THE RESILIENCE OF SMALL FIRMS TO A MAJOR ECONOMIC DOWNTURN

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Debating points
1. Is resilience a trait that should be encouraged in small businesses or is it anti-entrepreneurial?
2. To what extent is resilience under the control of small business managers?
3. How best to assess or measure resilience in small companies?

Introduction[1]

This paper represents work in progress. It is the latest in a series of papers from an ongoing project concerned with the behaviour of small firms when faced with a major economic downturn. More specifically, the study is concerned with identifying the effects of the crisis on small businesses; the responses of small business owners and managers to these effects; and the implications of their responses for the future development prospects of the businesses. When the study began in 2008-9, the emphasis was on identifying the effects of the crisis on small businesses together with their initial response to them. This was followed up in 2011 with a second round of empirical work which, when designed in 2010, was intended to focus on the development of surviving businesses during the post-recessionary period. However, the ongoing nature of the recession in the UK meant that in practice the second round of empirical work remained focused on the types of adaptation and adjustment employed by small business managers to cope with and/or exploit ongoing recessionary conditions.

The UK economy has been unsettled throughout 2010 and 2011, and prospects remain uncertain for business (BCC 2011). GDP grew in each quarter from Q4, 2009 through to Q3, 2010, but then fell in Q4, 2010 before recovering in the first quarter of 2011 (ONS 2010, 2011). Preliminary estimates for Q2, 2011 indicate only 0.2 per cent growth, suggesting too many commentators that the recovery remains fragile and the possibility of a 'double-dip' recession persists.[2] Business services and finance, sectors in which London specialises, made the largest contribution to Q2 GDP growth (GLAEconomics 2011)

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[1] The authors are grateful to the ISBE Research and Knowledge Exchange (RAKE) Fund for funding the qualitative part of the study and to Workspace Group plc for funding the survey.

[2] http://www.bbc.co.uk/news/business-14288348

The existing literature on small businesses and recession contains two main alternative views concerning the effects of recession on small firms: the vulnerability and resilience views. In the vulnerability view small businesses are treated as being highly susceptible to external shocks, such as recessions, with firm performance declining in line with GDP. This is because their limited resource base restricts their capacity to withstand and adapt to adverse macroeconomic conditions (Storey 1994). By contrast, in the resilience view, small businesses are perceived as able to survive, and possibly thrive during periods of economic downturn, because of their flexibility in adjusting resource inputs, processes, prices and products (e.g. Latham 2009; Michael & Robbins, 1998; Reid 2007).

However, the initial empirical results from our project suggested that a simple dichotomy between vulnerability and resilience is too crude and that in practice a more nuanced pattern of effects and responses to recession by small firms can be identified (Smallbone et al. in press). Although limited resources render small firms vulnerable to changes in the external environment, through their 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. Instead, small business owners are able to demonstrate resilience in the face of difficult external conditions, although the sources of this resilience may influence the sustainability and/or impact on the longer-term performance of a business. In other words, in some cases the actions taken in the short term to keep the business afloat may represent a source of weakness that may threaten it the long term. In other cases, the crisis may stimulate management actions which strengthen the firm because weaknesses are exposed which managers are forced to address.

In this context, the underlying research questions on which this paper is focused concern firstly the extent to which the empirical evidence supports the resilience hypothesis; and secondly what is the resilience of small firms to major external shocks (where it occurs) based upon; what are the circumstances leading to resilience; and what are the likely effects on the long-term development of a business.

The rest of the paper is divided into two main parts. The first makes use of survey data collected in 2009 and 2011 to investigate the resilience hypothesis; the second section focuses on the actions taken by managers in the firms that appear more resilient in an attempt to answer the second research question.

Research Methods and Data

The study involved a two-phase research design, with a combination of an online/mail survey and face-to-face interviews in each phase. Phase 1 phase ran from 2008 to 2009 and included 343 respondents to the survey and face-to-face interviews with 26 business owners. Phase 2 ran from 2009 to 2011 and included 221 useable survey responses and 28 interviews with business owners (conducted March-May 2011).[3] In both phases, all businesses were independent, employing fewer than 250 employees, and tenants of Workspace Group plc, a major provider of industrial and commercial property in the capital. The survey samples were randomly selected from lists of Workspace tenants. 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 profits, through to

[3] 18 of these businesses participated in the 2009 study. 10 were new businesses.

significantly decreased sales or profits. 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 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. It is worth noting that the study is of *surviving* businesses and does not, therefore, provide comparative data from non-survivors. Businesses that did not survive were not included. Nevertheless, the varied pattern of performance of surviving businesses enables us identify some of the characteristics of the most resilient.

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In addition, following up on in-depth interviews conducted with 26 small firms in 2009, 18 of these were interviewed again in 2011, thereby constituting longitudinal case studies. These 18 longitudinal cases provide the main empirical evidence used in the second part of the paper. A longitudinal dimension offers considerable value added by enabling change over time in individual firms to be studied, as well as examples of learning behaviour and the effect of strategic choices on subsequent management decision making and business performance. For example, to what extent did the changes made during 2008/9 place businesses on a stronger or weaker footing, enabling greater resilience and flexibility; or did it weaken the firm's capability to adjust to changing circumstances, including taking advantage of new business opportunities? The purpose of the interviews was to obtain qualitative data on firms' adjustment processes and to understand how and why firms adapt their behaviour in the ways they do, and with what consequences.

