Have Small Businesses Beaten the Recession?

John Kitching
Reader, Kingston University

Small Business Research Centre
Kingston University
KT2 7LB

Tel: 0208-417 5355
Email: j.kitching@kingston.ac.uk

David Smallbone
Professor, Kingston University

Mirela Xheneti
Researcher, Kingston University

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ABSTRACT

Objectives - The paper investigates the impact of the current recession on a diverse sample of UK small businesses and their responses to it. All businesses are tenants of a major industrial and commercial property provider in London.

Prior Work - Research has demonstrated how recession conditions, and other external shocks, influence businesses, presenting both opportunities for, as well as threats to, firms. The evidence suggests two broad sets of views regarding how small businesses are affected by recession - the resilience and vulnerability views - although there is little agreement regarding the contingent factors that affect which is predominant. Recessions are often periods of 'creative destruction' in which old technologies, products and industries go into terminal decline while new ones emerge. Most studies, however, fail to theorise adequately the connections between the macroeconomic environment, business owners' objectives and perceptions of market threats and opportunities, the firm's resources and other important features of the wider context. Studies tend to imply either that firms necessarily undergo performance decline and are unable to do very much about their circumstances or, alternatively, that all businesses are able to adapt inputs, practices, prices and products in identical ways at all times. A middle way might focus on the particular factors and circumstances influencing the variable levels of performance achieved by individual enterprises.

Approach - The study conceptualises small business adaptation and performance under recession conditions as dependent both on human agency and the wider social structures that enable and constrain their activity, including the macroeconomic environment. The study draws on primary empirical data, including online and mail survey responses from 343 business owners and face-to-face interview data from 26 firms. This approach combines quantitative and qualitative data on perceived impacts of recession, business objectives and responses, and performance outcomes thus far.

Results - Several major findings are presented. First, small firms' experiences of recession are diverse: some firms suffer declining sales, while others achieve higher turnover and profits. Second, business responses under recession conditions are highly variable. Third, small business adaptation and performance during recession are contingent upon organisational factors such as resources available, and external influences, including product, labour and capital market conditions. Fourth, there is, therefore, no single 'best practice' strategy that guarantees business survival, or success, during recession.

Implications - Those wishing to understand how recession influences small business activities and performance must take into account the range of mechanisms through which recession conditions exert an influence. Simplistic arguments that recession conditions *necessarily* impede business performance must be rejected. Many small businesses are able to adapt to recession conditions in ways that enable the firm to survive, and even prosper.

Value - By broadening our understanding of how recession conditions shape small business activities and performance, the paper contributes knowledge that will be of use to business owners, researchers and policy makers.

INTRODUCTION

During the past year and a half, the world economy has experienced its severest recession since the 1930s (World Bank 2009; IMF 2009a). Most advanced economies have experienced falling output, although the crisis has been particularly keenly felt in the UK (Weale 2009) because of the degree of dependence on the hard-hit financial services sector and the high level of household indebtedness (e.g. OECD 2009; Simpson 2009). The UK has experienced falling Gross Domestic Product (GDP) for five consecutive quarters (ONS 2009) – declining GDP for two quarters constitutes the official UK definition of a recession. GDP has undergone a decline equivalent to an annual drop of 5.5 per cent, a greater fall than the 3.5 per cent drop predicted by the Chancellor for 2009 (HM Treasury 2009). Other macroeconomic indicators reflect the decline in business activity. Unemployment has risen from 1.73 to 2.47 millions in the year to July 2009 (7.9 per cent of the working age population), Bank of England interest rate remains at a record low of 0.5 per cent, and the Retail Price Inflation index is currently negative, standing at -1.3 per cent.

Recession conditions pose major threats to, but perhaps also offer important opportunities for, businesses. The nature of these threats and opportunities, and their impact on businesses, varies with the nature and origins of particular recessions. While the precise causes of the 2008/9 recession, and the weight to be attached to them in particular national contexts, continue to be debated, it is widely accepted that the global banking crisis, sparked off by the widespread default of 'subprime' mortgage holders in the USA, is one of the primary triggers (Peston 2008; Cable 2009). Recessions associated with financial crises, especially when highly synchronised across countries, have been more severe and longer lasting than recessions associated with other shocks, and recovery tends to be slower (IMF 2009b: ch3). The present crisis has had severe implications for the restructuring of banks' balance sheets and liquidity and, consequently, for the supply of credit to businesses and to households. 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 (HM Treasury 2009; IMF 2009b). The global reach of the financial system has meant that no country has remained insulated from the crisis, although the structure of the banking system and its relationship with the small business sector is variable internationally which contributes to differentiated impacts.

A string of surveys has highlighted the decline in sales, employment, investment and expectations during 2008 and into 2009 (BCC 2009a; CBI 2009; SERTeam 2009a) although some commentators report that the worst of the recession may now be over (BCC 2009b; NIESR 2009; Ernst & Young 2009; IFF Research 2009; SERTeam 2009b). A survey of 165 small businesses highlights the diversity of experience with one in twenty firms reporting survival to be threatened, 8 per cent reporting serious ramifications and larger proportions reporting negligible impacts or no noticeable effects (Intuit 2009). A telephone survey of 4,400 small business owners by the Federation of Small Business in June 2009 found that over the previous ten months, a rising proportion of owners reported an increase in trade and that the cost of finance was easing (FSB 2009).

