Annals of Spiru Haret University.
Economic Series
Since 2000
ISSN:2393-1795 ISSN-L:2068-6900

Issue 2/2021

IMPACT OF ECONOMIC CRISES ON FIRMS: A LITERATURE REVIEW

Joel ISABIRYE[1]

[1] ***Kampala International University, Ggaba Road, Kampala, Uganda, Tel.: +256392001816, Email: joel@joelisabirye.com***

How to cite: ISABIRYE, J. (2021). "Perspective on Firms' Responses to Economic Crises." *Annals of Spiru Haret University. Economic Series, 21*(2), 111-140, doi: https://doi.org/10.26458/2125

Abstract

This paper analyzes how firms respond to emerging economic crises. A firm's response to crisis is a mechanism for survival. It normally evolves out of the impact of the crisis, and it is linked to the strategic goals and operational objectives of the firm. Firms normally pursue one or more of three lines of responses to crises; retrenchment, investment and ambidextrous responses. Responses of firms to crisis are far from predictable or systematic and usually vary from firm to firm. They are predetermined by specific contexts of the firm's existence. These contexts range from the firm's size, ownership, sector of operation, history in business, country dynamics and resource capabilities. There is also a tendency for firms to move from one type of response to another during the course of the crisis. Retrenchment is the most preferred form of response, although investment responses tend to have long-term advantages. The study recommends that firms consider ambidextrous responses to realize the synchronized benefits of retrenchment and investment responses to crises. It is also recommended that studies on firms' responses to crisis should examine firms on a case-to-case basis, identify the particularities of their responses.

Keywords: *economic crisis; crisis management; economic; Uganda.*

JEL Classification: G33, G34

Annals of Spiru Haret University.
Economic Series
Since 2000
ISSN:2393-1795 ISSN-L:2068-6900

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Introduction

This paper examines how firms respond to economic crises in different countries and theoretical contexts. The paper examines 83 studies that directly explore how firms respond to economic crisis, and evaluates the common perspectives reflected about the responses of firms to crisis. Five sections constitute the paper introduction, methodology, findings, discussions and conclusions.

Background

Historically, a selection of previous studies using evidence from frequent crisis periods has investigated how firms respond to the crisis, since the crisis of Rome in 33AD. [see Taylor, 2013; Pant 2001; Sutherland, 1984; University of Aberdeen Centre for Scottish Studies, 1994; Rose, 2010; Peterson, 1987; Taylor, 2011; Jensen, 1989; Boaz, 2008; Keneally, 2014; Mellahi & Guermat, 2009; Yu & Park, 2006; Lee, 1998; McDevitt *et al.*, 2013] The studies present a broad spectrum of responses that the firms adopt during a crisis and include: restructuring, downsizing, shut down of operations, wage cuts, massive layoffs, new work programs, and price increases.

More recent evidence of firms' responses to economic crises in African economies has been explored in some research papers. Kazeem (2016), and Okereocha Iroegbu-Chikezie and Agboola (2015) have examined responses to the crisis, adopted by private firms in Nigeria. Similarly, in Kenya, Omondi (2016), Wafula and Guguyu (2017), Mohammed (2012), and Karani (2011) use contemporary evidence to analyze approaches considered by firms during a crisis, providing some indication of the outcomes of their responses. Their findings, demonstrate a shared understanding, that the models of firms' responses to economic crises in different economies remain complex, and require further critical inquiry.

Statement of the Problem

The complexity of firm's response to economic crises makes it difficult to predict firm's behaviour during crises. As such, firms' response to economic decline has seen renewed interest based on emerging crises, with the latest round of analyses focusing on the global financial crisis of 2007 [Hansen & Nybakk, 2018]. Against this background, it is important to study emerging cases to deepen under-standing of how economic crises impact on firms, households, and governments and how these economic agents respond to a crisis. Such studies are imperative because, in a world frequently beset by financial, economic and organizational crises, the speed and effectiveness with which a firm responds to a crisis often affect its survival, reputation and market performance [Calloway & Keen, 1996 cited in Tennant, 2011; Tennant, 2011].

Significance of the Study

Today, firms are increasingly concerned about the impact of the economic crisis on their operations and survival and how to conceive appropriate responses to the crisis. At the same time, governments, wary of the impact of the crisis on the private sector, the engine of economic growth, are equally bothered about how firms can effectively respond to the crisis. Policy-makers, firms, and researchers on firm's behaviour may find the study pertinent to their efforts to improve their understanding of how firms may react to economic crises and the factors that underpin these responses overtime.

Objectives of the Study

Main Objective

The main objective of the study is to examine how firms respond to economic crises.

Specific Objectives

1. To identify the types of responses firms adopt during economic crisis.
2. To examine the characteristics of each response firms adopt during economic crises.
3. To analyze the process through which firms select and implement their responses to economic crises.