In the event of some firms interviewed in 2009 declining to be interviewed again in 2010, or no longer trading, replacement companies were sought. Any replacement firms required were identified in the survey which was conducted prior to the case studies.

An Overview of Business Performance:

In both online/mail surveys, respondents were asked to report whether the value of sales and profitability had increased; in the first survey between the first quarter of 2008 and the first quarter of 2009; and in the second between 2009 and 2010. The results demonstrate the range of performance outcomes among sample businesses (Table 1). In 2009 more firms reported lower sales and profit margins than higher figures, but the data show that even during the deepest recession since the 1930s, some firms were able to improve performance: a quarter of sample businesses achieved higher sales revenues, and one in five achieved higher profit margins in 2008-9.

In the second survey respondents were asked to report whether the value of sales and profitability changed between the last quarter of 2009 and the last quarter of 2010. Once again, the experiences of performance change varied considerably between businesses (Table). While in almost half of the sample (47 per cent) the value of sales increased, a third (31 per cent) experienced lower sales; and 40 per cent and 27 per cent respectively higher and lower profitability.

A comparison of the results from the two surveys suggests that there was an improvement in business performance of small businesses between 2008- 2009 and 2009-10, as the macroeconomic environment showed some improvement. Despite this, the point to stress in a discussion of resilience is that even in the worst economic conditions for 80 years (i.e. in 2009)46% of surveyed businesses were able to maintain or increase sales; 47% maintained or increased profitability. Indeed, in a minority of cases small businesses demonstrated more than resilience but rather the ability to grow based on spotting and exploiting new business opportunities, reflected in the minority of respondents reported significant increases in sales and profitability.

Table 1: Business Performance Changes Between 2008-9 and 2009-10

	Value of sales (%)		*Profit margins (%)*	
	2008-9	*2009-10*	*2008-9*	*2009-10*
Significantly higher	11	29	6	15
Slightly higher	16	18	14	24
About the same	19	17	27	24
Slightly lower	28	16	29	15
Significantly lower	24	15	20	12
No data	2	5	3	10
N	**343**	**221**	**343**	**221**

Note: The data for the comparison of 2008 with 2009 is based on Q1 for each year; 2009 with 2010 is based on Q1 .

Source: interview data

Although the survey evidence does not provide the level of insight that can be drawn from cases nevertheless it does provide some clues as to how this level of performance was achieved. Whilst it is the negative effects on businesses that are usually highlighted, recession conditions can also provide business opportunities for some firms. Positive effects were most commonly reported in relation to ease of staff recruitment and staff motivation/effort, indicating the influence of loosening labour market conditions during a period of growing unemployment and fear of redundancy. (table2)

Table 2 shows that a small number of firms reported having experienced positive effects since the start of 2008, particularly with regard to recruiting labour (29 per cent of respondents report strong or slight positive effects), workforce motivation (19 per cent) and the value of sterling (14 per cent). Although a reduction in the numbers employed was more common (31 per cent) than an increase (17 per cent), where firms had recruited, some appeared to have benefitted from loosening labour market conditions. The point was made by one respondent that one of the characteristics of this recession has been the large number of redundancies among skilled groups, which has made it easier for some firms to find suitable candidates for a job.

Table 2: Experience of Recession-related Effects 2008-9						
	Strong Positive Effect *(%)*	*Slight Positive Effect* *(%)*	*No Effect* *(%)*	*Slight Negative Effect* *(%)*	*Strong Negative Effect* *(%)*	**N**
Finance-related Effects						
Late payment by customers	2	2.4	31.4	38.0	26.3	**334**
Bad debt or uncertainty over customer payments	1	0.9	42.8	38.9	16.2	**334**
Cash at bank	2	5.1	44.1	30.8	18.1	**331**
Credit periods and/or credit terms from suppliers	0.9	1.8	63.7	24.6	9.0	**333**
Availability of bank loans/overdrafts	2.1	3.0	70.6	13.2	11.1	**333**
Other Types of Effect						
	3	5.4	43.8	35.1	12.9	**333**
Falling value of sterling	4	9.6	42.9	25.8	17.7	**333**
Transport costs	2.1	5.1	50.9	33.0	8.9	**336**
Energy costs	0.9	4.2	54.9	30.7	9.3	**335**
Staff motivation/effort	3.4	15.2	55.8	21.3	4.3	**328**
Ease of staff recruitment	7.5	21.6	61.9	5.1	3.9	**333**
Other	6.7	6.7	0	6.7	80.0	**15**
Notes: Ns vary due to exclusion of cases with missing data. Row percentages do not sum to 100 due to rounding. Cases with missing data excluded.						
Source: online/mail survey						

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Recession may not only have diverse impacts upon small businesses, it might also influence the actions they take to manage those impacts. This raises the question of whether businesses experiencing the most severe adverse impacts will be those most likely to implement the most far-reaching changes to business strategy and management practice. Firms experiencing less severe shocks are, arguably, more likely to introduce less stringent measures. This may be reflected in the quantity and quality of adaptations implemented. 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, compared to 6.2).