Even in London, with its greater dependence on financial services, there are signs that the recession may be moderating. Business activity and orders both increased in July 2009 compared with June, and consumer confidence is less negative than in the rest of the UK (GLA Economics 2009). The Business Link in London Recession Poll of April 2009 found that although 69 per cent of small businesses reported being affected by the recession, 83 per cent planned to maintain current staff levels, 59 per cent were looking to grow in the next 12 months, 42 per cent were looking to expand through aggressively seeking new business opportunities, 17 per cent offered new products and services and 12 per cent reported hiring more people to increase capacity (Business Link 2009a). The new Business Link Diverse Business Confidence Index (July 2009) found that of 3,264 London small business owners surveyed, 84 per cent are planning to grow their business over the coming year, primarily through increased marketing activity (48 per cent of those intending to grow within the next 12 months), entering new markets (43 per cent) and by launching new products (35 per cent) (Business Link 2009b).[1]

This paper investigates how a sample of London-based small enterprises has adapted to recession conditions and with what consequences for performance. The analysis broadens our understanding of how recession conditions shape small business activities and performance, thereby contributing knowledge that will be of use to business owners, policy makers and researchers. More specifically, the study:

- identifies the effects of the recession and financial crisis on small enterprises;
- investigates small business responses;
- analyses business performance outcomes.

[1] Sixteen per cent of the sample were pre-starts reported to be considering starting a business. Separate results cannot be disaggregated for established firms.

The paper is structured as follows. First, we consider previous research on small business responses to recession and other environmental shocks. The second section proposes a conceptual framework for understanding firms' adaptations under recession conditions. Then we discuss the methodological approach adopted before presenting the findings and conclusions.

PRIOR RESEARCH

Despite differences in the causes, depth and duration of particular recessions, two broad sets of views regarding how small businesses are affected by recession, and other external shocks, can be discerned – these may be termed the 'vulnerability' and 'resilience' views. On the vulnerability view, small businesses are treated as highly susceptible to external shocks, such as recessions, with firm performance declining in line with GDP. Small firms possess limited resources, customers and product lines across which to spread their risk – all of which restrict a firm's capacity to withstand competitive pressures in adverse macroeconomic conditions. They are also much more likely to cease trading than larger enterprises (Storey 1994). One study of established manufacturing small firms pointed to time lag effects with an economic downturn affecting first sales, then profitability and finally survivability as short-term responses proved insufficient to keep the business alive in the medium-term. The study also raised questions about the long-term consequences of adaptation strategies cutting investment and substituting labour (sometimes own labour and that of family members) for capital (Smallbone et al, 1997). Under this view, falling GDP at the macro level causes performance decline at the micro level and, in severe cases, business closure.

On the resilience view, small businesses are perceived as able to survive, and possibly thrive, during periods of economic downturn, owing to their flexibility in adjusting resource inputs, processes, prices and products (e.g. Reid 2007).[2] A deteriorating macroeconomic environment does not necessarily lead to small business performance decline and exit nor, contrary to the pronouncements of some commentators, constrain every small business in the same way. Indeed, one US study has shown that recessions do not have a negative impact on the formation and survival of new businesses (Stangler 2009): more than half of the companies on the 2009 Fortune 500 list began during recession or bear market periods. Studies demonstrate the importance of retrenchment activity (Churchill and Lewis 1984; Michael and Robbins 1998; DeDee and Vorhies 1998) and revenue-generation practices (Shama 1993; Latham 2009) by small firms during downturns. Recession may stimulate activity in particular sectors, or in particular kinds of business. Where customers switch to cheaper products to restrict expenditure, for example, this may boost suppliers of such goods and weaken the position of higher-priced providers. Some businesses might be willing to undertake risky investment, innovation or diversification because they believe current practices will not sustain performance levels. Business performance does not map on to business size in a direct way. One study of the early-1990s UK recession found that the number of smaller sized firms with sales of £51-100k held up better than among slightly larger firms with £501k to £5m turnover (Fuller 1996). Others have noted similar differences, although they also point to the likely financial misreporting by small business owners during periods of downturn (Stanworth et al. 1993).

Analysis should focus on the particular circumstances shaping individual firms' activities, business owners' responses, and the variable levels of performance achieved. Size is only one influence on small firms' adaptations and performance under recession conditions. What is missing is an analysis as to how and why small businesses adapt to recession conditions in the ways they do.

ANALYTICAL FRAMEWORK

Recessions impact unevenly on industries, regions and businesses, and this shapes the diversity of experience of recession and of business responses. The study conceptualises small business adaptation and performance under recession conditions as dependent both on human agency and the wider social structures that enable and constrain their activity. All businesses interact with other stakeholders (partners, competitors, customers, suppliers, investors, Government and others) and these relations influence business activity and performance. The capital, labour and product markets within which firms operate, and the wider institutional context, including the quantity and quality of support to business from government and other sources, influence how firms adapt and their subsequent performance.

[2] Macro and micro resilience can be distinguished. *Micro* resilience refers to the capacity of *individual* firms to survive by adapting to changing circumstances. *Macro* resilience refers to the capacity of the *population* of small enterprises to survive. Macro resilience may be high even where micro resilience is low. High rates of business exit might be consistent with a high degree of macro resilience, where the flow of business births exceeds the number of exits.

