from revolutionary change. Dixon et al. (forthcoming) discuss the dynamic capabilities required to survive and succeed in a transition economy – namely, the interactions between exploitation learning (learning to do things better) and deployment capabilities within the organisation, and the interactions between exploration learning
(creation, experimentation) and the search and selection capabilities required to manage innovation routines. The concept of the ‘ambidextrous organisation’ (He and Wong, 2004; Raisch and Birkinshaw, 2008; Tushman and O'Reilly, 1996) may be of relevance here.

4.3 Strategic Adaptation to Recession
Strategic change is often a complex process, involving planning by business owners and senior managers, and entailing long-term consequences for business performance. In hyper-competitive or crisis situations, however, short-term considerations might be dominant. Business restructuring in the form of replacement of managerial elites, functional reorganisations, and other changes to internal arrangements are often a precursor to, or a consequence of, strategic adaptation to recession (Whittington 1991; Geroski and Gregg 1994).

Recessions present businesses with a dilemma (Chastain 1982; Deans et al. 2009). On the one hand, firms experience pressures to cut costs in order to maintain survival in the short-run at the risk of reducing capacity to such a degree that the firm is unable to adapt adequately when recovery comes. On the other, businesses might also face pressures to maintain greater capacity, and thereby incur higher costs in the short-run, in order to retain the capability to adapt when the upswing comes and realise opportunities for long-term value creation. Silberston (1982) distinguishes the ‘statically efficient’ firm, one making the most efficient use of resources in given circumstances, with the ‘dynamically efficient’ firm, one capable of surviving changing circumstances. Clearly, businesses must be able to be both statically and dynamically efficient if they are to endure. Firms must be able to cut their cloth to survive present conditions while at the same time continue to invest in business development if they are to sustain satisfactory performance beyond the recession. So how, then, do businesses adapt under recession conditions?

There are a number of approaches to explaining how firms adapt under recession conditions. One view argues that incumbent firms suffer from organisational inertia, which prevents them from adapting to new, hostile environmental conditions.
Alternatively, the ‘pit-stop’ theory of business behaviour suggests that in recession firms are more willing to innovate because the opportunity costs of not undertaking such action are lower than during more buoyant times (Geroski and Gregg 1997). Failure might induce unsuccessful firms to search for alternative ways of doing things (Cyert and March 1963). Businesses are more likely to have slack capacity during periods of falling sales, as resource stocks exceed current use. Under such circumstances, businesses might bring forward investment and innovation plans to take up the resource surplus and because incentives to continue business as usual are reduced. On the other hand, success also creates organisational slack, generating additional resources for innovation (Bourgeois III, 1981).

For simplicity, three types of business strategy are distinguished: retrenchment, investment, and ‘ambidextrous’ strategies. It is worth noting that studies tend to suffer from survivor bias, that is, they report the perceptions and actions of surviving firms; it is unclear whether, and how, these differ from non-surviving firms. The three strategy types are discussed below.

4.4 Retrenchment Strategies
Retrenchment strategies involve cutting operating costs and divestment of non-core assets. In times of recession, business horizons often shorten with owners/managers focusing on immediate survival rather than on long-term aims. Believing it is easier to reduce costs than generate additional revenue, many businesses choose to retrench. Commentators report divestment of businesses, establishment closure, reductions in working hours and employment, expenditure cuts on a wide range of activities including R&D, marketing and employee training (Rones 1981; Shama 1993; Geroski and Gregg 1997; Michael and Robbins 1998; DeDee and Vorhies 1998).

Geroski and Gregg’s (1997) study of 600 mainly large UK manufacturing and service companies during the early-1990s recession found that most firms adapted by refocusing the business, understood largely in terms of controlling costs, particularly by laying off labour and closing establishments. Expanding or reducing product lines was much less common. The authors argued that, during recession, firms have additional
incentives to cut costs, in contrast to cyclical upturns where there is less incentive to do so because revenues are rising. Investment in plant and equipment declined but investment in intangibles like training, R&D and advertising was affected less by recession. The study provided limited evidence for the ‘pit-stop’ theory of business behaviour during recession: only a small number of businesses brought forward investment plans because they had the resources and time to do so.

The businesses most affected by recession were holding companies, those with highly dispersed ownership structures, and those that grew unusually fast during the mid-late 1980s. Interestingly, business performance rankings differ across the economic cycle. Pre-recession profit performance is no indicator of within-recession or post-recession profit performance (Geroski and Gregg 1997), suggesting market selection pressures operate on factors in addition to pre-recession profit performance. Previously profitable firms might experience specific cost or demand shocks during recession that contribute to poor profit performance. Conversely, previous poor performers may adapt to recession in ways that enable them to increase performance.

Innovation activity is often cut during recession. Geroski and Walters (1995) found that innovation activity tends to vary over the business cycle, with fewer major innovations and patents awarded during periods of downturn. Businesses undertook considerable organisational restructuring too, although less than during the immediate pre-recession period which witnessed high levels of merger and acquisition activity. Business expenditure on R&D in the advanced economies declined during the 1990s recession, falling as a proportion of GDP in the years 1990-95 (OECD cited in Lord Sainsbury 2007). In such an environment, one might expect the emphasis to be on cost-rather than quality-driven innovation, as users place a premium on low cost (Leadbeater and Meadway 2008). One example is the low-cost airlines that emerged from the early-1990s recession. Accenture (2003a) found that many UK companies followed the conventional wisdom in responding to the downturn of 2000-1 by cutting costs, delaying investment and retreating to core markets. But, the authors argue, this was a mistake. The best performers in the period following the early-1990s recession were argued to be
those experimenting with new business models, making strategic acquisitions, and developing new market or customer niches.

Studies often provide descriptive data on firms’ adaptations to recession conditions but little insight into motivations for the particular adjustments implemented, the conditions that enable or constrain such adaptations, or the impact on performance (e.g. Judd and Lee 1981; Churchill and Lewis 1984; Barrett 1990; Altany 1991a, b; Sample 1991; Shama 1993; Lansley 1997; Beaver and Ross 2000; Janoff 2001; Cooke 2002). These studies are not without merit; it is a matter of the depth of insight they provide. Description is a necessary, but not sufficient, condition for offering a powerful explanation of how and why firms adapt in the ways they do during recession. Description alone might lead casual observers to believe all firms are able to adapt in similar ways. Both the RBV and positioning schools would disagree with this view, explaining business responses under recession conditions in terms of resources and industry structures respectively.

Harrigan (1980) investigated firms’ ‘endgame strategies’ in seven US industries in decline during the late-1970s. The study focused on how businesses cope in an environment in which future demand is expected to be lower than current demand and, therefore, the resale value of business assets is likely to decrease over time. Harrigan identified a range of strategies varying in terms of the level of market share sought, and the degree of reinvestment needed to maintain a particular strategic position. Strategies include:

- ‘increased investment’, with the aim of attaining market leadership;
- ‘holding the investment level’, to continue with tactics used previously;
- ‘shrinking selectively’, to reposition the business, by retrieving the value of some prior investments while reinvesting elsewhere if necessary;
- ‘milking the investment’, to harvest the value of earlier investments, without regard for long-run positioning; and
- ‘immediate divestment’ to recoup asset value.

Endgame strategies were associated with various market characteristics, industry structural traits, the needs of the firm exogenous to the endgame industry, and the
firm’s internal strengths relative to industry rivals. Business survival and success relate to matching strategy to the ‘endgame environment’. Pressures on price, capacity and margins vary across declining industries, as do the customer base, technology, marketing and competitive response. There may be some overlaps between firms’ strategies during recession and endgame strategies in declining industries but, perhaps, this should not be pushed too far unless recession pushes an industry into an endgame environment. Otherwise, firms are likely to perceive the recession as a temporary interruption to a pre-existing demand trend line and behave with a view to exploiting opportunities once recession passes. Business strategies would then likely reflect an understanding of the longer-term opportunities likely to become available rather than necessarily presupposing demand to be on a terminally downward trajectory.

The ‘business turnaround’ literature investigates how businesses take action to arrest performance decline and then improve (e.g. Hofer 1980; Slatter 1984; Robbins and Pearce II 1992; Grinyer and McKiernan 1992; Pearce II and Robbins 1993; Winn, 1996; Barker and Duhaime 1997). The bulk of this literature does not relate strategy and performance to recession, although turnaround attempts often occur during periods of recession. Slatter (1984) reports recession as the fifth most cited trigger of decline, out of 18 discussed. ‘Turnaround situations’ vary with regard to the nature and extent of the performance decline, and the benchmarks against which decline is measured – for example, a firm-specific historical standard, or an industry or national benchmark. Turnaround is also defined variably by analysts: as some specified increase in performance relative to an historical, industrial or other benchmark within some specified period. Studies typically identify ‘retrenchment’ and/or ‘investment’ responses to secure survival and improve performance (e.g. Robbins and Pearce II 1992; Denis and Kruse 2000), although such attempts might fail (e.g. Slatter 1984; Pajunen 2008). Reviews of the turnaround literature suggest that retrenchment is the key to successful turnaround, either as a stand-alone approach or as a precursor to a recovery strategy (Pearce II and Robbins 1993; Duhaime and Barker 1997). A question arises as to the relevance of the turnaround literature derived from poor adaptation to environmental change during buoyant conditions for business adaptation during recession. Arguably, businesses are likely to adapt differently in recession and buoyant conditions, as they
perceive market opportunities and threats differently. Buoyant conditions may well support a broader range of strategies than recession conditions, where market selection pressures are less forgiving.