There were some significant differences in the specific actions taken between the two groups. Those reporting being affected by recession were more likely to report the following actions as significant (Table 3 provides further details of these significant relationships).

- 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
- Invested personal savings
- Reduced investment expenditure
- Closed branches or outlets
- Personally worked longer hours

Those *not* reporting feeling the recession indicated that the relationship with 'Increased numbers employed' was 'very significant' and the association with 'Opened new branches or outlets' as 'significant'.

Table 3:Actions Taken to Increase or Maintain Business Performance Since Start-2008 by Recession Impact: Statistically Significant Relationships			
Actions Taken	*Recession-affected (%)*	*Not Recession-affected (%)*	*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
(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. Only statistically significant relationships at the 5% level or higher included. ! Fewer than 5 cases in particular cells indicate the relationship should be interpreted with caution. Cases with missing data excluded.

Source: online/mail survey

Not surprisingly perhaps, the evidence described above shows that the resilience of small businesses to the crisis was associated with a high level of activity on the part of small business owners and managers, particularly those that reported recession related effects.

Case study evidence

In this section of the paper we turn to the second research question which is concerned with the basis or the resilience demonstrated by firms, the circumstances leading to resilience; and the likely effects of actions taken on the longer-term development of the business. The evidence is drawn from those 18 cases that were interviewed twice; firstly in 2009 and again in 2011,comparing firms which on the basis of their performance trends appear relatively resilient with those that appear more vulnerable..

In order to identify those firms with stronger and weaker performance trends, the 18 businesses that comprised the longitudinal case studies were classified into four groups based on their performance firstly before the main crisis period; secondly during the worst of the crisis of 2008-9; and thirdly during 2010-11.

The four groups are:

i. **From bad to worse** i.e. those firms with weakening performance during the recession in 2008-9, relative to the pre-recession period, and further weakening performance in 2010-11 (vulnerable) (Table 4).-
ii. **Riding the recovery**: those firms with weakening performance during the recession in 2008-9, relative to the pre-recession period, and stronger performance in 2010-11-(resilient)(Table 5).
iii. **From strength to strength**: those with stronger performance during the recession in 2008-9, relative to the pre-recession period, and stronger performance in 2010-11. (resilient)(Table 6)
iv. **Against the tide**: those with stronger performance during the recession in 2008-9, relative to the pre-recession period and weaker performance in 2010-11 (vulnerable) (Table 7).

These performance trend categories are used to distinguish firms that appear relatively resilient (groups two and three) from those appearing more vulnerable (groups one and four). In order to see if resilience is associated with particular types of adjustment the 18 case companies were also classified on the basis of the principle mode of adaptation since 2008. In doing so we distinguished between cost-cutting, revenue-generation and ambidextrous strategy, based on respondents' replies to questions concerning the configuration of firms' actions. Revenue-generation practices include new product development, investment in new equipment and increased marketing and advertising spend; cost-cutting includes employment reductions, switching suppliers on cost grounds and reducing external debt.

Overall, we classified three of the 18 businesses as cost-cutters, 10 as revenue-generators and 5 as adopting an ambidextrous approach. As Tables 4-7 demonstrate, there is no consistent pattern of association between the dominant mode of adjustment and performance trends groups. The only exception is that the ambidextrous approach was more commonly found in one of the two groups classed as more resilient (four of the 10 firms) compared with one of the eight firms in one of the vulnerable performance trends group. In other words, resilience is not consistently associated with a particular dominant mode of adjustment. Pursuit of a particular approach (cost-cutting or revenue-generating) does not guarantee successful performance (at least at the time of interview): both approaches produced successful and unsuccessful performance.

As a consequence, two other factors that may have contributed to greater resilience on one hand or vulnerability on the other were examined. These are the degree of success of the adaptation attempted; and secondly the underlying strengths and weaknesses of the company, which mainly reflect previous management decisions. These are summarised in tables 4 to 7, in which tables 4 and 7 contain those firms whose performance trends suggest they are vulnerable and tables 5 and 6 which contain those firms classed as being more resilient.

Not surprisingly perhaps there is a very clear difference between the resilient and vulnerable firms in terms of the success of the adaptation. For example, in group 1(whose performance had gone from bad to worse), three were judged to have made unsuccessful adaptations and the other achieved only partial success. The other vulnerable group (group 4 performance trends lead them to be described as against the tide) There was a higher level of apparently successful adaptation since in only one of the four firms was the adaptation described as unsuccessful.