Business owners 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). Small businesses are co-authors of their own destinies, and not simply the passive victims of external forces, although their capacity to shape outcomes is variable. Business strategy and performance vary with resources and capabilities, owner-manager perceptions of the threats faced and opportunities available (Thomas et al. 1993), and the wider organisational, market, institutional and cultural contexts (e.g. Clark and Mueller 1996; Schoenberger 1997; Whitley 2007). Performance depends on how well firms adapt to recession conditions *relative to others* with whom they compete for resources and markets – without foreknowledge of what constitutes ‘better’. Strategies to beat the recession are likely to be context-specific, varying with sectoral and spatial setting. There is, therefore, no single ‘recession effect’ for businesses, nor consequently any particular ‘best practice’ strategy of adaptation applicable to all businesses.

Recessions generate contradictory tendencies, some constraining business owners from achieving their objectives, while others are enabling. Recessions are characterised by falling *aggregate* business sales, and typically by downward pressure on asset prices, which is enabling for resource acquisition. To the extent that recession increases market exit, this is also enabling for surviving firms. Recessions, therefore, present small businesses with a major dilemma: to cut costs in order to maintain survival in the short-run at the risk of reducing their capacity to adapt adequately when recovery comes; or, alternatively, to maintain greater capacity, incurring higher costs in the short-run, in order to retain the capability to realise opportunities for long-term value creation when the upswing comes. Both processes – constraining and enabling surviving firms - occur simultaneously, but unevenly, during recession. Identification of particular constraints and enablements, however, tells us nothing about *how* firms adapt or *why* they do so in the ways they do, or what the consequences of adaptation are.

METHODOLOGY

To investigate these research objectives, the study involved a two-stage research design: a combined online/mail survey conducted during March-August 2009 (343 responses[3]); and face-to-face interviews with 26 of those business owners conducted June-August. All businesses were independent, employing fewer than 250 employees, and were tenants of a major provider of industrial and commercial property in the capital. The sample businesses varied by principal activity, founding date, employment and turnover (Table 1). The majority of businesses were micro businesses, turning over less than £500k in their last financial year, operated in business, finance and professional services, and were founded since 2000. The interview sample was broadly similar to the mail/online survey.

The interview sample was purposely constructed to include businesses reporting a wide range of performance outcomes during the recession period, from significantly increased sales or profit margins, through to significantly decreased sales or profit margins.[4] The online/mail survey generated quantitative data on the perceived impacts of recession, business responses, changing patterns in the use of finance and finance-seeking behaviour, and actual and anticipated performance. The quantitative material provides descriptive data which to contextualise the interview findings and permits statistical tests to gauge whether differences between subsample groups *within* the survey sample are significant at various levels of confidence. The interviews produced detailed qualitative data on business responses during recession, motivations for the particular responses, and performance outcomes thus far. The survey data was drawn upon in the interviews to prompt respondents. Our primary purpose is to use the qualitative data to identify the mechanisms through which recession conditions influence small business activity and performance, and not to identify ‘typical’ or ‘representative’ small business owner perceptions, responses and outcomes. It is worth noting that the study is of *surviving* businesses and does not, therefore, provide comparative data from non-survivors.

[3] A further 29 respondents provided only business profile data and have been excluded from the dataset.
[4] It became clear in a number of interviews that circumstances, and business performance, had changed for many businesses in the interval between the survey and the interview.

Table 1		
Business Samples: Online/Mail Survey and Interview Study		
	Online/mail survey (% of sample)	*Interviews (% of sample)*
Micro (< 10 employees)	75.8	84.6
Small (10-49 employees)	20.1	11.5
Medium (50+ employees)	4.1	3.8
Manufacturing	10.8	3.8
Construction	4.4	7.7
Wholesale & retail	14.6	23.1
Information & communication	15.2	15.4
Business, finance & professional services	41.4	34.6
Healthcare & education	4.4	7.7
Other services	9.3	7.7
Business founded pre-1990	15.7	23.1
Business founded 1990-99	22.7	23.1
Business founded 2000-4	25.9	19.2
Business founded 2005-9	34.7	34.6
No data	0.9	0
Less than £50k turnover in last financial year	11.7	11.5
£50-100k	10.2	15.4
£100-249k	20.1	26.9
£250-499k	15.2	23.1
£500-999k	11.4	11.5
£1m and above	18.7	11.5
No data	12.8	0
N	**343**	**26**
Note: percentages do not sum to 100 due to rounding.		

BUSINESS PERFORMANCE DURING THE RECESSION

A deteriorating macroeconomic environment of falling GDP does not impact every small business in the same way, at the same time, or with the same consequences for performance. The nature, timing and duration of the impact for particular enterprises – as well as their responses and the performance outcomes achieved – are variable. Some firms experience falling sales and/or profit margins, while others achieve increased sales and profit margins and yet others report no noticeable impacts. Online/mail survey respondents were asked to report whether the value of sales and profit margins had increased between the first quarter of 2008 and the first quarter of 2009. The period was considered sufficiently wide to encompass the start of the downturn[5] and to provide an adequate period over which performance change could be measured. The results demonstrate the range of performance outcomes among sample businesses (Table 2). More firms reported lower sales and profit margins than higher figures, but the data show that even during recession periods, some firms are able to improve performance: a quarter of businesses achieved higher sales revenues, and one in five achieved higher profit margins during the period.

[5] When the study commenced, the UK recession was officially dated as starting in Q3, 2008. Subsequent revisions to the GDP statistics led to the recession being officially re-dated to Q2. One might defend the choice of Q1, 2008, therefore, as a suitable benchmark on the grounds that business owners might have already been considering, or implementing, changes to products and practices *in anticipation of* recession. Public debate of forthcoming recession arguably extends at least as far back as September 2007, when a run occurred on the Northern Rock Building Society.