In summary, retrenchment strategies appear to be the most common approach adopted by businesses to deal with recession conditions, especially in the short-term. Looked at in a positive light, the current recession provides a stimulus for firms to re-examine their portfolios and focus on the core, as well as giving them a good reason for increasing efficiency - cutting operating costs and divestment of non-core assets. Looked at in a negative light, cost- and asset-cutting might be considered a knee-jerk reaction to adverse market conditions, rather than a proactive strategic repositioning of the firm, and one that weakens the capacity of the business to respond when conditions improve. There is some sensitivity to the variable impacts of recession on particular businesses and to the heterogeneity of business responses but beyond that, there is often little analysis elaborating why firms choose to retrench, the conditions enabling or constraining retrenchment, or the connections between retrenchment and business performance.

4.5 Investment Strategies
Analysts have identified firms choosing to adapt during recession by pursuing investment strategies. In contrast with retrenchment, such firms perceive recessions as opportunities to invest, innovate and expand into new markets in order to achieve or extend a competitive advantage during the recession and beyond. Many of today’s household names launched successful businesses during recessions. Rockefeller and Carnegie established dominant positions in the emerging oil and steel industries during the 1870s recession by taking advantage of new refining and steel production technologies and of the weakness of competitors (Bryan and Farrell 2008), and Edison established General Electric (Lynn 2009). Hershey developed their brand and distribution advantages during the 1893-97 depression and Kellogg’s grew out of the 1920s depression (Rumelt 2008). The motor, electrical and chemical industries that were crucial to post-war British industry became prominent during the 1930s. The Microsoft and Apple corporations were both founded in the mid-1970s, following the oil-crisis.
Several studies argue that firms adapt to recession conditions by implementing business strategies centred on investment, innovation and market diversification, and that such strategies lead to higher levels of business performance. Examples include: new product development and targeting new market niches (Clifford 1977; Hayter 1985; Picard and Rimmer 1999); increased marketing spending (Goodell and Martin 1992; Pearce II and Michael 1997; Roberts 2003; Srinivasan et al. 2005; Pearce II and Michael 2006); ‘value-centric’ pricing strategies, whereby resource-rich firms emphasise quality and brand rather than low prices to attract customers, or, alternatively, adopting ‘predatory pricing’ policies, to maintain low prices in price-sensitive markets (Chou and Chen 2002). Navarro (2005) provides examples of US-based companies implementing counter-cyclical strategies regarding human resource management, capital expenditure, acquisition and leveraging macroeconomic risk. These studies provide descriptive data on firms’ adaptations to recession conditions but, in most cases, lack insight into why businesses adjust as they do, or are unable to explain why such strategies generate higher levels of performance. Chou and Chen (2002) are unusual in linking strategy under recession conditions to the firm’s resources. Retailers with limited resources were much less likely to be successful in either price- or non-price sensitive markets. Pettigrew (1985) reports that ICI sales rose substantially in the aftermath of the 1973 oil crisis, as shortages of petroleum-based raw materials brought about higher prices.

Macro-level, quantitative studies of asset prices and quantities indicate that quantities vary more than prices over the business cycle, including during recession periods (e.g. Bhaskar et al. 1993; Geroski and Hall 1995). This implies that most firms respond to macroeconomic shocks such as recession by maintaining prices, with the consequence that quantities sold diminish. For some firms, this is likely to translate into lower sales and, in some cases, exit. Such studies provide useful data on firms’ responses under recession conditions but little insight into why firms choose to respond in this way or whether price maintenance is accompanied by efficiency-enhancing measures.

Data from studies of firms adapting to environmental hostility or jolts might also offer pointers to how firms adjust to recession conditions. One study of 344 small
independent US manufacturing firms found that business performance in hostile environments – defined as one threatening the viability of the firm - was positively related to an entrepreneurial strategic posture, an organic structure, a long-term orientation, high product prices and a concern for predicting industry trends (Covin and Slevin 1989).

More recent studies stress the need to perceive the recession as an opportunity, not a threat (Rumelt 2008; Williamson and Zeng 2009). The current recession is characterised by its global nature and the risk that companies in emerging markets might be more nimble than Western companies in adapting, and thus wrest market share away from incumbents. Williamson and Zeng (2009) maintain that a key strategy Western businesses might adopt to avoid this is to focus on developing what emerging markets do well – offering value for money. They therefore recommend that companies invest in research aimed at product or service innovation that offers the same functionality but at lower cost.

In summary, the evidence on businesses adopting investment strategies to manage through recession is patchy. Such strategies are risky and many businesses are likely to be too preoccupied with short-term survival to think about innovation and growth. Investment strategies require resources – finance, managerial skills, technical expertise – and firms with limited resources are less able to implement them. Nevertheless, history has shown that companies can secure competitive advantage during recessions through innovation in products, services and business models and by entering new markets. But studies often make little attempt to explain why particular firms adopt investment strategies or to elaborate the conditions that make such strategies possible or, indeed, the potential risks of attempting such strategies. Such accounts imply that where businesses adopt investment strategies, success necessarily follows. The process of implementing investment strategies and achieving successful outcomes is likely to be much more complex than this suggests. Moreover, such prescriptions ignore the externalities issue: if all firms adopted investment strategies, would all succeed? In times of recession, when many customers trade down to cheaper products, market
conditions may not support a wide range of new innovations or a large number of firms seeking to diversify.

4.6 ‘Ambidextrous’ Strategies

‘Ambidextrous’ organisations combine incremental change with discontinuous change, or the exploitation of existing resources to improve efficiency, with exploration of new sources of competitive advantage and innovation (Tushman and O’Reilly, 1996; He and Wong, 2004; Raisch and Birkinshaw 2008). Such organisations are said to combine retrenchment and investment strategies. Indeed, it is likely that most firms adapt under recession conditions through judicious cost/asset-cutting behaviour and through selective investment in product innovation and market development. Accenture (2003b) reported that this was related to what businesses do during good times as well as during recession. Firms are likely to need to combine increased efficiency with increased innovation in order to position themselves for an upturn. Cost-cutting alone can leave businesses unable to take advantage of an improvement in trading conditions. Choosing the appropriate investments to make and costs to cut takes on additional importance during recession when market selection pressures are at their most severe. Geroski and Gregg (1994, 1997), for example, identified firms implementing a wide range of investment and cost-cutting activities.

Whittington (1989), in case studies of eight large enterprises in the UK domestic appliance and office furniture manufacturing industries, found that companies are able to exercise strategic choice even during recession periods. Firms, especially large ones, possess the resources to shape their environments and to choose a strategy likely to bring success in that environment. Recession imposes no single logic of cost- or asset-reduction on businesses. Case study companies responded to recession with varying mixes of cost-cutting, divestment, capacity expansion and market diversification, and achieved varying levels of performance. Effective response to recession depends on firms adapting in ways appropriate to their particular circumstances. Not all options were available to all businesses and successful strategies cannot be imitated easily. The most successful companies maintained pricing policies, ‘stuck to the knitting’ regarding product range but invested heavily in production capacity, had strong leadership, high
management morale and unusual freedom from parent companies and external shareholders. Stable top management was not necessary for success. Where managements were changed, the effects were generally beneficial although incumbent elites can often reform themselves effectively. Change does not necessarily work and should be done quickly.

In a separate survey of 103 UK manufacturers in eight sectors during the 1980s recession, Whittington (1991) identified business strategies and their performance outcomes. The most commonly reported actions were the introduction of new or improved existing products and putting pressure on suppliers. Using managing directors’ and chairmen’s responses to 18 strategy elements on a 5-point Likert scale, five distinct business clusters were identified. These were:

- the ‘moderate product diversification’ cluster, the largest group, protected their resource base while undertaking some modest pre-emption in existing markets and diversification into others;
- the ‘protective diversification’ cluster tended to both protect and pre-empt, stressing process innovation, introducing new products, improving existing products and increasing exports;
- the ‘rationalising diversification’ cluster emphasised reducing working capital and manpower but combined this with an emphasis on improving existing products and introducing new ones;
- the ‘rationalising focus’ cluster stressed vertical disintegration, divestment, eliminating product lines, and cuts in manpower and working capital; these activities best resemble retrenchment strategies;
- the ‘conservative rationalisers’, focused on cutting back capital investment and demonstrated an unwillingness to change the basic scope of existing activities.