Table 4 FROM BAD TO WORSE- (Weakening Performance During Recession and Recovery)VULNERABLE			
Products	*Workforce Size*	*Principal mode of adaptation since 2008*	*Sources of Vulnerability*
2. Estate agent	8	*Cost-cutting*. Emphasis on non-replacement of staff. Also implemented a variety of measures, including reducing input prices & various expenses. Heavy reliance on personal savings to maintain business cash position. Switching to reliance on estate management service, away from survey work, has both facilitated survival but also discouraged a shift to more fundamental business readjustment.	Strengths and weaknesses: this is a long established family business which started trading in 1903 offering a range of property services. Survey evaluation was the mainstay of the business until 2007 when they were hit by the collapse of the property market. An underlying weakness is that most business was obtained through referral; another is the lack of planning. The level of sales 2009 was 65% of the level in 2007. Profits fell by 50% in one year.. respondent admitted that the recession had weakened the business in the long term. *Adaptations unsuccessful*. Sales & profit declined during 2008-9 & continued through 2009-11. Strong adverse influence of depressed property market prices on survey work & fees.
7. Picture framing service	1	*Revenue-generation*. Small investments using retained profits such as a special glass for frames and an under-pinner to increase the efficiency of the framing process. Two attempts to diversify services (web design for their artist customers and small frames for the mass market) in 2010-11 after period of poor sales especially for artwork. Small frames for the mass market not pursued because of large marketing costs & labour required to make it successful.	Strengths and weaknesses:: this is a one-person business that's been trading for 20 years. facing space constraints yet needs to increase turnover in order to cover all overhead costs. Working capital is funded from her personal savings and the use of a personal credit card. *Adaptations successful to a degree*. Investments increased the quality of the frames for artists. Web design still in process. Sales & profits slightly lower in 2010 because of limited demand & investment made in 2009.
	1	*Revenue-generation* in 2008-9, followed by *cost-cutting* in 2010-11. Introduced minor measures	

10. Acupuncture services		such as website improvement and remote reception using retained profits. Failure to generate sufficient increased sales led to the major cost-cutting decision to relocate business at home. .	Strengths and weaknesses:: this is a one-person acupuncture business. Now in her mid-50s the owner was mainly focused on keeping the business afloat rather than developing it. Owner lacks some basic business skills particularly on the financial side. *Adaptations unsuccessful*. Sales & profit declined during 2008-9. In 2009-10, sales more or less the same; profits lower due to high overheads. In 2011, profits expected to slightly pick up due to lower overheads.
13. PR	1	*Revenue-generation*. Minor practices such as networking to create opportunities & to diversify services using mainly owner's time. Difficulties keeping up with the changes in the PR industry as a result of the increased use of social media.	Strengths and weaknesses:: this one person business has been contracting for some time because of a lack of demand for the core PR consulting activity, Her income from the business in2010-11 was on a par with 2006.The entrepreneur perceives a structural change in the market with personal disadvantages associated with her age, which encouraged her to diversify. The owner's energy for the business affected by mental illness or a daughter. Continues to describe ideas but only leads that doesn't seem to be followed through *Adaptations unsuccessful*. Sales & profit declined during 2008-9 & continued dramatically through 2009-11.
Source: interview data			

Table 5 RIDING THE RECOVERY (weakening performance during the recession in 2008-9, relative to the pre-recession period, and stronger performance in 2010-11)-(resilient)			
Products	*Workforce* *Size*	*Principal mode of adaptation since 2008*	*Sources of resilience*
6. Web design/development-	8	Revenue-generation. Price competition has been really fierce making it difficult to win new customers. Won a major contract in late-2009 that influenced major internal restructuring & staff training to accommodate subsequent growth. Investment activities financed out of cash flow.	Strengths and weaknesses: Despite fierce price competition, 87% of their work is repeat business from existing clients, for whom they offer price discounts). Demand remained buoyant during the recession.hey redesigned their website in 2009 which helped them to secure larger contracts. Internal restructuring contributing to the cost savings. Documentation of processes and tasks (including tendering processes) also contributed to more efficient working. Expansion mainly self financed. Adaptations successful. Sales increased by a third in 2010. Profits increased markedly in 2009 but 2010 saw a slight loss due to reinvestment in staff & associated recruitment fees.
8. Professional training/fitness software	5	Revenue-generation. Emphasis has been on major investment in software development & launch, financed by private savings, R&D tax credits & subsequently by an external investor (a friend of the owner). Initial launch in October 2009 but withdrawn several weeks later because clients needed greater sophistication. Product re-launched in March 2011.	Strengths and weaknesses: .The strengths of this company lie in the uniqueness of its main product, although product development has not been trouble-free., They have been willing to invest to improve internal processes and infrastructure . although initially they fell into the trap of thinking they knew what the customer wanted. However, ,they have proved willing to learn and consequently invested in more testing for usability and user experience. They are learning the importance of marketing

			No trading revenues achieved yet. Business costs are £230k per year, mainly employee salaries. Plans to break even by January 2012.
9. Sound services for theatre & entertainment production companies	4	Cost-cutting. Lower demand from entertainment companies led to major cost-cutting activities such as the owner deciding not to take a salary & the business moving to cheaper premises to ease cash flow in 2009-10.	Strengths and weaknesses:. Most work is repeat business for existing clients, Although operating in a highly competitive sector. Three of the four people who work in the business are members of the same family. Never used external finance. Modest aspirations for business development. Adaptations successful. In 2009-10, sales were lower & the business made a loss mainly related to writing off equipment costs. In 2010-11, sales were slightly higher & a profit was expected.
16. Business removal service	12	Cost-cutting. Trying to restore the balance sheet after experiencing major problems related to a furniture industry partner going into administration that left the business in enormous debt. Measures include renegotiating credit terms with suppliers & rescheduling tax & VAT payments in arrears followed by an increased sales effort towards the end of 2010-11. Business financed through factoring to support cash flow.	Strengths and weaknesses: .The adjustments made following the liquidation of the key business partner have strengthened the company-was involved f4 redundancies in 2009, a reduction in subcontracting out, leasing rather than buying some equipment. As a result in addition to those measures mentioned under cost-cutting. As a result profit margins have been protected Adaptations successful Sales have increased by 5% per year. The business made huge losses in 2009 & maintaining profit margin at 32% has been a challenge.