Table 2		
Business Performance Changes Between Q1, 2008 and Q1, 2009		
	Value of sales	*Profit margins*
Significantly higher	10.8	6.4
Slightly higher	15.7	14.0
About the same	19.2	27.4
Slightly lower	28.0	28.9
Significantly lower	23.9	20.4
No data	2.3	2.9
N	**343**	**343**
Source: online/mail survey		

TIMING OF RECESSION-RELATED IMPACTS

To obtain data on the *timing* of recession-related impacts, business owners were asked the month/year when their businesses first felt the recession. Business owners might perceive the impact of recession through falling sales or profit margins, increasing customer late payment and bad debt, tightening credit terms from lenders and suppliers or via other sources. Respondents reported a wide range of responses, from August 2007 through to July 2009, while almost one in five reported no impacts at all thus far (Table 3). A marked upward shift in business owners' reports of recession impacts occurred in September/October 2008, around the time of the collapse of Lehman Brothers, the major US finance corporation, and the subsequent flurry of activity by western governments, with a pronounced spike in January 2009 when 11 per cent of respondents reported first feeling the recession. Of businesses reporting no recession effects, most reported increases in sales and profit margins in the year to Q1, 2009: 59 and 54 per cent respectively, compared to 18 and 11 per cent among those reporting feeling the recession at some point.[6]

Table 3	
'When did you first feel the recession?'	
Time	*% of sample*
During 2007	2.3
During 2008	34.7
During 2009	29.4
Have not felt the recession yet	20.1
No data	13.4
N	**343**
Notes: Percentages do not sum to 100 due to rounding.	
Source: online/mail survey	

Businesses with a greater dependence upon public or voluntary sector sales – 50 per cent or more of total sales - were slightly more likely to report that the recession had not affected them yet. Just over a quarter of firms (31 per cent) with public and voluntary sector sales of more than 50 per cent reported that they had not felt recession yet; for those with lower sales to the public and voluntary sectors, the proportion is 22 per cent.[7] This is likely to reflect Government attempts to support the private sector through maintaining levels of public expenditure. Weale (2009) found a positive correlation between government consumption and GDP growth across the 28 countries for which the Organisation for Economic Cooperation and Development provides quarterly data.

[6] Using a chi-square test, the relationships between perceived recession impact and sales and profit figures are significant at the 0.1 per cent level.

[7] This difference is *not* significant at the 5 per cent level. These figures exclude cases with missing data for either variable.

BUSINESS RESPONSES UNDER RECESSION CONDITIONS

Business owners' responses under recession conditions are influenced by the nature and extent of the impacts experienced (Geroski and Gregg 1997). Recessions constitute threats to business in so far as economic activity decreases, with implications for business turnover, but also create opportunities for businesses in at least four ways. One, recessions impart downward pressure on asset prices, which means inputs are often cheaper for firms to acquire. Investments in staff, premises and product development that would otherwise be perceived as uneconomic might become worthwhile because inputs can be obtained at prices that facilitate profitable production and supply. Second, recessions motivate business owners to adapt inputs, products, processes and prices in order to increase or maintain sales and profit margins and/or to cut costs and increase efficiency. Intensified competition stimulates firms to seek innovative solutions to revenue generation and cutting costs. Third, purchasers often adapt behaviour during recession periods, switching to new suppliers on either cost grounds, or because they are able to access higher-quality goods and services that were previously unaffordable. Fourth, declining demand may lead businesses to exit the market, leaving surviving firms to compete to secure the 'vacant' market share. Examples of all of these influences are evident in the sample enterprises.

Researchers have distinguished between firms undertaking retrenchment activities centred on cost-cutting and asset divestment, and those seeking to generate revenue through investment, innovation and diversification (e.g. Shama 1993; Michael and Robbins 1998). Given that businesses might adapt to recession conditions in a variety of ways, how, in fact, do they respond? Survey respondents were asked to indicate which actions from a prompt list of categories (plus an 'other' category) they had taken since the start of 2008 (Table 4). This wording was chosen rather than asking directly about responses to recession because it was anticipated that some respondents would report that they have not been affected by recession or that they would have taken the action anyway irrespective of the recession. Business owners might, of course, have been unaware of the influence of recession on their actions; for example, where suppliers reduce prices in response to *their* declining sales, this may create opportunities to secure better terms. Responses were categorised under nine broad types, listed in order of frequency of response:

- changes in sales and marketing;
- changes in markets;
- changes in employment;
- changes in products and/or services offered;
- changes in finance;
- changes in owner/manager behaviour;
- changes in production/business processes;
- changes in premises;
- changes in business organisation.

Table 4
Actions Taken to Increase or Maintain Performance Since the Start of 2008

Actions Taken	*% of sample*
(a) Changes in sales and marketing:	*82.8*
Increased sales effort	56.3
Reduced selling prices, or held price rises below inflation	26.5
Increased advertising & promotional expenditure	24.5
Reduced advertising & promotional expenditure	14.3
(b) Changes in markets:	*76.7*
Selling to new types of customer	47.5
Selling more to existing customers	40.2
Selling in new geographic markets	27.4
(c) Changes in employment:	*72.6*
Reduced numbers employed	31.2
Introduced wage/salary freeze	19.5
Introduced new working practices	19.0
Increased use of external labour (e.g. sub-contractors, freelancers, agency temps, casuals etc)	17.8