Interestingly, no clear significant relationships were found between recession strategy types and recovery performance. This highlights the diversity of business responses to recession conditions and the uncertainty of subsequent performance outcomes.
There is some evidence that firms adapt strategy across the business cycle. In a study of the US oil-drilling industry, Mascarenhas and Aaker (1989) found that, initially, businesses continue business as usual, retaining current assets, employment levels, investment, overhead and activities. As recession deepens, many businesses decide to implement major cost- and asset-cutting responses with the aim of refocusing on core business. If such measures fail to revive performance, more drastic action will be taken. DuPont reportedly ratcheted down capital expenditure in 2001 as recession took hold and used the increased cash reserves to take advantage of a falling stock market to make seven strategic company acquisitions, mostly at bargain prices (Navarro 2005). These acquisitions provided valuable new technologies to penetrate new growth markets as recession turned to recovery. There is no guarantee, of course, that fundamental reform will succeed; business failure as well as turnaround is a possible consequence of strategic adaptation (Pajunen 2008). This suggests that firms should monitor the business cycle closely and be prepared to adopt different strategies during boom and recession periods.

Köksal and Ö zgül (2007), in a study of 172 Turkish companies, found that firms focusing R&D on product development to capture niche markets, and technology and production methods that save costs, perform most successfully during a recession. Hall’s (1980) survey of 64 large US corporations in eight industries in the late-1970s in ‘hostile environments’, found that high levels of business performance were most likely to be achieved by companies able to achieve either the lowest cost or most differentiated position. Survival is possible for those companies reducing asset commitments into niches and undertaking meaningful diversification.

Pre-emptive action might enable businesses to cope better once recession starts than reacting once difficult economic conditions have begun to bite (e.g. Bigelow and Chan 1992). A study of Nokia reported the successful action taken during buoyant times in anticipation of expected industry changes (Carral and Kajanto 2008). The company disposed of many non-core activities in order to concentrate on the more lucrative mobile telephone market in the late-1990s. The implication of the study is that
businesses should always be looking ahead to anticipate environmental changes that will impact upon them, and take action to adapt before performance declines. Pearce and Michael (1997), in a study of 118 US manufacturers during the early-1990s recession, found that firms’ prior marketing strategies influenced the extent of the economic impact on the business and the likelihood of a timely and full recovery. They suggest firms maintain marketing activities in the core business and, during peak periods, expand cautiously with an emphasis on marketing efficiency. Planning for recession might be the best way of adapting to it once it arrives, and of facilitating survival and possibly growth.

In summary, ‘ambidextrous’ strategies seem to offer firms both a short-term route to survival, as well as a longer-term opportunity to secure competitive advantage. Neither retrenchment nor investment strategies alone can be regarded as universal panaceas for recession conditions. The judicious combination of exploitation (improving efficiency) with exploration (seeking new sources of competitive advantage) appears to be an important strategy in recession.

4.7 Business Size as an Influence on Strategic Adaptation to Difficult Economic Conditions

A firm’s size can affect both the nature of external environmental impacts and the mechanisms through which they are transmitted, as well as the firm’s ability to respond (Curran, 1996). The more limited resource base of SMEs compared with larger firms, particularly in terms of finance and management, can affect their ability to scan, analyse and respond to major environmental change (Smallbone et al, 1999b). Business size shapes perceptions of external pressures, threats and opportunities, the business strategies adopted, and the levels of performance achieved (Curran, 1996). Interestingly, some studies suggest that small businesses are less likely to perceive negative impacts on performance during recession periods (Shama 1993; Latham 2009). Large companies tend to have greater scope for strategic choice because of their superior resources to scan the environment for potential market opportunities, to develop a wider range of capabilities and also facilitate greater resilience to withstand difficult times. This particularly applies in the case of multinational firms, with operations
spread across countries. Small businesses are perhaps more vulnerable to market shifts as they lack resources and usually operate with narrower product portfolios, rendering them at greater risk from industry-related downturns; yet some studies find that small businesses report more limited impacts than larger enterprises (e.g. Shama 1993). Small businesses are, therefore, more likely to react to environmental shifts than be in a position to direct them. But, conversely, small firms often possess the flexibility to adjust resource inputs, processes, prices and products quickly in response to environmental shocks, a crucial capability to facilitate business survival (e.g. Reid 2007). Small firms might also be more willing to engage in risky investment/innovation behaviour to improve performance because they realise that the current successful situation cannot continue indefinitely. Latham (2009), in a study of US software firms during the 2001-3 downturn, found that start-up firms were much more likely than larger businesses to pursue revenue-generating strategies as means of coping than strategies entailing cost reductions. Such a view is consistent with the wider literature that start-ups often seek to position themselves in particular market niches.

Within the small business population, there are likely to be variations in how firms adapt, and the performance outcomes that arise from adaptation (Fuller 1996). Some will adapt proactively through investment, innovation and market diversification; others will adapt though retrenchment; yet others will combine both approaches. Other typologies of actions have identified cost and/or price reduction responses (European Commission 2004). Smaller firms differ from corporate organisations because of the particular vulnerability of new and young firms to external shocks, insufficient time to accumulate resources to be resilient, differences in financing which increases SME dependence on banks and the typically emergent forms of strategic adjustment in small businesses.

In summary, although arguments can be presented to demonstrate that small firms are more likely to suffer during recession, there are counter-arguments and, moreover, business size is only one influence upon performance under recession conditions. Industry, geography and other factors also play a part. Despite their limited resources, small firms are often able to chart a path through difficult economic times that enables
them to survive and perhaps even grow. We should, perhaps, be wary of claims that recession has a singular effect on either small, or large, enterprises. Organisational, market and other environmental characteristics all influence business behaviour, but agency factors are crucial too. How business owners/managers choose to address the opportunities available, and deal with the threats posed, makes an important difference.

4.8 International Experience

In this section, we consider international comparisons to examine experience of coping with downturn in other countries; we focus on Japan and Russia, both of which have experienced protracted downturns in recent years. After several decades of economic prosperity after 1945, the Japanese economy entered a period of stagnant economic growth during the 1990s, averaging only 1.5 per cent annual growth, and the first sustained deflation in an industrialised nation in the postwar era (Kuttner and Posen 2001). GDP declined during the late-1990s before returning to growth until recently (OECD 2008). GDP began to decline again in 2007, falling at an annualised rate of 13 per cent during the fourth quarter of 2008, and is predicted to fall more than other advanced market economies in the current crisis, with an estimated 6.2 per cent fall expected in GDP during 2009 (IMF 2009a). During the late-1990s Japanese and Asian economic crisis, some argued for a reflation of the Japanese economy while others argued that structural reform was necessary first. Various Government policies to stimulate aggregate demand, including increases in the monetary base, low interest rates, bailouts and nationalisation of banks, direct government lending to businesses, and increases in government spending during the late-1990s are argued to have failed and to have exacerbated fiscal problems (Powell 2002).

Data on Japanese enterprises suggests a number of changes have taken place during the protracted stagnation. These include: a decline in the role of bank financing and an increased reliance on non-bank financing for keiretsu enterprises; changes in ownership structure towards arms-length foreign and domestic investment, entailing pressures towards shareholder value maximisation; the dissipation of traditional buyer-supplier ties; and changes in informal ties towards more instrumental bilateral relationships (McGuire and Dow 2009). Other studies find that suppliers in the automotive and
electronics sectors have adapted to difficult economic conditions by developing new technical and commercial capabilities in order to compete (Lamming 2000). Senior firms in keiretsu, the inter-linked organisations of corporations and banks, have been more willing to sell equity in their subsidiaries and to require suppliers to develop dynamic capabilities with competitors, both entailing profound changes in Japanese sourcing practices. Japanese enterprises, it is argued, have become more willing to encourage suppliers to develop technological solutions rather than simply work to customer specifications, and are more likely to form relationships with non-Japanese suppliers. Such supply practices have been more common in the West.

Experience of the Russian economic crisis during the 1990s may also be used to demonstrate the nature of adjustment processes at a time of crisis, as well as their effects. Russia’s economic transition has been accompanied by a transformational recession whose depth and duration one observer considers unparalleled in the history of large economies (Bessonov 2002). The crisis of 1998 had a major impact on the Russian economy, with implications for firms all sizes. Few firms in Russia were unaffected by the fall in demand for goods and services, as purchasing power shrank rapidly (by 23 per cent in the Autumn of 1998). According to Goskomat, SME output declined by almost one third in 1998, and even more in the retail and catering sectors. Russian commentators point out that although small firms have fewer reserves than large enterprises, they are often more flexible in responding to falling sales (Radeev, 1999, 2003). The effects of the crisis were not uniform for businesses, since a key factor was the extent of a firm’s dependence on imported inputs, because of the collapse of the rouble (devalued four times in a few months). Such action is, however, enabling for Russian exporters, making their products more attractive to foreign buyers.