Methodology

Content Analysis

Content analysis is utilized for the purposes of this review. Content analysis is the classification of key ideas in a written communication. Classification of the key ideas creates "categorical variables" that can be analyzed by standard statistical methods [United States General Accounting Office, 1996]. According to Gaur and Kumar (2017), content analysis is applied to literature reviews to assess extant knowledge and internalize the intellectual structure of a field. Whereas content analysis is predominantly conceived to relate to communication research, there is

Annals of Spiru Haret University.
Economic Series
Since 2000
ISSN:2393-1795 ISSN-L:2068-6900

increasing utilization of this design and method in the review of studies about particular subjects and issues. This, however, requires that the content analyst establishes benchmark steps (selection of source databases and sampling) and coding schemes to guide the analysis of content of the studies reviewed. By deploying a specific pattern of analytic categories, a content analysis of literature services to contribute to areas of research that fall short in output [Seuring & Gold, 2012].

Sampling and Units of Analysis

A purposive sample of 83 study texts were used as units of analysis and these were found to have examined how firms respond to economic crisis. Most of the studies reviewed in regards to how firms respond to economic crisis have been published in books, journal articles, reports, and book chapters/entries, among others as shown in Table 1 below.

Table 1. Units of Analysis

Unit of Analysis	**Number**	**Percent**
Books	36	43.4
Journal Articles	16	19.3
Reports	14	16.9
Book Chapters/Entries	11	13.3
Conference Papers	2	2.4
Theses (Masters)	4	4.8
Total	**83**	100.0

Source: reviewed studies

Keywords were used to trace related publications from different databases available electronically [see Duriau *et al.*, 2007]. The keywords 'responses to economic crisis' and 'firms' response to economic crisis' yielded a large amount of data that was narrowed down to specific studies that directly examined the research question: how do firms respond to economic crisis. Subsequently, 87 studies were selected and formed the basis of this review (see references for full list).

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Analytical Procedure

The review was restricted to thematic analysis. Its scope, therefore, was restricted to the responses adopted by firms. The study identifies the different types of responses availed in sampled studies and presents their characteristics and features. It also explores the processes through which firms select and implement their responses to economic crises. The review does not evaluate the efficacy of the responses.

Findings

Objective 1: To identify the types of responses firms adopt during economic crisis

In choosing their responses to economic crises, studies reviewed suggest that firms tend to base on four objectives: survival, business viability, positive cash flow and continue operating. The most common objective stated was that of survival as shown in Table 2. The different objectives determine which type of response a firm may adopt.

Table 2: Objectives of Firms' Choice of Response

Objectives	Number of Studies
Survival	3
Business viability	2
Positive cash flow	1
Continue operating	1
Total	**7**

Source: reviewed studies

Out of the 83 studies, only four studies particularly identified how firms' respond to economic crises listing three types of response, namely: retrenchment, investment and ambidextrous responses. However, of the four, three suggested that there are only two types of response (retrenchment and investment) and the other listed three types of response (retrenchment, investment, and ambidextrous) indicated in Table 3.

Different studies reviewed used alternative terminologies to refer to retrenchment, investment and ambidextrous responses to economic crises. Retrenchment was

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ISSN:2393-1795 ISSN-L:2068-6900

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referred to as either efficiency, decline or defensive strategies, and investment was considered variously as entrepreneurial, recovery, offensive, growth and proactive strategies, while ambidextrous response was also referred to as combination strategy (see Table 4).

Table 3: Types of Firms' Responses to Economic Crises

Types of Responses	Number of Studies
Two Responses	3
Retrenchment (cut costs) (efficiency)	
Investment (increase costs, innovate) (entrepreneurial-growth) (proactive)	
Three Responses	1
Retrenchment	
Investment	
Ambidextrous	
Total	**4**

Source: reviewed studies

Table 4: Alternate Terminologies of Firms' Responses to Economic Crises

Retrenchment	Investment	Ambidextrous
Efficiency Strategies	Entrepreneurial Strategies	Combination Strategies
Decline Strategies	Recovery Strategies	
Defensive Strategies	Offensive Strategies	
	Growth Strategies	
	Proactive Strategies	

Source: reviewed studies

Objective 2: To examine the characteristics of each response firms adopt during economic crises

Characteristics of retrenchment responses

The characteristics of retrenchment responses to economic crises, captured in the studies reviewed were: staff reduction, cost reduction, closure of unprofitable units, reduction in scope, among others as shown in Fig. 1.

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ISSN:2393-1795 ISSN-L:2068-6900