			Business is improving & aims to invest later in 2011 once the balance sheet has been restored.
22. Eco-friendly furniture design	2	Ambidextrous approach. Major cost-cutting measure - sales manager made redundant to reduce labour costs. Increased sales effort by attending exhibitions, increased marketing & advertising expenditure. Financed through cash flow until early-2011 when external finance obtained with the aim to grow the business. The main challenge has been to try and grow quickly while the market was falling during 2009.	Strengths and weaknesses: Tried to expand too quickly initially in a declining market. Dependence on the construction industry is a particular problem. However, although the entrepreneurs sounded rather naive at i.e. at the beginning, he proved to be a quick learner. Made rapid adjustments and proves willing to reverse key decisions when they were unsuccessful Adaptations successful. Sales more than doubled in 2010 after rapid sales decline in 2009, & are growing even faster in 2011. Still not profitable but a much better year than 2009.
Source: interview data			

Table 6 FROM STRENGTH TO STRENGTH (Stronger Performance During Recession and Recovery) RESILIENT			
Products	*Workforce size*	*Principal mode of adaptation since 2008*	Sources of resilience
5. Servicing / installation of dishwashers	58	Ambidextrous approach. Implemented product & market diversification; financed using retained cash flow. Product diversification involved looking to service coffee machines whereas market diversification involved servicing a diverse range of public (i.e. city councils) and private sectors (i.e. supermarkets, breweries). These were combined with cost-cutting (employee pay freeze till 2010).	Strengths and weaknesses: Willingness to try new products but also the willingness to terminate if not successful. Steady diversification of the customer base but also sectors. Included recent entry into supermarkets which has been associated with improving the quality of services. This is reflected in improved quality control and accreditation. Company believes they have introduced systems to facilitate change. This includes increased staff training and a degree of multitasking. Adaptations successful. Sales have increased 10% year-on-year; profits have increased substantially from 3 years ago when the company made losses. Market diversification largely successful but service diversification (coffee machines) failed.
11. Manufacture of party products and accessories	25	Revenue-generation. Emphasis on market diversification in the UK & internationally. Major investment in new labour and in internal infrastructure to accommodate growth. Use of invoice finance and clean import loans to ease cash flow. Retail industry customers (i.e. supermarkets, garden centres) have provided opportunities as they have taken more of their products.	Strengths and weaknesses: A growing business with 400 products that has recently internationalise. They feel they need to internationalise because of the niche nature of the product .These are two types of product: customer own label products in supermarkets (mainly seasonal); and their own branded products with a 2 to 3 year shelf life. They

			have stopped supermarket business because of the terms of trade in the case of Tesco they also refer to the negative effect of Tesco changing the buyer. At the same time they have widened their branded products in the UK, supported by increased efforts in marketing. As the business has grown and strengthened their internal systems e.g. order processing which is now automated Adaptations successful. Last year turnover was the same but profits were lower because of upward pressure on supply costs & expensive shipping costs & investment in staff.
18. Supply of corporate uniforms to businesses	2	Ambidextrous approach. Website development & ensuring a prominent position for Google searchers aimed at increasing sales. Attended government funded training on PR & advertising. Salary freeze since 2008 & a decision not to replace staff who retired – this was an overhead lost through natural means. Increased selling prices in response to the rising costs of materials. Financed through cash flow.	Strengths and weaknesses: Commitment to the introduction of new products (although in practice this is supplier led). Self financed from wealthy owner. Competitor analysis needs to attempted differentiation of products and services. Adaptations successful. Increased sales in 2010, although profits were slightly lower than in 2009 due to lower profit margins.
19. Financial services	1	Ambidextrous approach. Major service diversification, switching to pensions & investment products to address the decline in mortgage sales. Financed by cash flow. Switched to working from home to cut costs.	Strengths and weaknesses: This one-person business has a high level of

			flexibility because the owner was quick to spot and exploit new opportunities. Faced with a collapse in demand for his core service he identified alternative revenue streams. The business has always been self financing. With a healthy cash flow because his clients pay on time. There is no desire to significantly grow the business. The recession created opportunities in those low interest rates on savings creates a demand for financial advice. Adaptations successful. Increased sales & profits in 2010.
21. Professional advisory services (including law, accountancy & HR)	3	Revenue-generation. Continuation of previous practices aimed at business development: no major actions taken as a particular response to recession. Financed activities through cash flow. The company benefits from client problems during downturn as well as from macroeconomic growth because their services will always be needed.	Strengths and weaknesses: Three partners offering complementary business services but to different groups of clients. Although the diversification of services was mentioned in 2009 in practice the business remains narrowly focused. The business is self financed with a healthy cash flow thanks to their corporate clients who pay on time. have attempted to tie in existing clients by offering a fixed retainer Adaptations successful. Sales slightly down in 2010 compared to 2009 but quite consistent over the past few years.
Source: interview data			

