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IMPACT OF ECONOMIC CRISES ON FIRMS: A LITERATURE REVIEW

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Abstract

This paper examines literature that analyzes how economic crises affect firms. Eighty-five studies were examined with the overall aim of finding out the impact of crises on firms. Studies published between 1805 and 2018 were sampled purposively through digital database searches, to establish the most recent literature on the impact of crises on firms. Consequently, the majority of the work assessed focuses on the global economic crisis of 2007 and its effect on firms in a different country and regional contexts. The literature demonstrates that economic crises affect firms negatively and positively with a tendency for crises to affect firms more negatively. Negative impacts include a decline in demand, fall in profitability, debt problems, operational challenges, bankruptcy, loss of goodwill or public image, uncertainty, and scale down of operations. Positive impacts comprise stimulation of efficiency, and improved performance for strategic firms The review further establishes that the impact of crises on firms varies from firm to firm, which requires that to examine the impacts of economic crises on firms requires that the firms are studied on a case-to-case basis.

Keywords: *economy, economic crisis, crisis impact on firms, firm survival.*

JEL Classification: G33, G34

Introduction

A growing literature on the impact of an economic crisis on firms suggests that firms are strongly affected by crises, although the nature of impact is still a subject

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of debate. An accurate and robust view within the literature is that the effects of the financial crisis can lead to a series of unfavourable consequences for firms. One study of firms in Romania concludes that the most affected ones are firms that do not have a sustainable strategy (response) [Burlea *et al.*, 2010]. Thus, most of the firms that fail to respond effectively are strongly affected by economic crises. Sufficient evidence supports the thesis that most firms experience great difficulty during periods of economic crises [Buratti, Cesaroni, & Sentuti, 2018]. In general, economic crises affect the performance of firms by reducing their inefficiency, causing a drop in demand, leading to a fall in GDP, wage cuts, and moral hazard problems as noted by Notta, Vlachvei, and Grigorion (2018). Notta, Vlachvei, and Grigorion's study of the impact of economic crises on food manufacturing firms in Greece, instructively discusses some of the most severe effects of crises on firms.

In extreme cases, a crisis and poor management of that period, can erase decades of hard work and slash the value of a firm in very hours. It is even worse because crises are unpredictable. A crisis can emerge out of the blue and ravage economies and their agents [see Solt, 2018]. Based on a review of the impact of the international financial crisis, Solt's research gives a very recent evaluation of the impact of crises on firms.

Broad perspectives on the impact of crises on firms

There are three dimensions visible in research on the impact of crises on firms, the first of which is the negative impacts of crises. Other studies focus on the positive effects of the crisis on firms. Finally, some studies explore the idea that crisis impacts on firms vary from firm to firm. As such to determine the effect of economic crises on firms requires a case-by-case approach.

Research suggests that economic crises, like other internal and external (environmental) variables, influence the capacity of firms to perform. The firms' capacity, in this case, is related to their ability to achieve their objectives [see also Pervan, &Višić, 2012]. Pervan and Višić's study covering a period of 2002-2010 examined a total of 18, 492 firms to analyze variables that shape firm performance, especially in profitability. The study was exhaustive and its findings can be extrapolated across time and space. Using a fixed-effects model [developed by Gauss (1809) and Legendre (1805)], their results also show that various factors or variables positively or negatively affected firms' profitability. Although they explored other variables such as crisis, their primary concern was on the size of the firm. The study also contends that no single factor could account for the performance of a firm. Their conclusions would, however, be strengthened if they had examined other factors that determine firm performance during crises. Civelek, Çemberci, Artar, and Uca (2015) in their definition of firm performance contribute to explanations of how an economic crisis could impact performance. They consider firm performance as a multidimensional concept defining the success of a business. In other words, it involves the extent to which the objectives of a business are achieved. The short-term goals of firms are improving efficiency, reducing the level of inventories, and shortening the rate of turnover. Their long-term aim is to increase market share and profitability.

In line with this thinking, Sternad (2012) plausibly argues that significant changes influence businesses in their environment. These changes, which include economic crises, stimulate firms to respond. Environments are those events and developments external to the organization that considerably and structurally affect (a) the attainability of a firm's strategic objectives and (b) the strategic choices open to the organization. Sternad's quantitative study of about 257 managers of firms in Austria and Slovenia to understand the factors that shaped firms' response to the 2008-2009 global financial and economic crisis is extensive. It significantly indicates that strategic interpretations of the economic crisis, as well as country differences, influence the choices of firms. Both factors shape whether firms choose to use externally or internally directed strategic responses and pro-active or retrenchment strategies. Unlike other studies, Sternad examines more than one factor that shapes firm responses to crises. As opposed to cultural influences on managerial choice of response, country-specific factors like institutional or social differences also play an essential role in the selection and nature of responses adopted by firms.

