

2. RESEARCH CONTEXT

2.1 Defining Difficult Economic Conditions

This section defines 'difficult economic conditions' in order to establish the scope of the material 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 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-18th 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 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 businesses and through changes in the behaviour of incumbent firms. Our focus is primarily on adaptation 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 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 ever 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 instability; the failure of credit ratings 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 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 come 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 action 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 in 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 2009^a; 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 customer' 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 market share achieved.

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 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, customer, 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 resource 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 how to produce them, set prices, and attract particular kinds of customer. This is true of businesses during recessions and in bouyant times.

All businesses are involved in a network of relations with other stakeholders – competitors, for example – and this influences business strategy and performance. Industry récipes 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 intelectual 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 área 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 og business exits rises and demand for such services expands. Recessions generate a diversity of threats, opportunities and business response.

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 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 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 responding 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 Enterprise, strategic analysis, choice and implementation are often distinct

activities, carried out by different people, whereas in small firms, a single person might perform all there, 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 (Porter’s 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 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 (Teecem 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 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 manager, 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 resource 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 1977). 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; 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 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 ownerships structures, and those that grew unusually fast during the mid-late 1980s. Interestingly, business performance ranking 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 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 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 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; Barret 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 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', 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 divertments' 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 extend 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 'retrenchment' and/or 'investment' response 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 literatura suggest that retrenchment is the key to successful turnaround, either as a stand-alone approach or 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 literatura derived from por 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 reponses 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 Investments Strategies

Analysts have identified firms choosing to adapt during recession by pursuing investment strategies. In contrast with retrenchment, such firms perceive recession 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 Farrel 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 centre 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 1997; 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 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 (1995) 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 environment – 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 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 resources are less able to implement them. Nevertheless, history has shown that companies can secure competitive advantage during recession 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 time 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 explorations of new source of competitive advantage and innovations (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 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 products 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 management 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 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-points 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 products 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 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 Özgül (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 (1977), 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 businesses 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 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 condition. The judicious combination of exploitation (improving efficiency) with exploration (seeking new sources of competitive advantage) appears to be an important strategy recession.