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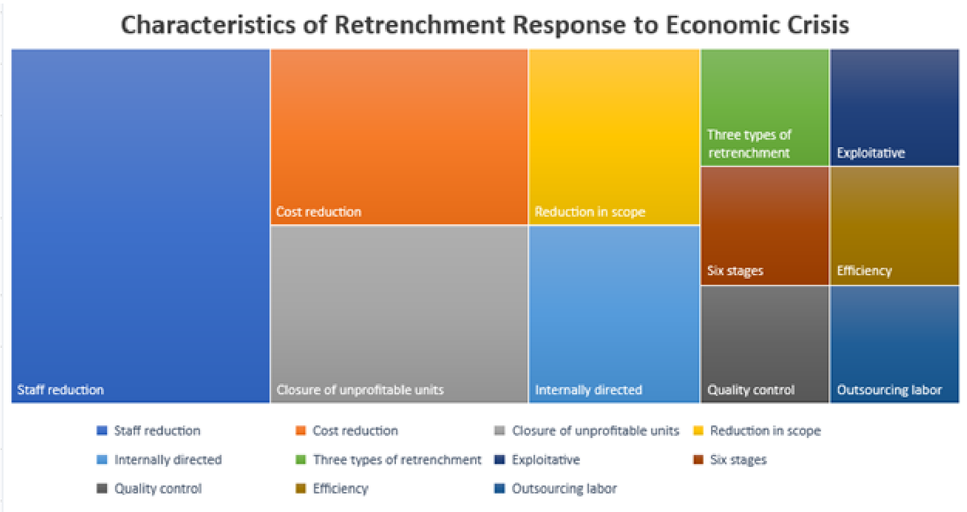

Fig. 1. Characteristics of Retrenchment Responses
Source: reviewed studies

Table 5. Sub-characteristics of Retrenchment

No.	**Type**	**Characteristics**
1.	Financial	• Cost -Price -Assets -Liabilities
2.	Operational	• Production and Inventory • Branches • Departments • Staff -Layoffs -Outsourcing -Automation -Payroll
3.	Strategic	• Investment • Markets

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Economic Series
Since 2000
ISSN:2393-1795 ISSN-L:2068-6900

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Some of the studies subdivide the characteristics of retrenchment responses into three: financial restructuring, operational restructuring and strategic restructuring (see Table 5).

Characteristics of investment responses

The main characteristics of investment responses to economic crises, presented in the studies reviewed were: innovation, equity recapitalization, and market diversification (new and external markets) as reflected in Fig. 2.

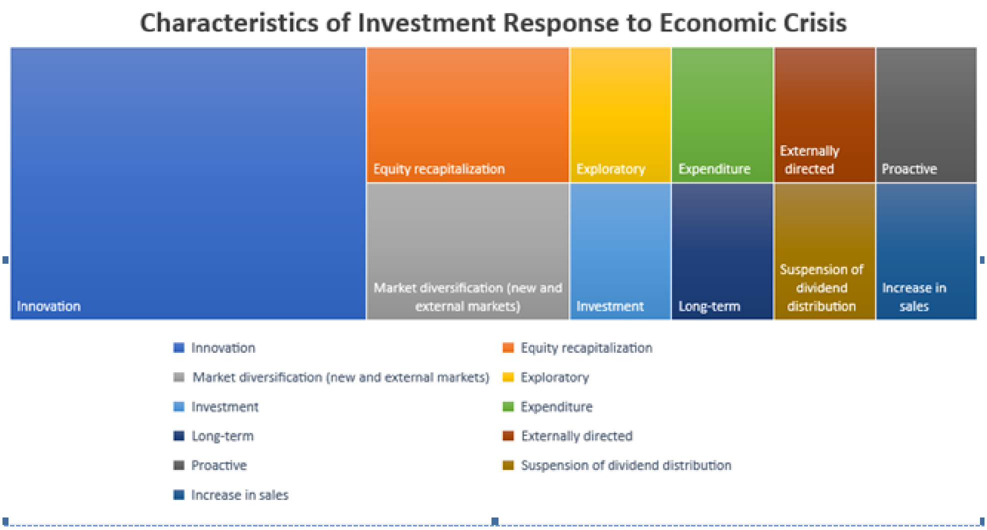

Fig. 2. Characteristics of Investment Responses

Source: reviewed studies

To distinguish between retrenchment and proactive (investment) strategies, Sternad's Classification of Retrenchment and Investment Strategies in Table 6 differentiates the two responses but also indicates that they both focus on internal and external aspects and environments of the firm. The main difference between the two is that retrenchment scales back on operations while proactive (investment) scales up on operations.

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Table 6. Sternad's Classification of Retrenchment and Investment Strategies

	External	Internal
Pro-active	*External pro-active strategies* Investment into new markets Diversification of the business Investment into sales Investment into marketing Customer acquisition Customer retention	*Internal pro-active strategies* Investment into technology Investment into quality Investment into HR Investment into R&D Investment into production Investment into logistics
Retrenchment	*External retrenchment strategies* Withdrawing from markets Divestment of products/product lines Rationalization in sales Rationalization in marketing Selling parts of the business Focus on the core business	*Internal retrenchment strategies* Rationalization in administration Rationalization in technology Rationalization in HR Rationalization in R&D Rationalization in production Rationalization logistics

Source: Sternad (2012)

Table 7. The Process of Firms' Responses to Economic Crises

Process of Firms Response	**Number of Studies**
Crisis determines process of response	2
Impact of crisis shapes the process	2
Response is a process	2
Response is in 4 stages	1
CEOs determine response	1
Response is simultaneous or serial	1
Structure of the organization and its stakeholders shape response	1
Response is unsystematic and emotional	1
Total	11

Source: reviewed studies

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Since 2000
ISSN:2393-1795 ISSN-L:2068-6900

Objective 3: To analyze the process through which firms select and implement their responses to economic crises

The process through which firms select their responses to economic crisis is complex and diverse. The literature demonstrates that response to crisis is a process and the crisis tends to determine the course of action taken by a firm. The process of response may go through four stages and Chief Executive Officers (CEOs) may have a strong influence on the process. The process may be far from linear or systematic. These findings from the studies reviewed are presented in Table 7.