Increased numbers employed	17.5
Taken greater care in recruitment of staff	14.6
Increased employee training	13.7
Increased use of unpaid family labour	5.2
Reduced employee training	2.6
(d) Changes in products and/or services offered	*64.4*
Introduced new or improved products or services	57.7
Reduced the range of products/services offered	8.7
Increased use of intellectual property (e.g. patents, registered design, registered trademarks, copyright)	5.0
(e) Changes in Finance:	*64.4*
Renegotiated the cost of supplies	28.6
Invested personal savings	19.2
Shortened payment periods from customers/creditors	15.5
Reduced debt to external sources	14.3
Extended payment periods to suppliers	13.1
Reduced investment expenditure	12.0
Increased debt financing	6.7
(f) Changes in Owner/Manager Behaviour:	*63.3*
Personally worked longer hours	57.7
Cancelled personal holidays	23.0
Other changes in owner-manager behaviour	6.1
Sold personal assets to compensate for poor business performance	5.2
(g) Changes in production/business processes:	*52.5*
Used new suppliers	34.7
Invested in new equipment	25.9
(h) Changes in business organisation:	*38.8*
Made changes in managerial roles/functions	32.4
Made changes in the management team	15.7
(i) Changes in premises:	*28.6*
Relocated the business to cheaper premises	15.7
Opened new branches or outlets	7.0
Closed branches or outlets	5.0
Negotiated a change in the duration of the lease	2.9
N	**343**
Notes: respondents were asked to report actions from a prompt list, and could indicate all, some or none from the list. Italicised figures refer to those reporting *any* of the actions within each of the nine categories.	
Source: online/mail survey	

Business owners reported a wide range of responses to improve or maintain business performance, including practices intended both to control costs and to generate sales. Almost all businesses (94 per cent) reported taking at least one of the actions in Table 4 since the start of 2008. The most frequent reported actions were: ‘introduced new or improved products or services’ (58%); ‘personally working longer hours’ (58%); and ‘increased sales effort’ (56%). Conversely, fewer than one in ten business owners reported the following practices: ‘reduced the range of products/services offered’, ‘increased use of intellectual property’, ‘reduced employee training’, ‘opened branches or outlets’, ‘closed branches or outlets’, ‘negotiated a change in the duration of the lease’, ‘increased use of unpaid family labour’, and ‘sold personal assets to compensate for poor business performance’. The Intuit (2009) survey also reported a range of cost-cutting and income-generating practices.

Interestingly, given the public debate about the ‘credit crunch’ and the limited availability and high cost of bank finance to businesses, it is perhaps surprising that so few respondents reported finance-related actions. Just over a quarter (29 per cent) reported ‘renegotiating terms with suppliers’ but less than one in five reported any of the other specified actions – including ‘reducing debt to external sources’ or ‘reducing investment expenditure’. This might reflect the limited demand for credit on the part of small business owners. Only 39 per cent of the sample businesses reported accessing external finance since the start of 2008, mostly for working capital purposes, although a number of firms had used it to buy fixed assets, develop new products or services or undertake a marketing campaign. Moreover, these low figures do not appear to be due to higher rates of refusal by credit providers to applicants for finance: only 15 per cent of the sample reported an unsuccessful, or only partially successful, application for a bank overdraft since the start of 2008, 11 per cent reported an unsuccessful, or only partially successful, application for a business credit card and 8 per cent reported an unsuccessful, or only partially successful, application for bank loans. Indeed, large proportions of the sample reported *never* to have used these sources of finance at all: 62 per cent reported never having a bank loan, 42 per cent an overdraft and 26 per cent a business credit card. Other sources also report a limited impact of access to credit during the recession (Intuit 2009).

Sample businesses reported implementing, on average (mean), 8.1 actions (from the 39 prompted). Small firms’ responses are, therefore, highly diverse under recession conditions although most combine judicious cost-reduction activity, in order to conserve resources, with equally carefully chosen revenue-generating activities – what might be termed an ‘ambidextrous’ approach to improving or maintaining performance. Although many commentators advocate cost-cutting during recession, the survey findings show that small businesses are just as likely to take action seeking to win new business as they are to cut costs. Small business owners are more likely to take *both* revenue-generating *and* cost-cutting actions rather than implementing either type of action alone. Very high proportions of the sample reported taking some action to increase revenue (93 per cent) and to cut costs (88 per cent), and 87 per cent reported taking both types of action.

Next, we present interview data to illustrate the range of recession impacts and of small firms’ adaptations under recession conditions. Our purpose is to highlight the heterogeneity of experiences of, and responses to, recession and to link these to business owners’ motivations, resources and the wider context. Small businesses possess variable capacities to adapt, with variable consequences for performance.

RECESSION GENERATES VARIABLE IMPACTS AND BUSINESS ADAPTATIONS

Recession may not only have diverse impacts upon small businesses, it might also influence the actions they take to manage those impacts. It is arguable that businesses experiencing the most severe adverse impacts will be those most likely to implement the most far-reaching changes to business strategy and practice. Firms experiencing less severe shocks, arguably, introduce less stringent measures. This may be reflected in the quantity and quality of adaptations implemented. To explore the relationship between perceived impact of recession and actions taken since the start of 2008, chi-square tests were performed. Expectedly, perhaps, firms reporting feeling the recession were significantly more likely to report taking action to improve or maintain performance since the start of 2008 than those who did not (8.5 actions reported, compared to 6.2). There were differences in the specific actions taken between the two groups. Those reporting being affected by recession were more likely to report the following actions (all significant at the 1 per cent level, unless otherwise indicated) (Table 5).