In response, considerable efforts were made by enterprises to reduce costs by cutting wages (often as an alternative to dismissal), transport costs and advertising expenditure (OECD, 2001). This had knock-on effects on the advertising industry, illustrating how indirect effects of the crisis were transmitted down supply chains. Not surprisingly, the crisis is also reported to have contributed to a change in entrepreneurs’ business
aspirations, with survival replacing growth as the dominant objective (Chepurenko, 2000).

The crisis also created new opportunities for Russian businesses as well as causing losses. Since the early-1990s, Russian markets had become monopolised, making it difficult for new entrants to penetrate them. The crisis, however, also created opportunities for small businesses to enter niches created by the withdrawal of larger firms; this particularly benefited domestic producers using local inputs. At the same time, all enterprises were forced to look for additional resources and review their management strategies in conditions characterised by cheaper bank credit, a reduction of labour costs, and a greater managerial recognition of the need to tighten control.

In summary, the data from the Japanese and Russian experience suggests that recession imposes threats on businesses but also opens up new opportunities. Recession generates counter-tendencies that constrain but also enable businesses to act in particular ways that can facilitate survival and even higher levels of performance.

5. CONTEMPORARY COMMENTARY ON THE CURRENT CRISIS

For commentary on the current crisis, we draw heavily on the grey literature, including business journals, media organisations’ websites, newspaper articles and publications by business associations, management consultants and other organisations. Given that commentators are living through the events they discuss, accounts are necessarily unable to report on the outcomes of firms’ adaptations to the recession; these will only become apparent as the recession unfolds. Commentary combines description of current events and business activities, analysis of underlying causes of phenomena and trends, and prescription for businesses and policy makers.

The current recession has been described as a ‘structural break’ (Rumelt 2008) or a ‘phase shift’ (Allen and Snyder 2009) – terms denoting a qualitative change in economic trends and relationships. The financial crisis and its economic effects in terms of credit and demand arguably constitute such a break, one whose consequences are still unclear.
There is considerable debate as to the likely depth and duration of the downturn and the shape of the likely recovery of the financial sector (e.g. Bryan and Farrell 2008; IoD 2009; Bank of England 2009), all of which have important implications for business responses and their adequacy.

Several commentators report firms’ retrenchment activities. Business survey data indicates that many businesses are cutting employment and investment in response to falling sales (BCC 2009a; CBI 2009b). FSB survey data suggests that 40 per cent of small firms have reduced staff levels, either by reducing hours or pay, full- to part-time, or owners working longer hours themselves (FSB 2009b). Travel companies and tour operators are reporting major price reductions to attract customers in the wake of falling bookings for summer holidays (Poulter 2009). Many FTSE companies have reportedly scrapped dividend plans, or reduced payouts, for 2009 (Lawlor 2009). During recession, uncertainty about future revenues and the desire to ‘hunker down’ might lead to potentially profitable investment projects being shelved (Campello et al. 2009).

Incomes Data Services (2009) report that one in ten companies has introduced a pay freeze for staff to control costs during the recession. BT, National Express and Tate and Lyle have all reported such action. IDS further report that many employers have introduced a ‘pay pause’, while managers consider whether to offer a pay increase to employees. BCC (2009b) found that 58 per cent of firms plan to impose a pay freeze during 2009 while 12 per cent of firms plan to impose a pay cut. All of these indicators suggest a lack of business and consumer expenditure and confidence. With inflation (RPI) falling, there is a risk of deflation. Falling asset prices, analysts maintain, may depress economic activity further as buyers delay purchases in the expectation of additional price cuts, exacerbating the deflationary spiral (Groth and Westaway 2009). Postponing purchasing and selling decisions can thereby bring about the situation anticipated (e.g. Scott et al. 2009) by influencing prices downward.

As might be expected, the finance sector has been hit particularly hard by the current downturn. The CBI/PWC Financial Services Survey reported that only nine per cent of firms reported an increase in business volumes in the three months to March 2009,
whereas 56 per cent reported a fall, while almost a half of firms reported a decline in profitability (CBI 2009c). Respondents reported employment reductions at their highest level since 1993; investment intentions for capital expenditure in land and buildings over the next year were at a record low; spending on vehicles, plant and machinery was planned to be cut back at the fastest rate since mid-1992, and IT investment and marketing expenditure plans for the year ahead were negative for the fourth consecutive quarter. Respondents reported uncertainty of demand as the greatest obstacle to investment for the second survey in a row, while shortage of finance eased as a constraint from December’s record high. Low demand was reported to be the main reason that would prevent business expansion during the coming year.

Despite record low interest rates, recent survey evidence regarding access to bank credit is mixed. Data from the Business Bankers Association shows that high street banks' lending to small businesses rose by £271 million in March 2009, approximately five per cent higher than a year previously (BBA 2009). The BERR SME Barometer found that just over half of all firms seeking finance were able to obtain it, 35 per cent failing to obtain any from the first source approached, and the remainder receiving some but not all of what they sought (IFF 2009). Conversely, data from small business organisations report deteriorating conditions. The Forum of Private Business (FPB) Economic Downturn Panel survey, conducted in March 2009, reports that bank support to small businesses is deteriorating: 50 per cent of their sample report bank support has worsened and 50 per cent report no improvement; not a single respondent reports any improvement (FPB 2009). Small firms, it is reported, are perceived as high risk with banks keeping rates high, increasing charges and requiring more security. Nearly one in five business respondents report that access to finance has deteriorated, a quarter report an increase in banking fees, 16 per cent report a deterioration in overdraft terms and 94 per cent report no improvement in loan terms despite the interest rate falls. An FSB report reports similar findings, with 18 per cent of a survey of 6,000 small firms reporting an increase in bank fees (FSB 2009a). Some sources suggest that despite continuing difficulties, credit restrictions may be starting to ease slightly in the UK. The CBI Access to Finance Survey of March 2009 found that the rate of deterioration in the availability of finance since the onset of the credit crunch has slowed since February (CBI 2009c).
the March survey, 63 per cent reported deterioration, compared with 69 per cent in February. Current financing conditions were reported to be having a continuing negative impact on capital investment, merger and acquisition activity, employment, pay, training, and output.

The recent Enterprise Finance Guarantee (EFG) initiative introduced by the UK Government in January to enable firms to access finance, is argued to be failing to reach most small businesses. The Federation for Small Businesses (FSB) (2009b) reports that only eight per cent of a recent sample of 4,000 members reported that their banks were making finance under the EFG available. One fifth of small businesses are waiting longer than 10 days to be paid for public sector work despite Government claims that payments would be speeded up. Furthermore, 97 per cent of business owners report the VAT reduction in December 2008 to have had no impact on trade at all. Data from BACS (2009) indicates that UK SMEs were owed £25.9bn at the end of 2008, an increase of 40 per cent over the previous year. Nearly six in ten (57 per cent) small businesses in the UK report late payments at some time, up from 51 per cent a year ago. Such credit constraints might inhibit small business owners contemplating investments at this time.

Management consultants Booz&Co (2009) surveyed 828 corporate managers in 65 countries in Western Europe, North America and in emerging economies such as Brazil and India, in December 2008, to gauge their views on the downturn. The survey found more than half of respondents expected their companies to emerge from the crisis stronger than before, particularly in emerging economies. Categorising firms in terms of financial and competitive strength, the report claims that many firms are not pursuing relevant strategies. Many of those experiencing financial weakness are not increasing action to generate near-term cash through cutting overheads, divestment, improving working capital positions, renegotiating suppliers’ terms or by seeking external finance. Many firms with strong finances but weak competitive positions appear to be reducing new product development and M&A activity rather than, as one might expect, intensifying them. Moreover, there is considerable scepticism concerning senior management plans to deal with the recession. Only 43 per cent of the sample reported senior leadership strategies to be credible, and only 36 per cent expressed confidence in
their ability to carry them out. The report advises firms to: first, establish an accurate view of the current environment and the firm’s position in it; second, choose actions from those available to the business at this time; and, third, communicate plans to all stakeholders and execute them effectively.