Fifteen of the studies reviewed noted that the process of firms' responses to economic crisis varies and the determinants of variability include in the characteristics of the firm, market forces, and impact of the crisis on the firm amongst others as given in Table 8.

Table 8: Determinants of Variability in Firms' Responses to Economic Crises

Determinants	Number of Studies
Characteristics of the firm	5
Market forces	3
Impact of crisis on the firm	2
Context of the firm and its strategy	1
Criteria of implementing responses	1
Scope of the firm and size of its markets	1
Numerous factors	1
Ownership	1
Total	**15**

Source: reviewed studies

Discussion

This section discusses the findings, by drawing from the specific studies that were collated in the findings section. According to McKinley *et al.*, and Staw *et al.*, [cited in Hansen *et al.*, 2018], there are two options for firms facing economic crises. The firms may opt to cut back and reduce risks which they hope can get them out of the storm, or they may be more proactive. In being proactive, the firms may innovate, and confront the crisis with strategic responses. While firms readily adopt the two options, their study, however, does not recognize that some firms can

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ISSN:2393-1795 ISSN-L:2068-6900

combine both responses. Because all firms are affected by recessions, the primary concern of firms during recessionary periods is how to respond to the crisis [see also Tuller, 1991].

The capacity of firms to adapt to the crisis conditions, successfully and on time goes a long way in determining their survival and success in the harsh economic environment [see Nelson cited in Spremo & Lazarevic, 2018]. For most firms, the main goal of their response choices is to survive. The conditions of an economic crisis leave them with little choice. A recent study confirms that the overriding motivation for firms developing responses to the economic crisis is to survive the crisis [Ekşilia *et al.*, 2017].

Archibugi and Filippeti's (2012) book length study focusing on Europe during the global economic crisis of 2007 concludes that economic crises influence the behaviour of firms that seek to adapt to the economic downturn. In most cases, firms faced with market volatility in economic crises come under increasing pressure to adapt. Admittedly, failure to respond effectively to economic crises may negatively affect the firm. Samanta (2014) agrees that the viability of a business arises out of its ability to detect and adapt to trends and opportunities and threats of the crisis and other conditions of their external environment. For a firm to succeed, it must recognize potential threats and adjust to turn them into opportunities. Crises and their consequences create the conditions for actors, with their particular configuration of capabilities, to recalculate their preferences and strategies. These conditions even redefine their interests and push them to identify in potentially transformational ways [Kirton *et al.*, 2011].

To sustain their businesses during an economic downturn, firms should take appropriate measures to adapt to the current market situation [Hrastelj, 2013]. The institutional contexts of response to crisis vary, and these variations appear to have some bearing on the nature of the strategy [Hardy, 1996]. This view is consistent with Faulkner and Campbell's (2003) argument that firms will respond to crisis depending on how it causes a decline in their business performance. The cause of decline shapes response choice. Multiple causes need multiple solutions. In practice, the actual number of responses a firm needs to employ is considerably higher than the exact number of causes of decline.

Objective 1: To identify the types of responses firms adopt during economic crisis

Broadly, the literature shows that there are three types of responses firms may undertake during a period of economic crisis. The three are retrenchment responses, investment responses, and ambidextrous responses. Retrenchment responses involve cutting operating costs and disinvestment of non-core assets. Investment strategies, on the other hand, involve expenditure and sometimes increased expenditure on innovation and market diversification. In the third response, the ambidextrous response combines retrenchment and investment [Lowth *et al.*, 2010].

In some of the literature on firms' responses to the economic crisis, retrenchment responses are described as efficiency responses. Investment strategies, on the other hand, are described as entrepreneurial strategies and in some cases, recovery strategies. Ambidextrous responses, on the other hand, are referred to as combination strategy [see Khandwalla, 2001; Alkhafaji, 2003; Stadtler *et al.*, 2010; Hiriyappa, 2013]. In other studies, retrenchment responses are described as decline strategies, whereas investment responses are referred to as growth strategies [Clow & Baack, 2011].

A series of studies also classify the form of response a firm could take during the economic crisis as defensive, to refer to retrenchment. Other studies use the term offensive to refer to investment responses [see Schermerhorn, 2000]. By defensive, different authors mean measures that cut down expenses, while offensive responses increase expenditure. Defensive responses are short-term, while offensive responses can be aimed at creating opportunities for long-term value creation [Deans *et al.*, 2009]. Retrenchment responses are internally directed, while investment responses are externally directed [Chattopadhyay *et al.*, 2001]. Internal responses focus on the internal structure and processes of the firm, while external responses focus on the market. The latter focuses on marketing strategies, pricing strategies, international orientation, and so on.