- Increased sales effort
- Reduced selling prices, or held price rises below inflation
- Reduced numbers employed
- Introduced wage/salary freeze
- Introduced new working practices
- Cancelled personal holidays
- Reduced the range of products/services offered (significant at the 5 per cent level only)
- Invested personal savings (significant at the 5 per cent level only)
- Reduced investment expenditure (significant at the 5 per cent level only)
- Closed branches or outlets (significant at the 5 per cent level only)
- Personally worked longer hours (significant at the 5 per cent level only)

Those not reporting feeling the recession were more likely to report the following (all significant at the 1 per cent level, unless otherwise indicated):

- Increased numbers employed
- Opened new branches or outlets (significant at the 5 per cent level only)

Table 5

Actions Taken to Increase or Maintain Performance Since the Start of 2008 By Recession Impact: Statistically Significant Relationships

Actions Taken	*Recession-affected (%)*	*Recession-unaffected (%)*	*ALL (%)*
(a) Changes in sales and marketing:			
Increased sales effort **	61.2	42.0	56.8
Reduced selling prices, or held price rises below inflation **	31.3	11.6	26.7
(c) Changes in employment:			
Reduced numbers employed **	37.9	10.1	31.4
Introduced wage/salary freeze **	22.9	7.2	19.3
Introduced new working practices **	22.9	8.7	19.6
Increased numbers employed **	11.9	36.2	17.6
(d) Changes in products and/or services offered:			
Reduced the range of products/services offered *!	9.7	1.4	7.8
Increased use of intellectual property *	4.0	8.7	5.1
(e) Changes in Finance:			
Invested personal savings *	22.5	10.1	19.6
Reduced investment expenditure *	14.1	4.3	11.8
(f) Changes in Owner/Manager Behaviour:			
Personally worked longer hours *	59.9	43.5	56.1
Cancelled personal holidays **	26.0	8.7	22.0
(h) Changes in premises:			
Opened new branches or outlets *	4.0	11.6	5.7
Closed branches or outlets *!	7.0	0	5.4
N	**227**	**69**	**296**

Notes: respondents were asked to report actions from a prompt list, and could indicate all, some or none from the list. Cases with missing data excluded.
** χ^2 *significant at the 1% level;* * χ^2 *significant at the 5% level.* ! Fewer than 5 cases in particular cells indicates the relationship should be interpreted with caution.

Source: online/mail survey

These findings suggest that recession-affected businesses implemented a wider range of responses relative to firms reporting no effect, including practices intended to achieve higher sales as well as to reduce costs. Unaffected businesses were more likely to report expansionary measures such as increasing employment and opening new outlets. Such correlations are *suggestive* of causal connections, that is, recession-related effects impact upon small businesses stimulating owner-managers to adapt practices and products with a view to improving or maintaining performance.

To illustrate business responses using interview data, we categorise cases in terms of the severity of the recession shock. For simplicity, types are categorised as either ‘severe shock’, ‘limited impact’ or ‘no perceived impact’, while recognising that the impact of recession is a matter of degree and that it will be debateable whether particular cases should be allocated to one category rather than another. The interview sample provided 11 cases of ‘severe shock’, nine cases of ‘limited impact’, four cases of ‘no perceived impact’ and two cases where the owner-manager was uncertain whether the business had been affected by recession or not.

(a) ‘Severe shock’

Several owner-managers reported that their businesses had experienced substantially decreased sales, and associated impacts, due to the recession. The owner of an information management consultancy employing five people reported a massive drop in sales from approximately £750k to £300k during 2008. Since summer 2008, the company has implemented a range of measures to reduce costs *and* to generate new business. Cost-cutting measures included: reducing employment from 10 to five since August 2008; the introduction of a 4-day week in May 2009, partly in response to recession but also reflecting the seasonality of demand for the firm’s services; extending payment periods to suppliers; and relocating the business to a smaller office to reduce rental costs by two thirds. To increase sales, the business had implemented a radical response involving increased customer focus and engagement. New staff had been hired to contact end-clients directly rather than relying on links with architects and furniture dealers to generate leads. The owner-manager strongly emphasised that the cost benefits for clients arising from using the firm’s services – advice on how to manage and consolidate paper and filing systems effectively in the wider context of furniture and space - render them highly relevant to clients seeking to reduce costs in a difficult business climate, often in relation to relocation decisions. Recession creates market opportunities for businesses.

> “If you take a look at the business model and what it is that we do as a business, it is ideal for this market. There are still businesses that have to look at downsizing and reducing their overheads ... And the number of deals that you can get at the moment on rent - low rent, rent-free, all those sorts of things - those big organisations are going to be taking advantage of that. But they may be moving into a slightly smaller space. If you’re doing that, you might as well deal with your filing and get it sorted to help you have more space for people and less filing space. That’s ideally when a business like ours comes into play. So, in a way, this is almost our *best* market - not our worst - if that makes any sense.” (#1: Information consultancy, 5 workers, italics denote respondent emphasis)

The owner-manager was confident that implementing revenue-generating and cost-cutting measures would enable the business to achieve planned sales of £1.2m during 2009, a fourfold increase on the previous year’s turnover. For this owner, the impact of recession had motivated her to pursue business growth aggressively. Despite an initial drastic drop in sales, the business had returned to substantial sales growth.