Turbulent times bring with them opportunities as well as threats (Sull 2009a, b; Rhodes and Stelter 2009; Deans et al. 2009). During expansions, businesses often continue, unreflectively, with existing routines; only when sales dry up do many firms consider new ways of doing business (Jacobides 2009). A number of contemporary commentators report, or recommend, programmes of investment and/or market diversification, in order to exploit market opportunities during the downturn. One suggests replacing the term ‘crisis management’ with ‘unexpected opportunity management’ to reflect this (Lorange 2009). Several commentators suggest that businesses are maintaining, or should maintain, expenditure on various activities both to take advantage of market opportunities during recession and to ensure they are in a strong position when recovery comes. Proposals abound to invest judiciously in marketing in order to understand consumers’ changing behaviour during recession (Quelch and Jocz 2009), win new customers (Burgers 2009) and to maintain brand equity (Jan-Benedict et al. 2009); in new product development (Frey and Callahan 2008; Makioka et al. 2009); in IT in order to enhance business processes (Dhar and Sundararajan 2009); on adapting supply chains to deliver better value to a range of customers (Sodhi and Tang 2009); on human resources and employee benefits (Gratton 2009; Brenner 2009; and on communications with investors and employees to retain commitment (Argenti 2009). Jan-Benedict et al. (2009), for example, have found that companies target marketing costs for cutbacks during recession, despite the long-term threat to brand equity posed by restricting price promotion, product innovation, advertising and market research. A study of the stock price of 26 global companies over a 25-year period found that annual growth in shareholder value was 1.3 per cent higher among companies that do not link advertising investments to the business cycle - that is, those that maintain advertising expenditure perform better. Flexibility and rapid response to changing conditions are considered key objectives during periods of uncertainty (Hartman 2009).
Recent studies relating to the current recession have stressed the need for ambidextrous organisations. Firms need to be agile, to spot and exploit changes in the market, as well as being able to absorb, to withstand market shifts, thus displaying ‘agile absorption’ – the ability to consistently identify and seize opportunities while retaining the structural characteristics to weather changes (Sull 2009a:2). In conditions of a ‘structural break’ with the past, such as the current recession might constitute, cutting costs is likely to be insufficient; firms are also likely to need to reappraise their corporate structures and business models (Rumelt 2008).

Ghemawat (2009) suggests the challenge for managers is to find a balance between pursuing too many unprofitable investment opportunities and passing up too many potentially profitable ones. Originally published in 1993, the article identifies several reasons why businesses cut investment too much during downturns: investment involves financial costs whereas competitive risk involves only opportunity costs; herd behaviour; and a preference for internal funding rather than seeking external sources. He suggests the example of Japanese suppliers becoming dominant in the US semiconductor market from the 1974-5 recession onwards through investment programmes as their US competitors cut back investment in developing new chips.

A key issue concerns the timing of business responses to recession conditions. Business leaders take different views as to the depth and duration of the downturn, and this will influence their actions and, crucially, their timing. Dobbs and Koller (2009) identify a dilemma for companies: should firms invest in projects and acquisitions now, or wait for clearer signs of recovery first? Market opportunities present themselves at particular times; delay too long and the opportunity is missed. Businesses must weigh the risks of acting now with the risks of delaying. Investing in new projects, assets and companies too early might see a further decline in asset values or a failure to realise adequate value because buyers lack the resources and confidence to purchase when new products are launched. Postponing the decision can allow competitors in and the advantage may pass to others. Decision-makers must make judgements about when market conditions are likely to return to normal, and what might constitute ‘normal’ in the as-yet unknown
future. It seems likely that the post-crisis business context will be very different to that of the pre-crisis period (Davis 2009). Waiting for a clear signal that recovery is underway may be too late to implement the investments that will secure a strong market position once the downturn is over.

In summary, considerable survey evidence indicates the depth of the downturn in the UK. Data on sales, investment, employment and business expectations highlight the difficult economic conditions facing many businesses. On the other hand, the data also indicate the diversity of experience. Even during recession, some firms achieve higher performance and perceive the future in optimistic terms. Contemporary commentary mixes empirical description, theoretical analysis, and prescription for businesses and policy makers. Interest groups, in particular, are concerned to present arguments and data supporting their particular constituencies. Much commentary is highly informative, identifying the causes of the present crisis and possible future trends, and providing up-to-date accounts of how businesses are adapting to recession conditions. But, often, commentary slips into easy prescription of how businesses ought to adapt with little attention given to the conditions that make such adaptations possible and influence performance. Understandably, commentators are less able to explore the outcomes of firms’ actions. Data is lacking as to the long-term, and even the short-term, consequences of firms’ adaptations under recession conditions. We simply do not know yet whether particular adjustments will increase business performance or not, what the specific reasons for performance improvements might be, or what policy initiatives might restrict the severity of the downturn and lay the foundations for recovery.

6. STRATEGIC RESPONSES IN THE RECESSION: DELIBERATIONS FROM A THINK-TANK

6.1 Introduction and Objectives

This section provides an overview of the results from a ‘think-tank’ held at the BERR conference centre in March 2009. The aim of the think-tank was to draw upon the knowledge base of leading academics in the field of business strategy and management and ‘brain storm’ ideas in relation to strategic responses of businesses during difficult economic conditions. This was considered a particularly useful route of enquiry given
the dearth of research literature on this topic (see the Appendix for think tank details and a list of participants).

Specifically, the think-tank discussion addressed a series of broad questions:

i. What is known about how firms adapt in recessionary conditions?
ii. What models or framework of understanding can we draw upon to classify different types of adaptations?
iii. What sort of government interventions might be appropriate to help businesses operating in difficult economic conditions?

6.2 Business Responses in Recession

6.2.1 Knowledge Base

From the outset there was a consensus that the current economic conditions represented a structural break in conventional business models and high levels of uncertainty prevailed in the economic environment. This level of uncertainty and uniqueness of the current climate meant that developing appropriate strategies for organisations is not straightforward. Instead, a good deal of experimentation may take place as organisations and their leaders seek to respond to the specific environmental turbulence their businesses are experiencing.

Think-tank participants confirmed the relative absence of a research informed literature, or theories on strategic responses of businesses in recessionary conditions. This has neither increased in volume or quality in the past 20 years. Instead, extant literature not relating directly to adaptation to recession may, nevertheless, provide frameworks for helping to develop an understanding of the behaviour of organisations during recessions, from a variety of different perspectives.

A number of literatures were identified as potentially relevant: Turnaround; Strategic change; Strategic agility; Performance transformations; Business rejuvenation; Business futures/scenarios; Organisational psychology, underpinning the coaching of, for example, board members; Retrenchment; and Business model.
A key issue is the precise nature of any recession which renders generalising on strategic responses from one to another (and thus the accumulation of knowledge and a science base) problematic. The depth and nature of the current crisis means that some of the existing literature (e.g. turnaround) can provide some insight but does not offer a complete solution to conceptualising and understanding appropriate organisational and government responses.

A number of models or typologies may be considered in relation to classifying the nature of responses. A starting point may be to ask what sort of environmental turbulence is this: an Earthquake or a Typhoon? If the former, a major structural adjustment will be required by organisations. If the latter, then adaptation may be all that is required. However, the temptation for organisations is to believe that recession is at worst a typhoon and just to wait until the sun shines again – a state of denial.

Broadly, the consensus of the think-tank was that the current economic conditions represents an earthquake, with businesses facing ‘mega uncertainty’ concerning what the business environment will subsequently look like. Hence, we are witnessing a major structural break thereby challenging conventional business models. This was not only putting under pressure the practice of strategy and running businesses but it is also leading to a questioning of our contemporary thinking, knowledge base and theorising about business strategy. Some literatures, such as ‘turnaround’, for example, which have been useful in previous circumstances, are not considered appropriate in the current climate whilst others, such as ‘strategic change’, may be more adaptable in helping to understand responses and enable the development of solutions. The literature on strategic change and new business models, therefore, may be more appropriate for understanding potential organisational responses. Overall, however, it was generally agreed that the nature of the current recession and financial crisis in terms of its scale, depth and complexity leaves the extant academic literature and science base somewhat wanting.
6.2.2 Unevenness of Recession

Although it was broadly accepted by think-tank participants that there was a questioning of previously dominant business models, it was also clear that the current recession has uneven effects across the business population. For example, for high-technology based firms, such as in biotechnology, the current recession has increased the time necessary to secure external finance for R&D, where the main sources are venture capital and the corporate sector, rather than banks. For the banks, the current recession represents a breakdown of the prevailing business model and, as such, a fundamental questioning of the practices, norms and principles of their work. There may also be different effects by size of firm. Small firms may have greater strategic agility than large firms, but conversely large firms may have greater capacity in terms of ‘deep pockets’ of resources to weather the storm. It is also important to recognise that some firms are performing well during current conditions (e.g. Aldi, Macdonalds), because of consumers trading down. Hence, not only must caution be exercised in terms of taking generic lessons from one recession to another, care must also be taken when discussing the recession because of the unevenness of its impacts across the business population.

When asked to identify the characteristics affecting the impact of, and ability to respond to recessionary influences, think-tank participants pointed to demand trends; international versus domestic orientation; the level of indebtedness and sources of finance used. Some stressed the importance of sector analysis in this regard, although even in badly-hit sectors, some firms do well and out-perform others.