Retrenchment strategies involve cutting costs to improve efficiency. These strategies may include withdrawing from markets, disinvestment of products, product lines, selling some units of the business, and closure of plants or production sites [Latham, 2009]. By scaling down on operations, firms envisage that they can put to efficient use the scarce resources at their disposal.

Most of the literature accessed in this review shows that cost-cutting and retrenchment responses are the preferred form of response to economic crises

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amongst firms across the world [see also Fabiani *et al.*, 2015; Lowthe *et al.*, 2010; Woosley & Summer, 2015; Stat, 2014; Svetivick & Jaktic, 2012]. This preference is not surprising because when resources are few, firms have few options to pursue. However, the literature strongly favours ambidextrous responses to economic crises. A study by Smallbone, Kitching, and Xheneti (2012) found that many business owners adopt an 'ambidextrous' approach, combining revenue-generation and cost/asset-reduction activity. Firms should use that approach.

Objective 2: To examine the characteristics of each response firms adopt during economic crises

Retrenchment responses to economic crises are exploitative approaches involving the reduction of costs of operating the firm [Svetivick & Jaktic, 2012]. During a retrenchment process, the organization substantially reduces the scope of its activity [Kozami, 2002], intending to cut costs in the time of the crisis. Retrenchment could reduce fixed costs, have narrower product offerings, and reduce its staffing [Lowth *et al.*, 2010].

More specifically, Harrison and St. John (2008/2010) present some of the responses that fall under retrenchment. Notably, workforce reductions, closing unprofitable plants and outsourcing unprofitable activities. Retrenchment will also feature implementation of tighter costs or quality controls, or new policies that emphasize quality or efficiency (see also Forte Consultancy Group). In one publication from Chandan and Gupta (2011), retrenchment responses are known to comprise different stages. The stages include consolidating, harvesting, turning around, divestiture, bankruptcy, and finally, liquidation. The most common retrenchment strategies are workforce reductions, reduction of employment, early retirement of workers, freezing the intake of new workers, and downsizing [Cohen, 2012; Harrison & St. John, 2008/2010; Toporowski, 2000/2002, Fotinatos-Ventouratous & Cooper, 2015].

Although restructuring is associated with a reduction in cost, there are three main forms of restructuring financial restructuring, operational restructuring, and strategic restructuring [Blatz & Haghani, 2006]. Financial restructuring focuses on the reduction of cost so that the firm can continue operating with manageable costs. Operational restructuring, on the other hand, focuses on rearranging the various areas of a firm's operations, such as its staffing, its departments, its branches, and its production and inventory. Strategic restructuring is more concerned with evaluating the broader strategies of the firm, such as when to scale down on further investment, which market to exit, and which market to stay. Nonetheless, all three comprise a reduction in the activity scope.

Operational restructuring focuses on the operational aspects of firms. One example of retrenchment responses and which is the most common is retrenchment of human resources, where firms may lay off staff or reduce payroll costs through cuts in wages and bonuses [Curwen & Whalley, 2008; Lazonick, 2009; Bureau of National Affairs, 2003]. Roche, Teague, Couglan, and Fahy's (2013) study of human resource retrenchment practices during an economic crisis found different results. The study found that firms may adopt either 'hard' measures to control or reduce payroll costs with 'softer' measures focused on maintaining motivation and commitment. Some of the existing human resource retrenchment responses include furloughs [temporary leaves of absence until the crisis is over], wage cuts, and benefit cuts [Griffin & Moorhead, 2010/2012/2014]. Most firms prefer 'hard' measures in restructuring human resources during an economic crisis.

Some studies have also found that firms do not only retrench employees without a plan to substitute their labour. While letting go of staff, some firms may opt to outsource labour to cover the gap, as Sahay, Nicholson and Krishna (2003) rightly prescribe. In other cases, firms may use automation to replace employees with technology in a bid to reduce the costs incurred on paying employees [Cook & Billig, 2017].

Beyond retrenchment of the workforce, restructuring may also involve the control of inventory and production. Here, the output is either limited or undertaken to match with demand as and when demand occurs. Greenspan (2001) and Tanaka (2011) have variously shown how firms may control production and industry in line with lessening demand related to an economic crisis. In some cases, they could reduce production in terms of the quantities produced in response to sharp falls in demand, especially among risk-averse firms [Geroski & Gregg, 1997].

Operational restructuring may also include the introduction of new regulations such as tightening internal controls [see, for example, Kohler, 2011]. In some cases, operational restructuring could take on the path of the firm scaling down its investments [Banerjee *et al.*; and IMF (cited in Kuchler, 2015); Ridgway, 2008; the Socialist Party of Great Britain, 2016]. The scaling down of investments arises out of a lack of adequate finance to invest or the fear of uncertainty brought by the crisis. In the next section, we discuss financial restructuring as a form of retrenchment.