TABLE 7 AGAINST THE TIDE (Stronger Performance During Recession and Weakening Performance During Recovery) –VULNERABLE			
Products	*Workforce size*	*Principal mode of adaptation since 2008*	*Sources of vulnerability*
1.Power supply systems	n/a	Revenue-generation. Emphasis was on attempting to win new business. Clients unwilling to commit to investment in expensive large-scale construction projects. Financed primarily by directors' equity investments. Enterprise Finance Guarantee loan obtained but problems with acquisition and use.	Strengths and weaknesses: Catastrophic decline in winning business – major clients decided not to go ahead with planned projects, or to reduce their scale Adaptations very unsuccessful. Company went into administration in Feb 2011 after a protracted period of low sales & profits. Company sold for £1 to a new buyer.
4. Online games development	4	Ambidextrous approach. A variety of cost-cutting measures include use of external labour, delaying VAT & rescheduling tax payments, hiring rather than buying equipment to ease cash-flow. Revenue-generating actions include government training initiatives to improve management skills. Failure to win a major contract in late-2009 led to all staff being laid off. One of the founders, the main salesman, quit, leading to difficulties winning new business.	Strengths and weaknesses: this is a game development company trying to reposition itself as telling stories through games. The business is very volatile which reflects variations in the level of demand and the project, which is associated with lumpiness in their income streams. Employment has declined from 84 and one of the founders of the company also left (because of the pressure). At the end of 2009 all employees were laid off. Adaptations successful to a degree. Sales in 2010-11 drastically lower than in 2009 but still profitable.

			The future direction of the company is uncertain.
12. Training services	6	Revenue-generation. Sales constrained by government spending cuts & priority given to larger enterprises with money to support the training programmes. Emphasis on networking to generate new business & major diversification of training courses in 2010-11. Financed using cash flow & personal savings.	Strengths and weaknesses: since 70% of the training contracts are with the public sector going they are vulnerable to public expenditure cuts. Competition is increasingly coming from large enterprises, some of whom are forming consortia to mop up more of the business that is available Adaptations initially unsuccessful, then subsequently successful. Sales & profits declined during 2009-10 but have improved slightly in 2011.
15. Software/web development & consultancy	2	Revenue-generation. Software development & diversification into training services financed using cash flow. Diversification proved unsuccessful & costly. Recession has offered opportunities because software/web development is not something businesses would cut during a recession.	Strengths and weaknesses Services shifted more towards consultancy since 2001-2. In 2009, public sector sales represented 90% of total sales. Shift to consultancy increased sales noticeably for 2 years, then 2 years of weak sales as owner focused on software development work & less on earning money. Then sales have improved year on year. Owner thinks recession created opportunities for him. Adaptations successful to a degree. Higher sales & profits (20% increases) in 2008-9 turned into a decrease of 10% in 2009-10.
Source: interview data			

Sources of resilience

On the basis of the performance trends criteria described above 10 of the 18 businesses are judged to be resilient. They are evenly divided between those judged to be 'riding the recovery' and those in the 'strength to strength' group. The former contains firms whose performance weakened in 2008-9 when the recession hit but they were able to weather the storm as reflected in more recent recovery. The latter contains firms who were able to strengthen their performance during both the worst of the recession and during the more recent period.

In seeking to identify the sources of resilience in the case companies three potential influences were investigated and summarised in tables 4-7. These were firstly the dominant strategies adopted by managers in response to recessionary influences; secondly, the success or otherwise of forms of adjustment introduced; and finally the underlying strengths and weaknesses of the enterprise, which broadly reflect previous management action As previously mentioned, based on the case evidence there is no single strategy that was consistently associated with resilience, which may partly reflect the broad nature of the strategy classification used but more importantly different starting positions when the recession hit.

Not surprisingly, there was a clear difference between the more resilient and vulnerable firms in the degree of success of the adaptations introduced. This means that the response of management to the crisis was an important influence on their firm's resilience. Examples of successful adjustment made by resilient firms include cost-cutting in response to falling sales which involved a business moving to reduce costs and ease cash flow. In addition the owner decided not to take a salary for a period .Other successful examples of a cost-cutting strategy included renegotiating the payments terms with suppliers; rescheduling tax payments over a number of years; and increasing the use of factoring to improve cash flow.

A successful ambidextrous approach involved staff redundancy to reduce labour costs alongside a major increase in sales effort reflected in a significant increase in marketing and advertising expenditure. A further example of successful ambidextrous adjustment involves a product to market diversification programme alongside an employee pay freeze to reduce costs. Often the dividing line between the success and failure of a firm's adjustment strategy is a narrow one, albeit influenced by conditions within the sector as well as previous management actions. There is no strategic blueprint in this regard.