6.3 Modelling Strategic Change

Think-tank participants indicated that the literature has a number of predominantly ‘dualistic’ models of strategic change which may be appropriate in recessionary times. These include for example, the innovation literature which spans incremental adaptation through to radical change; and the literature that classifies strategies as exploitative (efficiency gains, cost containment) through to explorative (experimentation, innovation). Participants emphasised, however, the dangers of viewing strategic options as dichotomous.
6.3.1 Typologies of Strategic Change

A simple typology of organisational responses under recession conditions may include three approaches:

(i) **Denial** / do nothing / organisational paralysis

(ii) **Adaptation** / minor adjustment / efficiency gains/ exploitation, but within the existing business model

(iii) **Fundamental re-think** / radical change/ exploration, where firms view a crisis as an opportunity or necessity to fundamentally review their business model

In turbulent environmental conditions, such as recession, there is a greater need for a fundamental re-think radical change and/or explorative strategies, in which firms seek to realign in order to take advantage of an eventual upturn. Whilst adaptation, cost containment and efficiency gains may be necessary during a recession, such strategies are unlikely to be sufficient to pull it through a deep recession. For this exploration is required. Too much focus on exploitation and cost efficiency may mean, however, less opportunity for exploration and the development of new business models. Conversely cost efficiencies in one part of the organisation may create organisational ‘slack’, enabling re-investment of resources elsewhere, as in the case of a German ball bearing manufacturer exploring complete re-invention of the concept of ball bearings. However, generalisation about what is required apart from this is problematic, particularly since the future shape of the business environment is highly uncertain.

Many organisations survive recession but fail during an upturn because of a lack of adequate capacity and/or product/service innovation. If, during times of recession, organisations focus only on cost reduction, then they are likely to suffer ‘corporate anorexia’ and by relying merely on existing ideas, fail to develop new opportunities. Firms that restrict themselves to cost containment do not fundamentally change what the business does and may damage business performance in the long run, because of lack of resources and capacity to take advantage of an upturn. Furthermore, these so-called performance transformations can be damaging because they often force people to work harder, but not necessarily better. More radical attempts to raise productivity typically have a systemic element to them, for example, reconstructing supply chains or
developing new business models to reconfigure the value chain/system. Successful organisations may adopt a combination of strategic responses. The literature often refers to these as ‘ambidextrous organizations’ or ‘solution models’.

Successful strategic adaptation assumes knowing what the future business environment will look like, which is highly problematic in current conditions. ‘Scenario planning’ is a mechanism for envisioning possible futures; however, it has often been difficult to make practical use of scenarios. Another issue concerns the relationship between where a firm is and where it seeks to be. This is because firms that attempt too big a leap forward inevitably fail because the rhetoric of change is not matched by appropriate efforts at implementation. Such failure can be avoided if a series of achievable small steps are implemented instead of a single leap. Multinational scope can offer some advantages in terms of strategic adaptation. One example reported was Unilever who have been experimenting with different business models in different parts of the world.

6.3.2 Strategic Thinking and Strategic Actions

Having established the case for radical strategic change, as a response to recession, there is a need to put this into action. It is impossible to change the prevailing business model without ‘top management’ support, a willingness of the board of directors to implement change. Hence, not only does a successful strategic response require strategic thinking it also necessitates strategic action. This, suggest that one policy intervention dimension could focus on raising the capabilities of people in organisations. An emphasis on improving management capabilities also makes sense in that individual managers and entrepreneurs may outlive organisations. Top managers need to create change and overcome corporate ossification and demise. As part of this process, external advisers and stimulants may be required to help question the prevailing norms and conventions of the organisation, including government intervention.

6.4 The Role of Innovation under Recession Conditions

Innovation is widely regarded as a positive route to successful business development. During times of recession, however, spending on innovation is often cut back as firms re-focus on core activities. Participants suggested that product, service and process
innovations should be regarded as key ways in which organisations can work their way out of recession and prepare for an upturn. In addition, given the depth of the current recession, innovations in the business model and questioning the status quo, are also considered integral to firms’ future success. These are not necessarily incremental improvements to what already exists, but rather fundamental changes in the business and product/service concept. Success may not necessarily be based on the amount of expenditure on innovation, but the innovation model that is used. An open innovation model was promoted by some participants to encourage freer knowledge flows and greater diversity of links.

The implication of this thinking is that organisations may need to experiment with different business models and the goods and services they offer. ‘Innovation at the edge’, or radical innovation, was a key notion here which in practice may involve incorporating services with products or merging previously separate activities, with a shift in the balance between products and services as sources of revenue. In pharmaceuticals, for example, one corporate enterprise was moving from supplying insulin for the treatment of diabetes to the provision of a full service for diabetes control. The conventional notion of the automobile as a means of transport compared with it being a mobile office or workstation may be a future strategy for car manufacturers. Such innovations would help break the wider boundaries of a firm, for example from being a car manufacturer to something much wider. Similarly, the conventional approach to car manufacturing could be changed radically by adopting revolutionary concepts in agile manufacturing such as the 5-day car, as researched at the University of Bath. This involves a radical reconfiguration of the supply chain, moving away from the concept of international supply to domestic supply, thus also paying attention to the sustainability agenda.

An emphasis on the need for radical innovation during recession was also linked to reviewing business models through reference to the Japanese experience. Japanese firms were identified as having been trying to innovate out of recession for 15 years, unsuccessfully, because there has been little change in their business models. Brazil was
also reported as an interesting case study of dealing with recession, as the chaos of the 1980s formed a crucible for the current vibrant organisations created at that time.

**6.5 Roles for Public Policy**

The high level of uncertainty in the economy renders the development of an appropriate policy response particularly challenging. A number of policy areas emerged in the think-tank which could form the basis for specific policy interventions. Earlier discussion had raised the need for an external ‘agent’ or ‘trigger’ to stimulate change in organisational culture. Government may be regarded as having the potential to do this through various mechanisms. It was also noted, however, that the regulatory dimension of state – firm relations meant that the context for positive government interventions was complicated. The state was also regarded as one of the key agents of maintaining the *status quo* through its purchasing and regulatory activities, as with the National Health Service. Hence, there was some ambivalence around the think-tank regarding the ability of government to provide a sufficiently radical response to the current economic climate to stimulate change amongst organisations. Nevertheless, support was expressed for the following roles for public policy.

**6.5.1 Legitimise Change and Innovation within Organisations**

Public policy may play a role in encouraging organisational change and legitimising major strategic reviews, such as of business models. This may be classified as a *cultural change* strategy. This parallels with notions of creative destruction. Many organisations are reluctant to change and require external intervention to stimulate a process of reflection and rejuvenation. In this context, government may have a specific role in promoting examples of companies that have grown stronger as a result of previous recessionary times. US research evidence (and the Hoover Company specifically) were mentioned as possible sources in this regard. Government can help re-frame the way business is done by creating a *narrative or discourse*, in which people can be more confident about innovation and strategic change. A further aspect of legitimatisation is the importance of reversing the backlash against business, that is, the legitimisation of business in general, as well as innovation and entrepreneurship in particular.
6.5.2 Stimulate Experimental Approaches to Supporting Innovation

There is a need to support innovation at the edge both in terms of business models and product/service innovations. The existing boundaries of the firm may be broken: for example, new networks of businesses, universities and government may be encouraged (Finnish and Danish experience). Policy may stimulate changes through, for example, innovation laboratories, where ideas can be experimented upon by organisations working outside their conventional product boundaries. Lessons may be drawn from the past including the Alvey Programme and particularly Foresight. The role of private equity, as a proxy for the entrepreneur, might also be considered, in contrast to plc boards.

Policy interventions that are designed to help catalyse new business models and bring together networks of organisations working on projects for the future are particularly welcome. A key government focus could be on catalysing system-level thinking via trade associations or industry fora. Bringing people together who would not normally come into contact can be a key to promoting innovation and reframing of business models.

The Taiwanese approach to supporting industry innovation was discussed. This approach often consists of encouraging company networks (some anti-competitive behaviour allowed); the creation of science parks; setting up industry bodies; openness to outsiders; access to media for developing entrepreneurs; and leveraging external networks. Whether or not such a strongly centralised model of state intervention in innovation policy is appropriate in the UK context is, however, open to question.

A revamped version of Foresight focusing on cross-sector topics could be worthwhile. For example, working with digital technologies may be a way forward. One way of encouraging firms to innovate ‘at the edge’ is to make funds available but with strings, such as working with particular knowledge or technology partners, or as in the case of the 5-day car to make loans to car industry conditional on business model reinvention.
6.5.3 Promote the Provision of Finance

Now that government has a direct stake in a number of banks, it may be better able to provide and stimulate finance for radical innovations and the funding of specific technology projects more directly. As the recession is prolonged the need for finance for SMEs will be more evident. Other high-risk ventures may also require venture capital funding. Yet, finance should be viewed as something more than merely ‘saving’ an industry or organisation. Finance should be regarded as having some form of leverage or generate a burst of new ideas, business forms or activities, rather than a subsidy to continue with existing business and product/service paradigms. Hence, participants suggested that government should focus more on supporting new business ideas rather than on propping up incumbent firms, whose business models belong to the period prior to the structural break and may no longer be appropriate for the emergent economic environment.