In another study, Peltonen (2014) has adequately addressed the complex impact of economic crises on firms. The study examines decision-making in Finnish firms during recessions from 2007 to 2011. It found that beyond the macroeconomic variables, recessions are a complex societal phenomenon. A recession affects the business environment and a firm's decision-making in many ways. Although it is limited to four years, Pelton's findings reflect the situation for most firms that experience economic crises. Gershon's (2013) definition of the business environment enhances our understanding of Pelton's argument. It states that the business environment is the general economic conditions that can either help or hurt one's business operations. The business environment leads to a dramatic effect on the financial performance of the firm. In contrast, Notta and Vlachvei (cited in Kontogeorgos, Pendaraki, and Chatzitheodoridis, 2017) focus on only one impact

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of crises on firms. They indicate that, during an economic crisis, there is a likelihood that the performance of firms deteriorates [Yap, Mohamed, & Chong, 2014]. Their view overlooks the possibility that some firms perform better during economic crises, yet this is sometimes the case.

The gulf between different perspectives on the impact of economic crises on firms, calls for further studies of impacts of crises on firms using different emerging contexts of research. In the next section, we review studies that first examine the negative impacts of crises on firms.

The negative impact of economic crises on private sector firms

Studies on the negative impacts of economic crises on firms demonstrate that economic crises create a decline in demand, lead to a fall in profitability, and cause debt problems for firms. Economic crises may also result in operational challenges, bankruptcy, loss of goodwill or public image, uncertainty and lead the firm to scale down its operations for firms. The proceeding sections examine selected studies on each of these impacts.

- ***Decline in demand***

One-way in which firms are worst affected during economic crises is when the crisis leads to a fall in the demand for their products and services. Some studies have explored the impact of the crisis on demand for a firm's products and services. Before examining this research, it is imperative to define demand.

Gupta (1990) considers the demand for goods and services as a condition that typically meets three main characteristics. The first is the desire to have a good, the second is the willingness to pay for that good, and the third is the ability to pay for that good. Demand consists of "taste" and "ability" to buy. In other words, a consumer must have a taste for something plus the ability to pay for it for that condition to fit within the economic concept of demand [Cory Jr, 1999].

Successive studies have convincingly demonstrated that the most negative impact of economic crises on firms is their tendency to cause a decrease in demand for firms' products or services [see, for example, Yalman, Demirkoparan, & Aras, 2011; Sternad, 2012; Vissak, 2012; Hrastelj, 2013; Trinh, & Phuong, 2016]. A financial crisis survey conducted about the global financial crisis of 2007 indicated that 70 percent of firms in each of the countries studied chose a "drop-in demand" for its products and services as the main impact of the crisis [Ramalho, Rodríguez-Meza, & Yang, 2009]. Another case study reflected how firms in the energy sector

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encountered a crisis-driven fall in demand leading them to drill fewer wells. These firms drastically cut back spending on refineries, pipelines, and power stations during the global economic crisis of 2007-2009 [International Energy Agency (IEA), 2009]. Notably, as illustrated by the case of energy firms, the fall in demand consequently leads to a fall in output, because when demand falls firms tend to cut back on their production levels to match the fall in demand [see Solt, 2018].

A host of factors created by the crisis may lead to a drop in demand for a firm's products or services. A fall in consumer incomes is a leading factor that fuels a decline in demand during the crisis. Indeed, previous research has established that when income levels of households are affected in times of crises, consumer behaviour changes to cautious buying or no buying at all [Zurawickia, & Braidot cited in Sigindi, 2017; Flatters, & Willmott, 2009; Hur, 2012 cited in Peltonen, 2014; Peltonen, 2014; Sigindi, 2017; Moraru, 2012]. Similarly, Cali and Kennan (2010) reveal that as a result of the crisis, when people lose their jobs, they lose their disposable income affecting their capacity to purchase goods and services. On the other hand, when crisis-driven inflation causes soaring prices of goods and services, even the employed become cautious about how they spend the little they have. Economic crises create a lower demand for goods and services due to decreasing income and worsening expectations (which influence demand for capital goods). Another dimension of the causes of a decline in demand and which is logically explored by Downes (2012) is that reduction in income, wealth, and credit during an economic crisis results in reduced demand. As such, firms realize a reduced demand for their goods and services. This fall in demand leads to inventory decumulation, and as a result, the firms cut back their production volumes. Tumusiime Mutebile (2009), Ssewanyana, Bategeka, Twimukye, and Nabiddo (2009), and Ssewanyana and Bategeka (2010) advance this view by examining the impact of the crisis on declining production patterns of firms in Uganda.