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Financial restructuring

The other form of restructuring that is evident in the empirical literature reviewed is financial restructuring. Financial restructuring focuses on adjustments of financial components of the firm to make it more efficient, productive, and survive economic crises. Some firms adopt financial restructuring through a revised price policy. A revised price policy could lead to lower or higher prices for a firm's product and services.

Notta and Vlachvei (2015) have explored how firms made decisions related to the price in response to economic crises. More specifically, Mahajan (2008) indicates that firms may retain, reduce or increase their prices. However, Geroski and Gregg (1997) suggest that, most of the time, firms may consider price reductions as a response to the crisis. Dillingham (2010), in one study, discusses price policies in airline firms during economic crises. He observes that there is a likelihood of most firms to introduce new fees or prices, to mitigate the effects of the crisis. Cencini (2005) endorses the view and implies that new fees or prices are measures firms may adopt to compensate for losses brought about by a decrease in demand.

In conducting financial restructuring, some firms restructure assets (by selling them or closing them) or restructuring liabilities, which comprises restructuring of debt [Brown *et al*., 1994; Shleifer & Vishny, 1992]. Haas (1985) and the University of Texas (1983) have extensively reviewed plant closures as one of the main forms of asset restructuring during economic crises, especially in the United States. In the restructuring of liabilities, firms could also shift their priorities from profit maximization to debt minimization [Koo, 2011]. This shift is because the debt management is key to the survival of firms in environments of economic crises.

Some researches explain how debt restructuring is conducted. Debt restructuring (sometimes referred to as work out) involves an agreement firms make with creditors, to modify any terms of an outstanding financial claim currently held against the firm. It could consist of mobilization of reserves, self-financing, and factoring [selling of debts or assets] [Centre for Entrepreneurship, SMEs and Local Development, 2009]. Most firms take financial restructuring seriously because an economic crisis depletes their resources. In the next section, we examine investment responses to economic crises.

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Investment responses to economic crises

As opposed to retrenchment responses that emphasize the cutting down of costs, investment responses are exploratory and forward-looking and take a different course from retrenchment. Capitalization or recapitalization is an investment approach that firms take to make up for liquidity shortage for operations due to crisis. In the process of recapitalization, Ingves and Hoelscher (2005) argue that "shareholders can recapitalize by injecting more capital, suspension of divided distribution until the required level of capital has been restored or seek other private owners." In Thailand, recapitalization was taken by banks to weather the economic crisis. Banks issued new shares to existing shareholders to raise capital [Santiprabho, 2003]. A study of firms during economic crises in Mauritius indicates that shareholders opted for equity recapitalization to respond to the economic crisis when it emerged [Velde *et al.*, 2010].

Svetivick and Jaktic (2012) have discussed the characteristics of investment responses to economic crises. Their research shows that investment strategies involve changing strategies to increase sales. Investment strategies tend to look for new markets and redefine the implementation of firm strategies. They also include developing new capabilities (products and services and business models) that will help the firm to improve its current and future performance. The search for new and external markets in investment approaches is further expounded upon by Lladós-Masllorens (2013), who uses the example from Spain states that as stagnation of demand and incomes persists during the crisis, the external markets are becoming the main source of growth and business opportunities for firms.

Further research shows that innovation is a type of investment response in which firms introduce new products on the market. Innovation can be in the form of 'just-in-time' technologies that enable firms to adjust production levels to a rapid change in demand [Greenspan, 2001]. As a result of such innovations, prices can adjust quickly to equate supply and demand [Antonioni & Flynn, 2010]. Nunes and Lopes (2013) have presented evidence that firms that prioritize innovation are less affected by the economic crisis than the firms that do not.

Some firms can innovatively respond to economic crises. A study on the construction sector's response to economic crises in the United Kingdom identified the innovative approaches to the crisis within the sector [Cannon *et al.*, 1995]. Construction firms preferred to bid for more projects, put in lower bid prices, took on smaller contracts, developed special expertise in markets, developed overseas markets, got involved in earlier and later stages of projects, put equity into projects, acquired projects from defunct firms and acquired other firms.

Dombrovska (2014) discusses the need for innovation in attracting customers with more quality and valuable products in a study. As such, firms need to make improved products that will meet customers' expectations and values in crises situation. Notta and Vlachvei (2015) discuss how firms could innovatively respond to customers' new preferences when their consumption behaviour changes, and they develop new preferences. Firms make very important adaptations in their marketing mix and marketing policy [see also Ang *et al.* (cited in Hruzova, 2009)].

A study by Szmigin and Piacentini (2015) gives some examples of how department stores and supermarkets innovatively respond to economic crises. The stores' launch product lines focused on offering value to customers affected by recessionary times. As most of the literature suggests, investment responses differ from retrenchment responses. These types of responses call for expenditure on innovation and strategies that can assist the firm deal with the crisis. I concur with the findings of these studies that indicate that there are immediate and long-term benefits of investment responses. Our next section analyzes ambidextrous response, the third type of responses firms are believed to take when faced with an economic crisis.