6.5.4 Pay Attention to Business Exits

Some participants believed that the cost of closing a business and specifically bankruptcy could be addressed. The cost of bankruptcy reportedly encourages entrepreneurs to voluntarily wind up companies rather than run the risk of bankruptcy proceedings. To the extent this is the case, some businesses may cease trading unnecessarily.

The Board of Trade enquiry linked to bankruptcy proceedings was specifically mentioned as an unnecessarily punitive measure requiring review. In addition, new business models are emerging where the life of a business is short-term in nature, such as in some creative sectors, and policy needs to be aware of such arrangements.

The state could also be more flexible regarding different business models that are emerging as a good deal of legislation and support provision is based on a premise of sustaining businesses rather than allowing rapid formation and closure.

6.5.5 Consider Small Firms/New Firms Initiatives

There was some debate amongst participants regarding the promotion of new firm formation during times of recession. Whilst it was generally agreed that assisting ‘creative waves of destruction’ was attractive, exercising this through new firm
formation or ‘picking winners’ was neither necessarily feasible nor desirable. The celebration of the ‘entrepreneur’ and agents of change was considered important in this respect. It was suggested that some firms would benefit from the equivalent of a Silicon Valley - close proximity and access to investors, technology, information and networking. Government may be instrumental in facilitating and promoting such networks.

6.5.6 Redefining sectors and cross-sector initiatives
Participants felt that many government initiatives for businesses are rooted in sectors. Many innovative activities, however, by their very nature, require cross-cutting conventional business groupings or sectors. An example is the motor racing industry which draws together numerous sectors and is often regarded as a model of success. Government has been successful in providing certain exemptions and incentives for this industry: it has been a follower rather than a leader of innovation but, nevertheless, has helped its progress. The implication from such successes is that government policy and initiatives should seek to identify and connect with business activities as they are, rather than follow the conventional industrial classification routes and definitions. This may involve working with trade bodies and professional associations to encourage cross-boundary thinking and activities. This could be linked to new thinking on, for instance, the digital revolution, the social context, the bottom of the pyramid and climate change.

6.5.7 Policy Messages for Recovery
Previous recessions have been followed by a period of high rates of small business failure because of overtrading, following a period of ‘battening down the hatches’. Such experience needs to be actively disseminated by government and its partners and advice offered if small firms are to avoid similar problems this time round.

6.5.8 Harnessing Creativity and Sources of National Excellence
Government should strive to harness the talents of financiers exiting the city as well as people working in the creative industries. The strengths of the UK economy need to be elucidated and emphasised in the international arena. Perhaps there is scope for sense-making and reframing of UK competitive advantage. This is associated with identifying innovative ideas and pockets of growth and helping them to flourish. It also involves
government questioning the fundamentals of its existing approaches to encouraging business enterprise: is business policy that was once regarded as fit for purpose, still appropriate? Additionally new, relevant policies and initiatives may involve the adaptation to environmental trends which offer key business opportunities. For instance, climate change, a low carbon economy and an ageing population are issues that may unleash new opportunities for business. The key here will be to assess in which areas the UK should lead, and where it should follow. Above all it will involve making the UK the best place for clever, ambitious young people – an open economy with opportunities for harnessing global talent.

6.6 Conclusions and Implications from the think-tank

Participants were in agreement that the current UK recession is unprecedented in its characteristics. The prevailing uncertainty meant that it is impossible to predict outcomes or advocate detailed solutions without qualification. It is clear, however, that this is a ‘frame-breaking’ event, and one which presents both threats and opportunities for UK business.

Dealing with the threats effectively may involve more than strategies aimed at the exploitation of cost efficiencies. Cost efficiency drives must be accompanied with significant innovation and exploration activity, in order to take advantage of opportunities which exist even in times of recession. The combination of cost efficiency and innovation strategies thus constitutes an ambidextrous approach.

The role for government lies largely in encouraging this endeavour and being more flexible in the delivery of support. This may involve promoting cross-sector and cross-specialism linkages and dialogues with organisations in order to spark ideas for innovation. Propping-up outmoded business models or industries in structural decline that, a process accentuated by a recession, may be less desirable than more experimental forms of intervention. Government is in a strong position to stimulate change in businesses because of its position as a potential external agent of change within the enterprise and the climate of enterprise. Many organisations require an external agent to help re-configure their business model. The key to successful
government intervention does not lie in persisting with business models that were appropriate in the past or are currently under threat. Instead, successful intervention lies in breaking the frame and reinventing not just the organisation, but also the broader socio-economic-political system within which business organisations operate.

7. ASSESSMENT OF DATA SOURCES

Studies in both the academic and business press are wide-ranging and variable in quality. The best studies link business adaptations under recession conditions, owners’/managers’ motivations for the particular adaptations implemented, the conditions that make adaptations possible, and the performance outcomes that flow from those adaptations. Such studies are scarce. Much analysis and commentary is descriptive, and often prescriptive, rather than explanatory. Description is a necessary first stage in explaining why businesses behave as they do, but often accounts provide little explanatory power. Studies and commentary often provide rich data describing how businesses adapt to recession, but there is often little analysis of why businesses adapt in the ways they do, the conditions that enable adaptation, or of performance outcomes. There is value in reporting the variety and complexity of firms’ strategic responses under recession conditions but there is often an easy slide into prescription as to how firms ought to adapt. This approach is particularly common in the business press but is also found in academic studies.

Few academic studies specifically explore the causes, processes and consequences of strategic adaptation under recession conditions. The studies that do exist suggest that recession impacts unevenly on particular industries, regions and businesses, and that this shapes the diversity of experience of recession and of business responses. Sources report a range of business responses, with varying degrees of sensitivity to the conditioning role played by firms’ particular environments. Analysts often, though not always, assume that recession conditions necessarily entail declining performance at the level of the individual business. There is, however, a need to distinguish between the macro and the micro level, between an economic environment of falling GDP and the performance of individual businesses. Firms achieve varying levels of performance
under recession conditions, as they do within a context of rising GDP, partly attributable to the activities of the firm and partly attributable to the actions of other stakeholders with whom the firm interacts (partners, competitors, customers, suppliers, investors, Government and others). In an increasingly global economic system, where competitors, customers and supply chains operate across national frontiers, these other stakeholders are frequently non-UK actors. The literature focusing on organisational responses to recession conditions rarely takes such global influences explicitly into account. Perhaps this relates, at least in part, to the fact that the last serious UK recession occurred nearly 20 years ago when globalising tendencies were less prominent than today.

Strategic adaptation by businesses is no guarantee of success. Business performance depends not only on implementing change but also on how well firms adapt to environmental circumstances relative to others with whom they compete for resources and markets. The outcomes of adaptation at firm-level are, therefore, difficult to forecast. Market selection pressures cannot be predicted; businesses reshape these pressures through their activities as well as being shaped by them. If competitors adapt better or quicker to changing conditions then the firm’s actions might not suffice to prevent further decline or even failure. In conditions of uncertainty, what ‘adapting better’ means might only become clear some time post-adaptation. Moreover, actions to improve, or maintain, short-run performance may contribute to, or undermine, performance in the long-run; analysts should account for such contradictory pressures and how businesses manage them. Strategic adaptations, therefore, need to be understood in the broader context of the firm’s relations with other stakeholders. Few studies have investigated such processes in a systematic way, preferring to rely on owners'/managers’ perceptions of environmental constraints, and, occasionally, enablesments but not explaining such influences in any great depth. We lack a deep understanding of why particular businesses adapt in the ways they do, how the wider context shapes those adaptations, and how these influences feed through to performance.
Many studies report adjustments to particular practices, such as marketing, R&D, investments in training, and pricing, but such changes need not necessarily indicate fundamental strategic change, for example, a shift towards a retrenchment or investment strategy. Strategic change is distinct from operational measures aimed at implementing a chosen strategy; the same operational measure might be one element in a range of strategies. Decisions concerning major organisational restructuring, acquisition, divestment, taking up particular market positions and targeting particular groups of customers clearly fall into the strategic category. Operational change centres on performing current activities more efficiently without any necessary implications for change in the firm’s product portfolio or basis of competition. It is often unclear from empirical studies whether analysts are claiming operational adjustments or broader strategic changes.