Evidence from three other cases highlights the threat posed by recession to the viability of small-scale enterprise. At the time of interview, the businesses were surviving at lower levels of performance following significant demand shocks. Such findings draw attention to the contingency of business adaptation to product market conditions during recession and its influence on performance. In the first, a clothing uniform supplier, the owner reported a decline in sales of 30-35 per cent over the previous year. Turnover decline was attributed to clients delaying decisions to replace uniforms in order to control costs. In response, the respondent had decided to adopt a more active approach to marketing, such as cold-calling prospective clients, and investment in website upgrading and raising its internet profile. The success of such adaptations depends, in part, upon the resources available. In small businesses, there is often little dedicated marketing resource although such skills are highly valuable where business is tight and innovative measures might be needed just to maintain turnover. This was a major concern for this respondent. The lack of such skills were perceived as a major constraint on the business successfully adapting to recession conditions.

A second example comes from a picture framing business, serving artists, photographers and galleries (Business #13). Sales had declined substantially since late-2008 after several years’ steady growth and customers were increasingly requesting discounts. Moreover, the owner reported a number of competitors had ceased trading. Falling sales were attributed primarily to the reduction in consumption expenditure by bankers and financiers, a key segment of the client base, many of whom were newly-redundant following the crisis in the finance sector. To combat rapidly declining sales, the owner had adopted two approaches to revitalising the business: first, to make the product more appealing to those willing to pay a premium for it and, second, to produce a generic product that will appeal to a larger market base via the website. Moreover, the owner reported personal holidays had been cut back in order to concentrate on the business.

A third example highlights the difficulties associated with cutting costs, and reflects the dilemma many small business owners face in adapting to more difficult economic conditions. Continue as before and incur the costs associated with operating at higher levels of capacity than are strictly necessary in the current climate - or cut costs too far and be unable to maintain the quality of service upon which performance rests. The owner-manager of an estate agency/property management services business identified a number of costs that had been cut since the start of 2008 but reflected that this had probably had little impact; yet, to do more carried considerable risks.

> "The frustrating this is you can probably only do so much. You can look at your outgoings. As we've had problems in the economy in the past, and in this firm, we've done that in the past. And you look at what you can cut back on. Quite frankly, there's not a lot you can always cut back on ... You start cutting corners too much, you can't offer the service. And if you can't offer the service, you can't get the business. It's a very simple vicious circle if you like." (#9: Estate agent/property management services)

Severe shock can act as a major stimulus to adaptation by small business owners, although owners need to interpret such signals and act upon them. Whether such action leads to performance improvements is contingent not only upon the scale and timing of response but also on the actions of competitors and others whose actions impact on the business. For the information management consultancy, the action taken appeared to be producing the desired turnaround in sales while for the clothing supplier and the picture framing business it was too early to say whether their responses would be adequate to arrest decline.

(b) 'Limited impact'

For other businesses, the impact of recession has been more limited. This limited impact may have manifested itself in falling sales or profits, or in slower growth since the start of 2008. A furniture designer reported that the recession had not affected the business until early-2009. With a typical 3-month lag between orders and delivery, the business continued to increase sales until the late-2008 when orders began to drop off markedly. To tackle the decline in orders, the owner-manager recently adopted a two-pronged approach: more aggressive selling and action to reduce wholesale costs. To generate sales, a full-time sales-person had been recruited to find new markets for existing products and, specifically, they have increased the number of resellers (who resell on to the end client) from two to six. To cut costs, the firm has switched to new suppliers who are able to produce items more efficiently; this has already led to a 25 per cent cost saving.

> "From what I've learned, when times are tough, you've got two ways to solve your predicament when sales are coming harder than before because there's a recession and everybody is finding business more difficult. One is technology and innovation – to find a new way of doing something clever and good that people really want ... They find that it's so useful that they put aside their normal reservations about spending any money in a recession and they just go for it, because whatever it is, is just so fantastic. And the other way is just to be much more aggressive on sales and just sharpen up your selling approach so that those harder-to-reach sales are suddenly within range where they weren't before because you didn't really feel the need to reach out for them. And we chose that route rather than the technology route basically because of the intrinsic capital cost of developing a new innovatory product. For a start, it would have meant offsetting any revenue that would have come from that by some months or even years because it takes a while ... A good new chair typically takes two years to develop. In this market, I felt that money invested in staff was probably a smarter investment than money invested in capital and goods, or plant. That was the logic." (#3: furniture designer/manufacturer)

Recession has led some businesses to respond to falling sales by seeking new outlets for products, thereby increasing trading opportunities for others. An online retailer reported that recession had encouraged firms who had previously chosen not to trade with the firm to do so.

> "The difference is that when we started we'd not have been able to go to a lot of suppliers. A lot of people would say 'where are you selling?' and you'd say 'eBay' and they wouldn't sell to you. But now, as things become more desperate, even very, very respectable brands would now sell to a medium-range seller because they are just desperate for their product to move ... Several years

> ago, they wouldn't deal with you. They wouldn't care less. But now everyone that is prepared to buy your product and sell it for you, you just let them. We are getting a lot more suppliers willing to come to you". (#19: Online retailer, 2 workers)

The sole director of a financial services company reported various adjustments to cope with declining sales from mortgages stemming from the summer of 2008 (Business #6). Initially focused on mortgage products, the respondent had broadened his service offering to include pension and investment services in order to reduce his dependency on mortgage clients. Mortgage products continued to be important contributors to income, constituting a third of business turnover. Declining demand for mortgages has reportedly led to a substantial reduction in the number of mortgage advisors - the respondent estimated 40-50,000 advisers to have quit the sector in the year prior to interview – and this has no doubt made life easier for surviving firms.