Ambidextrous responses to economic crises are those in which the firms adopt retrenchment and investment strategies. Ambidextrous response also referred to as combination strategy refers to the combination of the stability, expansion and retrenchment strategy in different levels of the organization [Hiriyappa, 2013]. Another research done by Lowth, Prowle and Zhang found that whereas firms favoured retrenchment approaches more (e.g. reduced fixed costs, narrower product offerings, and reduced staffing), a good number of firms took up investment approaches to economic crises, because of the perceived long-term benefits of these approaches.

Objective 3: To analyze the process through which firms select and implement their responses to economic crises

Past research has explored, in a limited way, how the responses of firms to economic crises are constructed. Tennant (2011) has outlined four categories of firm response to economic crises using a sequential approach. He states that initially, there is unresponsiveness to the early warning signs of crisis. After this stage, there is a rationalization of production use. This stage precedes changing staff and managerial relations before diversification to seek alternative markets and financing. Tennant's trajectory is linear and does not underscore that some firms may skip some categories because responses to a crisis can be haphazard.

The role of management and particularly Chief Executive Officers (CEOs) in deciding how firms respond to an economic crisis is the key. Svetivick and Jaktic (2012) accurately argue that CEOs play a very critical role in determining how firms respond to a crisis. Their response depends on how they perceive the crisis. If they consider the crisis as a short-term situation or a long-term scenario, they may adopt specific responses that they think are suitable for each situation. Apart from CEOs, shareholders (or the owners of the firm) could actively shape how firms respond to economic crises.

I contend that the process of firms' response to the economic crisis also depends upon some salient variables. Such variables include the degree of revenue decline, the structure of administration, and the interest groups involved and so on. These groups are affected by the response [Muller & Ventriss, 1985]. According to Roche, Teague, Couglan, and Fahy (2013), firms may introduce, simultaneously or serially, their responses to economic crises. The path the firms choose to respond depends on how they assess the gravity of the crisis. Firms could then constitute measures that they believe will address the severity of the crisis. The process of gauging the potency of the crisis is what makes most of the firms' responses to the economic crisis to be haphazard. Their view is similar to that of Hirschfeld, Helley, and Nadarajah (2010). They studied the responses of firms in the Americas and the European Union to economic crises. Their study found that most businesses look first to less drastic options than layoffs. These options include reducing overtime, hiring freezes, salary freezes, salary reductions, furloughs, temporary shutdowns, and work-sharing arrangements, shortened work weeks or workdays, eliminating training programs, boosting healthcare premiums, and creating incentives for employees to retire voluntarily.

The primary objective of the cost and asset reduction exercises is to stabilize the performance decline. The results of this stage should be readily available to internal management and external stakeholders through financial ratios [Mckiernan, 2006]. After such an evaluation, the firm crafts a new direction. Other researchers share this view. Bibeault cited in Mckiernan (2006) and Mckiernan (2006) suggest that troubled firms initially try to survive and attain a positive cash flow. These aims lead them to the classic retrenchment activities of cost rationalization, liquidation, divestment, etc. It is after this position has been reached, that management has to decide how to continue. Management can make two choices for the firm. The firm can follow an efficiency response, which slims down operations or move forward with the growth (entrepreneurial) response. Such a logical process suggests that firms' responses to the economic crisis are in stages. In many cases, retrenchment precedes any consideration of strategic reorientation.

Some of the literature differs from the above held view that firms pursue a systematic process of crafting their responses to the crisis. During times of economic crises, some scholars have also indicated that emotions override reason in shaping the responses adopted by firms during the crisis. Grundey (2009), in one study, notes that the primary emotion, which overwhelms all firms during economic depressions is uncertainty. Managers and proprietors of firms cannot bear the thought of losing everything. I agree that such emotions determine the extent and type of risk which managers think they should take. Organizational perceptions of the crisis and the risks a particular response would poise for the business is critical in determining the type of response a specific firm adopts towards the crisis. The next section discusses the nature and process of retrenchment responses that firms adopt in the wake of an economic crisis.

Variability of firms' response to economic crises

Studies on firms' responses to economic crises correctly indicate that several background factors determine a firm's response in its context. These factors ensure that the responses by various firms are markedly different. The responses can vary because of the criteria the firm uses to implement its responses [see also Smallbone *et al.*, 2012].

Besides, Wernerfelt (2016) argues that all adaptations of the firm are not the same. The scope of the firm and the size of their markets shape how they adapt to different environmental circumstances. In line with this view, the nature of the response of the firm may depend on the characteristic of the organizations [Fabiani *et al.*, 2015]. The various other contexts of the firm that shape its response can range from size to sector, to market, to ownership, to country location, and several other factors.

Olukoshi (cited in Tennant, 2011), in one study, has explored why firms differ in response to economic crises. The research shows that the choice of coping strategies by different types of entrepreneurs is a varied and complex process impacted by numerous factors. To demonstrate the variety of responses theory, Tsavdaridis (2014) presents empirical data of how firms responded, during the financial crises in Greece. Although workforce reduction was a dominant strategy in firms, some firms chose only one of the wide ranges of reduction measures while others adopted several measures. The measures comprised early retirement packages, reduced work hours, job rotation, and salary cuts.