In contrast, adjustments to recessionary effects made by firms in one of the two vulnerable groups were commonly unsuccessful. The extreme case was a firm producing power supply systems for the construction industry. In this case structural conditions within the sector making it one of the worst affected by the recession resulted in the firm going into administration, which was probably not preventable. In other cases adaptations had a degree of success but not enough to make them seem significantly less vulnerable

Although the success of the steps taken by managers with the onset of recession is important, it is reasonable to suppose that the impact on the performance of the business is likely to be affected by the previous management actions which are likely to affect the underlying strengths and weaknesses of the company. These are summarised in tables 4 to 7. Once again some clear differences are apparent between resilient and vulnerable firms.

Not surprising the finance emerges as a key resource, with the ability to maintain a healthy cash flow an important asset. As a result one of the recurrent features of the more resilient firms is their ability to maintain a healthy cash flow. In some cases this was because demand for their products and services remained relatively buoyant, sometimes influenced by the actions taken by managers, with the result that the firm maintained a healthy revenue stream. A high proportion of repeat business in the portfolio tended to be associated with customers paying quickly o that even in a highly competitive sector being paid on time enabled businesses to reduce their vulnerability. There are a few firms in the resilient category that had faced major crisis, such as the loss of a major business partner. However, the adjustments made enabled businesses not just to survive but to emerge on a sounder footing.

Although the quality of management is notoriously difficult to assess it was undoubtedly a major asset in these cases. In contrast both of the other two groups reflected not just unsuccessful adjustment because of weaknesses in the company, which could include strategic positioning within the sector in other cases vulnerability reflected poor business decisions: such as the failure to respond to falling demands that started some years before the recession.

Such businesses illustrate well the principle that resilience at the time of recession was heavily influenced by previous management actions and decisions. Examples include a strong commitment to improving quality control and accreditation alongside ongoing improvement in internal systems as the business grew. There were also examples of real entrepreneurship in this group, which involve spotting alternative business opportunities and moving quickly to exploit them thereby demonstrating a high degree of flexibility. But in some cases the exploitation of opportunities spotted did not work out and an ability to know when to pull the plug on an initiative combined willingness to do this even if there are short-term disruptive effect on the company was an important asset in some of the most resilient businesses.

Individual Cases In this section we explore sources of resilience in two individual cases, drawn from the two performance trends categories associated with resilience (i.e. groups 2 and 3).

Case1: Business Removal Services

The business started trading in October 2003 as part of a joint venture with a company selling office furniture. Their core business activity is business removals, making it a business to business service company. 13 people were employed in 2009. They also offer recycling services for old office furniture. As they grew their dependency on the furniture company diminished. They were able to create new relationships with design and built companies, property consultants, chartered surveyors who introduced them to projects that related to relocation

Effects of Recession

The demise of their strategic partner left a massive hole in their balance sheet. They had to write off a large amount of unpaid debt; spend time with professional advisers, accountants and lawyers that helped them to move from being part of a group to a standalone company. They had to spend a lot on IT infrastructure that was previously done centrally. Interviewee said that these unexpected expenses together with the tough conditions have been very challenging for the company.

> *One of the things about recession, you can see lots of things and try to plan. One of the things I didn't foresee happening is that my business partner ceased trading...in recession the first thing that people stop buying is office furniture, if they are still going to*

move they will move their existing furniture rather than replace it, very quickly. It went from a multimillion pound business to quite a small business and then went to administration in May of this year...Fortunately we devolved a little bit, we were not dependent on them so we didn't go into administration. We continue to trade as a standalone business

Management response

In 2009, the short term aim was to rebuild the balance sheet following the huge amount of write off debt they had to make. They wanted to put some stability in their first year of trading as a standalone business. They'd like to have some adequate reserves back in place.

. "*I don't remember the last time I moved anyone to larger premises. It's probably been like that for 6-9 months. We're seeing some more activity now... I think London property market appears to have bottomed out, so we're seeing a little bit more take up which is good. Hopefully with our sales people maintaining their activity levels will see business starting to re-increase*".

The main actions taken in 2009 when the recession first hit were:

- Some steps to maintain margins by replacing some expensive variable costs with cheaper fixed costs.
- For ongoing work they employed their own people instead of using subcontractors.
- Made 4 people redundant in February 2009.

Actions taken after their partner went out of business-

- o Stretched their terms of payments with suppliers. Who were said to have been very supportive.
- o Had to replace a funding arrangement with an invoice discounter with a new arrangement. They had to go through this because the previous arrangement was made whilst they were part of the joint venture and some cost guarantees needed to be unravelled before they could continue to trade.
- o Maintaining healthy relationships with all their trading partners.
- o Trying to increase their penetration to their existent distribution channels.
- o Have fewer overheads now because as part of the joint venture he used to pay management fees. All they need to do is to maintain their level of sales and with less costs they will definitely make a profit.
- o In order to preserve cash they lease their IT equipment and some vans.

Commentary This case represents a good example where a threat was turned into a business opportunity. Whilst the quick and determined actions taken by management undoubtedly saved the company, their ability to do so was certainly influenced by its underlying competitive strengths. As a result the firm looked stronger moving out of recession than it did moving in.