Researchers and commentiators commonly propose a number of actions that businesses can take, including cutting back on non-essential expenditure, taking more effective control of cash flow, reducing inventories, disposal of assets in order to refocus on core business, bringing forward investment plans to jump ahead of competitors and be better placed when recovery comes. Such prescription gives the impression that all strategic options are equally available for all businesses at all times and that businesses can select a strategy at will from a menu of possible options, when, in fact, firms face particular threats and are better placed to take advantage of some opportunities than others at particular times. Such an approach ignores history and the path-dependence of the courses of action firms take, and are able to take. Businesses develop resources and capabilities over time, better suited to particular tasks than others. Business activities are always constrained, as well as enabled, by the resources they control at a particular time.

Strategic adaptation presupposes that firms possess, or are willing and able to create or acquire, the resources required to implement change effectively (finance, knowledge and skills, premises, equipment, reputation and intangibles). RBV-type approaches to the study of strategic adaptation during recession are clearly necessary. Resource acquisition brings in the importance of context, and particularly the role of markets.
Businesses vary in their influence over resource and product markets. What is possible for a multinational corporation might not be possible for a small enterprise employing five people; what is possible for a software company employing highly-skilled graduates might not be possible for a cleaning business employing lesser-skilled labour; and what is possible for firms to achieve under global market conditions might not be possible in situations where buyers and sellers are insulated from globalising tendencies. It is these type of differences that need to be incorporated fully into the analysis of business adaptation under recession conditions and its consequences.

Much academic research on adaptation under recession conditions has adopted quantitative survey approaches that generate data on large samples of business owners/managers but which are often unable to explore business responses in any great depth. Such studies rely on statistical associations between variables but largely fail to grasp the underlying causal mechanisms linking business activities, motivations, and the influence of the wider context. Qualitative approaches provide more detailed, nuanced understandings of business responses and more powerful accounts of the causal processes at work, although, it might be argued, they are less able to support generalisation to other business or industry settings. While there may be a role for further quantitative studies, we argue that a deeper, more powerful understanding of the forces shaping firms’ strategic adaptations under recession conditions requires systematic qualitative analysis of the causes, processes and consequences of adaptation.

In summary, we conclude that there are several major gaps and weaknesses in the literature:

- a lack of studies focusing specifically on strategic adaptation under recession conditions;
- a simplistic approach, failing to elaborate the internal (business) and external (market, institutional, cultural) conditions that make particular strategic adaptations possible, or impossible;
- limited understanding of the powerful influence of globalising tendencies upon firms’ strategic adaptations under recession conditions;
• the failure to link strategy with performance outcomes, or to explain why some organisational strategies are successful while others are not; and
• The limited relevance of prior research to the conditions of the current crisis.

8. CONCLUSIONS

The purpose of the review has been to: identify the pressures, threats and opportunities facing businesses operating in difficult economic conditions such as those currently being experienced in the UK and globally; categorise the strategies adopted by businesses that have experienced such conditions; and to assess which strategies proved to be problematic and those that have allowed businesses to respond dynamically, survive and emerge strongly as economic conditions improved. This we have done using three main data sources: academic studies of business responses to recession and ‘environmental jolts’, including secular industrial decline and business turnaround; an analysis of contemporary commentary on the current crisis; and the output of a ‘think-tank’ of experts on business strategy and management.

Bearing in mind the gaps and weaknesses in the literature, we summarise the key findings of the review and highlight key issues for policy makers to consider. First, the current recession, combined with the global financial crisis, arguably constitute a ‘structural break’, one likely to produce a new economic order whose precise parameters are only dimly understood today. The specificities of the current crisis mean that any simple extrapolation of previous business experience of, or responses to, recession conditions is ruled out. In today’s increasingly global economic environment, UK businesses might have to adapt to recession in quite different ways in comparison with previous downturns. Such a break is likely to require organisations to reconfigure their business models as well as their organisational structures and operations. Continuing ‘business as usual’ appears not to be an option for most, if not all, organisations.

Second, firms’ experiences of, and responses to, recession are diverse. Businesses adopt a variety of strategic approaches to dealing with recession conditions. Some firms focus
on retrenchment activities, entailing cost/asset-reduction, in order to conserve resources; other businesses use recession to exploit opportunities to invest, innovate and diversify; yet others, perhaps most, adopt an ‘ambidextrous’ approach combining judicious cost/asset-reduction activity with equally carefully chosen investment projects to expand sales, profits and/or market share. Although widely regarded as giving business owners/managers good reasons to engage in retrenchment, recession also creates opportunities for innovation by incumbent firms, to stay in the game, and by new entrants who spot an opportunity. Businesses, it might be contended, are more likely to succeed if they combine strategies of cost efficiency and retrenchment (exploitation) with strategies of innovation and positioning for future growth (exploration). There may be a role for Government to foster a spirit of innovation and entrepreneurship, as the think-tank suggested, by legitimising and promoting such activities. This might include facilitating cross-sector dialogue.

Third, business performance is highly variable under recession conditions. Some firms prosper while others struggle and yet others are forced into closure. Within- and post-recession performance does not correlate with pre-recession performance in an obvious way. Recession is likely to generate considerable volatility in business performance. Erstwhile high-performers might struggle in recession conditions, while previous poor-performers may leapfrog competitors. Market selection pressures appear to operate quite differently in times of recession in comparison with more buoyant periods. This market volatility increases pressures on businesses to adapt, as even previously secure and stable enterprises may find the ground shifting beneath their feet.

Fourth, business performance under recession conditions does not map on to organisational characteristics such as business size or sector in an undifferentiated way. Small and large firms are among the high and low performers. Even in industries harshly impacted by recession, some businesses perform better than others. Outcomes cannot simply be read off from organisational characteristics; performance, including survival, is contingent, to some degree, on how businesses act.
Fifth, there is no single ‘best practice’ strategy that guarantees business survival, or success, under recession conditions. The available evidence offers no consensus as to whether retrenchment, investment or ambidextrous strategies are more likely to bring about survival or success. The strategy literature does, however, point to the more likely success for organisations that adopt ambidextrous strategies. Improved levels of performance are no doubt contingent on a wide range of organisational, market and wider institutional characteristics, including government policy. Advocating strategies whose purpose is to exploit new market opportunities without analysis of the conditions that support them presupposes that such strategies are equally available to all businesses. Yet resource constraints, market and other characteristics are likely to prohibit their adoption by some firms. It is vitally important, therefore, for businesses to develop the capability to undertake strategic analysis in order to assess the key influences on performance. Business owners/managers need to increase their understanding of the internal and external conditions that enable or constrain adaptation to the crisis, in order to be able to adapt successfully. There may be a further role for government, therefore, in facilitating training to undertake strategic analysis.

To conclude, the current recession represents both a threat and an opportunity for UK businesses. Grasping the opportunities will be key to securing the competitive advantage of UK companies in the global arena. Policy can play a role in supporting UK businesses either to exploit the opportunities enabled by recession, or to manage the threats posed, but given the knowledge limitations and broader institutional constraints arising from globalising tendencies, it should also be acknowledged that there are strong limits to what is possible.
APPENDIX:
BERR/KINGSTON UNIVERSITY THINK-TANK DELEGATES

Professor Charles Baden-Fuller
Professor Julia Balogun
Professor John Bessant
Professor Julian Birkinshaw
Professor Mark Jenkins
Dr Steve McGuire
Professor Klaus Meyer
Professor John Stopford
Professor Richard Whittington

Kingston University Research Team
Professor Robert Blackburn (Chair)
Professor David Smallbone
Dr John Kitching
Dr Sarah Dixon (University of Bath)
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Business strategy and economic recession. In general terms it is possible to identify three broad ways in which businesses might adapt during difficult economic conditions such as recession: • Retrenchment strategies - this appears to be the most common approach adopted by businesses to deal with recessionary conditions and might involve cutting operating costs and divestment of non-core assets, especially in the short-term. However, business performance is highly variable under recessionary conditions, and no particular strategy can guarantee survival and success. Much depends on contingent factors such as, for example, business resources, relations with other stakeholder groups etc. In July 2015, during the championship round of the World Surf League’s J-Bay Open, in South Africa, a great white shark attacked Australian surfing star Mick Fanning. Right before the attack, Fanning said later, he had the eerie feeling that “something was behind me.” Full story: Mick Fanning shark attack, Surfing Magazine, July 19, 2015, surfingmagazine.com. Working in small teams, they are totally committed to riding them, testing the limits of human performance that extreme conditions offer. Instead of a threat of peril, they turn stormy seas into an opportunity for amazing human accomplishment. When hard economic conditions take place, business owners ask search for How Businesses Can Survive in Difficult Economic Conditions. Here is the way. Business owners who are wondering how businesses can survive in difficult economic conditions, they have come to the right place. 11 Effective Ways to Survive in Difficult Economic Conditions. Protect Cash Flow. One of the biggest challenges business owners will have to face is to deal with the cash flow issues.