In a study of firms' response to crises in Austria, Kwapil (2010) shows that while firms cut wages during the crisis, more firms preferred to reduce working hours and to dismiss employees. Firm-specific characteristics and characteristics of the workforce, shaped whether a firm dismissed or retained employees. Keen and Standish (2010) have also looked at firm's behaviour during economic crises as an outcome of complex interactions within the market in which the firms operate. In addition, Fabiani, Lamo, Messina, and Room (2015) note that the structural features of the product and labour markets where the firm operates shall determine the firms' response to crises.

Alfranseder and Dzhamalova (2014) describe the difference in investment priorities among firms during economic crises. They suggest that financially constrained firms invest comparatively more than non-constrained firms during a crisis. In another study, Archibugi, Filippetti, and Frenz (2012) contend that while in crisis, older and larger firms, described as incumbent enterprises are more likely to expand their investment on innovation. After the crisis a few, small enterprises and new entrants are ready to spend more on innovation.

In terms of price policy, Gilchrist, Schoenle Sim, and Zakrajsek (2015) argue that the type of firm determined price policy. Firms with limited internal liquidity could significantly increase prices, while their liquidity-unconstrained counterparts slash prices. But then differences in the firms' price-setting behaviour are also concentrated in sectors likely characterized by customer markets.

Whittington (1989) presents a case of how two major and rival British firms took different approaches to economic crises in the 1980s, with different results. 'Exemplar' and 'Rose' are pseudonyms of two rival British domestic appliance manufacturers. At the onset of the 1980s, both firms were industry leaders and household names. They were all subsidiaries of large general engineering firms;

both were dependent on the home market, and both were direct competitors in key market segments. Though they were superficially so similar, these two firms adopted almost opposite strategies in response to the 1979-1981 recession. Rose responded to the recession by disinvesting, while Exemplar hung on and developed. These different strategies had widely different consequences for the firms' performances, both during the recession and, in the longer term, during recovery of 1982-1985. Despite these divergences in strategies and performances, the two firms survived all seven challenging years of recession and recovery. This contrast between the strategies of Rose and Exemplar points to an important fact. Those two firms that look outwardly similar can choose radically different strategy in response to the same economic crisis. And then, despite the difference in their choices, each of them survives the crisis.

One factor that influences how firms could respond to economic crises could be the variations in the nature of their labour markets. Karabegovic, Gainer, Palacios, and Veldhius (2010) see the speed at which a firm can respond to crisis conditions as determined by the labour market. As a result, firms may be able to restructure the human resource or fail to do so. This scenario largely depends on how the labour market is structured.

In another study of how Greek firms respond to the economic crisis of 2008, which was conducted by Notta and Vlachvei (2015), one group (consisting of 39 firms) opted for a price policy. The other group (comprising 40 firms) focused on innovative products, new markets, and innovation in markets while the third group of firms concentrated on cost management.

The extent to which the firm has been affected by the crisis could also determine its response. According to Fabiani, Lamo, Messina, and Room (2015), the way firms adjust to crises or shocks is likely to depend on the intensity and nature of the shock.

When speaking of how ownership as a variable that could shape how firms respond to economic crises, Peris-Ortiz, Fuster-Estruch, and Devece-Caranana (2014) give two positions. The first position is that some entrepreneurs could choose discovery and innovation opportunities during a crisis. Other entrepreneurs may decide not to pursue further investment.

Conclusions

The review concludes that firms' responses to economic crises fall into categories of retrenchment, investment and ambidextrous responses. Retrenchment responses consists of an array of measures aimed at cutting costs while investment response is the increase in expenditure on items or ventures that are designed to mitigate the effects of the crisis on the firm. Ambidextrous approaches are a hybrid of retrenchment and investment options.

Amongst firms, retrenchment is the preferred form of response to crisis. Retrenchment is seen by firms to be rational because of the fall in revenues and the perceptibility of uncertainty in the crisis period. Investment responses are desirable because they innovatively address challenges in the crisis period and helps firms to build competitiveness for the future.

Ambidextrous measures assist firms to realize the benefits of retrenchment and investment. Firms, which adopt ambidextrous responses to economic crises, can be able to confront immediate challenges of the crisis and at the same time manage the post-crisis period when the economy begins to recover.

It is recommended that studies on firms' responses to crises should examine firms on a case-to-case basis. This ensures that the specific contexts of each firm are analyzed to determine how they underpins the responses it selects in the period of an economic crisis.

Due to the evolutionary nature of firms' responses to economic crises, longitudinal studies that examine firms' responses to crisis, over a long period, preferably throughout the lifespan of the crisis are justifiable. This approach can lend insights into the changing character of the firm's response to crisis.

At a practical level, it is recommended that firms consider ambidextrous approaches to mitigating the effects of economic crises. Ambidextrous responses offer the opportunity for firms to tackle current challenges and simultaneously develop long-term competitiveness.

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