"*Uncertainty around trading seems to be behind us...just before our parent company went into administration we were very, very vulnerable. I had to tell all my people that there was a chance I couldn't pay their wages; there was a chance that wages would be late. So I had to manage expectations and make them aware of where we were at. That said, I did* *pay the wages and on time... they've all had a tough time last few weeks and that has to do with uncertainty. There were times I honestly didn't know what was going to happen. I did what I could to maintain everything going forward but there were too many things I wasn't in control of but now that's behind us and the focus is, as I said before, to rebuild the balance sheets."*

Case 2: Provider of financial services

Profile

This case was selected from firms in group C3which were classified as resilient on the bases of strengthening performance both during recession and the post recession period.
The firm is a one-person enterprise, which started trading in 2006 as a Financial Adviser, providing predominantly mortgage services. Sales were fairly low in the first year but slightly higher in 2007 and the owner was able to move from home into a business unit in March 2008.

Effects of Recession

The impact of recession was first felt in May/June 2009 when customer enquiries dried up. The business experienced decreasing sales as a consequence of the crisis in the financial and housing services markets. When the recession hit the banks and other lenders, the mortgage lending dried up. The banks withdrew mortgage products as well as tightening loan rates, which directly affected the owner's ability to obtain mortgage products for customers.

Management response

The owner took a number of actions in 2009 in response to recession, which we have characterised ambidextrous. In January, the business moved into a smaller unit, shared with another mortgage adviser, which reduced the rental costs by 40-50 per cent. Subsequently, the owner extended the range of services on offer to include investment and pension products. This decision was made pro-actively rather than in response to customer demand. As a qualified financial adviser, the owner was able to diversify and avoid reliance on the diminishing mortgage market. Mortgages had previously represented 90 per cent of products sold which eventually reduced down to 35 per cent.

"When the credit run out, it was a lot more difficult to get any funding, to get a mortgage for my clients. That obviously affected my income, so I had to look into other areas of financial services, i.e. pensions, and then doing investment business." (Financial Adviser, One-person business). The business diversified further in terms of its client base. While 'Oriental customers' made up 80 per cent of the clientele previously, the business extended its reach to include more a diverse range of customers."

Commentary

The business owner reflected positively on the actions taken in 2009. Providing a wider range of services means that more can be offered to clients and as a result, business sales have gone up by about 20 per cent since 2009 and profits have also gone up. The business is doing better than many competitors who are not qualified to provide such a variety of financial services. Furthermore, the experience of the recession has strengthened the business. The owner has learned to be less reliant on one type of service and is able to plan better.

Whilst vulnerable to external shocks, small businesses can be extremely resilient to recessionary conditions that directly affect their markets. This is well illustrated by case 2 that undertook some cost cutting measures as well as actively diversifying. The business owner's behaviour reflects the determination of many small business owners to keep their businesses going, even in the face of extreme adversity. As a result, the business has been one of those that were able to take advantage of the recession. The owner was quick to spot opportunities for diversification into related financial services and having spotted them was quick to act.

Resilience in this case stems from the ability and proactivity of the business owner. This one-person business has a high level of flexibility because the owner is quick to spot and exploit new opportunities. Faced with a collapse in demand for his core service he swiftly identified alternative revenue streams. The recession created opportunities in their low interest rates on savings creates a demand for financial advice. The reorientation of his customers and markets represent substantial product and market adjustment. The business has always been self financing, with a healthy cash flow because his clients pay on time. There is no desire to significantly grow the business.

Emerging Themes

Since data analysis is not yet complete it is premature to draw conclusions at this stage although we can identify a number of key themes emerging.

It is clear that contrary to the predictions of many commentators, the impact of the most serious financial and economic crisis since the 1930s on small businesses is not a consistent story of disaster across the board. Instead the effects are far more nuanced as previous research by the authors has demonstrated. Results from our 2009 study emphasised small firms' resilience and adaptability to the economic downturn and associated credit crunch. Moreover, the same study showed that some small firms have used the recession as a market opportunity seeking to expand, innovate and diversify their activities. The weight of these results has been strengthened firstly by a follow-up study in the UK in 2011; and secondly by an international comparison, with New Zealand In both cases, the adaptability of the established firms making up the samples was a strong emerging theme
Although we were initially surprised by the level of resilience shown, as the survey evidence demonstrates resilience does not come easily and is typically associated with a high level of management activity

One emerging theme is that rather than being a one-off phenomenon, which can be related to a specific strategic decision, resilience is typically a capability developed over the longer term, which means it is heavily influenced by management behaviour or a period, accumulated resources and experience. Of course, established firms have an advantage over new and young ones in this regard because they have longer to accumulate management experience, as well as other resources which help to which the major external shocks.

Entrepreneurship is sometimes narrowly associated with the creation of new ventures. However, as a number of the cases demonstrate entrepreneurs and entrepreneurial behaviour is found in businesses of all ages. As a number of the case studies illustrate some of the businesses are run by highly entrepreneurial people able to spot and exploit opportunities but equally importantly know when to pull out of a project when clearly things are not working out

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