In other cases, recession had reduced sales *growth* rather than led to falling turnover, and the firm continued 'business as usual'. An online retailer of jewellery and accessories had achieved sales growth of 50 per cent per year during its 4-year life, but the rate of growth had dropped to only 30 per cent during 2009 (Business #5). The business is subject to the fluctuating fortunes of fashion and strives to remain competitive through the introduction of new products that depend, in turn, on access to new materials and inputs from all over the world. The business model seeks to expand through penetration into export markets and to avoid dependency on any particular national market, including the UK. Recession has not changed the owner's business objectives. The long-term aim is still to expand export sales sufficiently so that UK sales reduce from the current 30 per cent to 10 per cent of total sales. The main actions taken since the start of 2008 have been the opening of three overseas websites in Belgium, Holland and Austria and their remodelling to make them easier for customers to navigate and to enable payment. Volatility in sterling/Euro exchange rates is more of a concern than the UK macroeconomic environment. Sales were expected to grow during 2009 and further expansion is being contemplated.

(c) *No Perceived Impact*:

In a number of cases, the owner-manager was unable to identify any specific impacts upon the business that could be attributed to recession. This might be because sales had continued along their historical growth path and recession had not affected this adversely (Business #7), or were rising due to organisational changes introduced for reasons unrelated to the recession (Business #8), or because business owners simply did not know whether recession had influenced business performance (Businesses #14, #26). It should be emphasised that we rely on owner-manager reports of recession impacts in order to distinguish these businesses. Recession might be shaping business performance in ways unacknowledged by owner-managers themselves, through its influence on competitor or customer behaviour, for instance.

Four cases of 'no perceived impact' were identified, together with two cases where the respondent was uncertain of the effect of recession. In a professional services company, providing law, human resources, and accountancy specialisms, sales had increased each year since founding (Business #18). The recession had not affected this upward path and both sales and profits were expected to increase further during 2009. A number of actions had been implemented since the start of 2008 – maintaining the diversity of services offered, in order to access a wide range of clients; changing fee structures, to charge clients a quarterly 'retainer' fee in addition to the hourly rate in order to sustain revenue; and website development in order to attract new business. The owner proffered two main reasons for growth during the recession. First, many businesses outsource HR, legal and accountancy services, in order to reduce costs, and thereby create market opportunities for suppliers of such services. Second, recession itself has been a stimulus to demand for the company's services; insolvency services, for example, are likely to be in greater demand as higher numbers of businesses cease trading.

CONCLUSIONS

The purpose of the paper has been to consider whether SMEs have beaten the recession. The 2008/9 UK recession has been reported as the worst since the 1930s, involving a collapse of the banking system, as well as falling GDP. Commentators have suggested that small businesses have suffered badly with many forced to close. While this is undoubtedly true for some, the two-stage research design reported on here has enabled us to provide a more nuanced view of how recessions influence small business activity and performance. Several major findings are presented.

First, small firms experience recession in a wide variety of ways. This variety has been illustrated by distinguishing cases of severe shock, limited impact and no perceived impact. If small businesses are necessarily vulnerable to recession, the study might have been expected to find that all sample businesses have suffered substantially and struggled to survive. A deteriorating macroeconomic environment does not, however, impact all small businesses in the same way. Simplistic arguments that recession conditions *necessarily* impede small business performance must be rejected, since not all businesses suffer lower levels of performance. Some firms experience significantly decreased sales, while others are unaffected or continue to achieve increased sales. These diverse experiences motivate particular small businesses to act in particular ways.

Second, small firms' adaptations to recession conditions are diverse. Although many commentators recommend retrenchment, entailing cost/asset-reduction, it appears that most business owners adopt an 'ambidextrous' approach, combining *both* revenue-generation *and* cost/asset-reduction activity. Business owners always have *some* degree of choice as to how to respond to changing circumstances, although there is no guarantee that their adaptations will improve the firm's fortunes. Access to particular resources makes certain business responses possible but it does not determine them. There is an irreducible role for human agency, the capacity of business owners to interpret their circumstances, to define a set of objectives and to choose a course of action they believe (fallibly) will achieve those aims. Some businesses may treat the recession as a market opportunity and seek to expand through investment, innovation and diversification; others will retrench and concentrate on reducing costs and assets. Through their actions, small business owner-managers are able to influence the impact of recession on their enterprises. The effects of recession are partly due to firms' responses and not just simply the outcome of the influence of the activities of others - for example, competitors, consumers and suppliers.

Third, small business adaptations and performance are contingent upon a wide range of organisational, market and wider institutional characteristics. What works in one context might not do so in another. How firms act, and with what degree of success, are contingent upon context, including the nature and timing of recession-related shocks. Organisational factors such as the resources available, and external influences, including product, labour and capital market conditions are key influences. Small business owners often lack the resources (finance, skills, networks) to adapt adequately to recession conditions and competitors may well adapt more effectively. There is, therefore, no necessary connection between mode of adaptation and performance; nor, consequently, any single 'best practice' strategy that guarantees business survival, or success, during recession.

To conclude, the current recession represents both a threat and an opportunity for UK businesses. Although limited resources render small firms vulnerable to changes in the external environment, through their own resource acquisition and mobilisation activities they are able to exert an important influence over their own performance and survival. Vulnerability is not, therefore, a given characteristic of small enterprises. Small business owners are able, through their own activities, to demonstrate resilience, although the sources of this resilience may influence its sustainability and influence on longer-term business performance.

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