Although these studies rely on empirically-based evidence to draw their conclusions, there is corresponding evidence that during economic crises, not all firms experience a fall in demand for their products and services. Firms that produce or supply essential products and services may instead realize a rise in demand for these items. In the next section on the positive impact of the crisis on firms, the current study also attempts to understand if some firms may be less affected than others during economic crises.

The founders of a firm are motivated by their desire to make a profit. Yet the fall in demand for firms' products and services during a period of economic crisis, leads to a fall in profitability. In the next section, we explore how the fall in demand for products and services caused by an economic crisis leads to a fall in the profitability of firms.

- ***Fall in Profitability***

Several studies have focused on how crisis-driven decline in demand leads to a fall in revenues and profitability of firms. The concept of profitability has multiple meanings for different firms depending on the stages of their development. Firms in the infancy and financial growth phase define profitability as the earnings before interest, taxes, depreciation, and amortization (EBITDA). Financially mature firms generate net income. They define profitability in terms of net income, earnings per share, and net income growth [Gershon, 2013]. We define profitability as the ratio of revenue to cost. Profit is the difference between revenue and cost [Grifell-Tatje, & Lovell, 2015].

In most cases, firms realize a fall in profitability during economic crises. Along these lines, Filip (2011) found that a fall in demand and revenues subsequently leads to a fall in the profitability of firms. One study conducted by Kontogeorgos, Pendaraki, and Chatzitheodoridi (2017) of almost 100 firms operating in the cheese sector in Greece for the period 2006 to 2011, established a similar trend. During the economic crisis period, the profitability of cheese businesses was adversely affected. An earlier study of the impact of the financial crisis of 2008-2009 on firms discovered the same effect. The crisis put pressure on the margins (profit) of different firms [Sternad, 2012] with a drastic fall in profits that negatively affected the firms. In Uganda, during the global economic crisis of 2007, many firms witnessed a decline in profitability at a time when the depreciation of the Uganda shilling cut the profits of domestic firms [Ssewanyana *et al.*, 2009]. Despite covering relatively close periods, the findings based on various geographical contexts confirm the general trends for most firms during periods of economic crises. That said, it is equally important to qualify that because not all firms experience falls in demand and profitability during economic crises there can be exceptional cases. Some firms may supply essential goods, which may be on-demand irrespective of how much consumer incomes fall and so they may not encounter a decline in profitability.

A fall in revenue and profitability critically affects the firm, hampering its potential to operate as some studies show. In the worst-case scenario, it could prompt the founders to exit from the market in which they operate. Usually, when demand and profitability fall, firms may become indebted because they borrow money to operate or obtain suppliers on credit. Consequently, as the next section show, economic crises create debt problems for firms.

• ***Debt Problems***

Past research has also provided veracious evidence that as a result of falling revenues and profitability during economic crises, firms could face debt problems. Conceptualizing debt provides insight into how crisis can affect firms.

Debt is a current, i.e., not contingent, liability created under a contractual arrangement. Debt is incurred through the provision of value in the form of assets (including currency) or services. It requires the debtor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time. These payments will discharge the principal and interest liabilities carved under contract [International Monetary Fund, 2007]. Debt problems come from the disruption in the firm's revenues. This disruption negatively impacts the firm's capacity to honour its liabilities and financial obligations to various parties it entered into a contract. It is evident that with a shortage of liquidity, firms could also borrow more to stay afloat, in the process, compounding their debt problems [see also Yalman, Demirkoparan, & Arasm, 2011; Gilson, cited in Faccio, & Sengupta, 2006].

For example, another study on the impact of economic crises on firms in Lithuania and Romania significantly found that a rise in debt is the second most crucial effect of crisis [Ramalho, Rodríguez-Meza, & Yang, 2009]. Their study used evidence from the economic crisis of 2007/2008. While its findings mirror the situations of firms in those two countries, it is debatable whether the same level of impact applies to firms in different economic contexts.

These findings can be tested with other studies on how economic crises increase the debt levels for firms.

One of the challenges that compound debt problems for firms is that in times of economic crisis, they find it difficult to access credit [Sternad, 2012; te Velde, 2008]. As such, they cannot borrow to finance their operations. In the case of Vietnam, Trinh and Phuong (2016) explained that the economic crisis made the leverage of most firms go down, meaning that they were unable to borrow. Credit from banks was also limited and difficult to access. This difficulty was because of strict rules regarding borrowing. The lender assesses more carefully, the quality of firms evaluating their size, profitability, and ability to pay back the debt. Makochekanwa (2017) explains how economic crises deprived firms in Zimbabwe of access to finance. Access to finance, especially from formal sources like banks, was a significant challenge for firms as most banks were not providing loans to firms due to severe liquidity constraints. On average, 63.7% of surveyed firms in the country indicated that access to finance (local currency and foreign currency to import inputs) was yet another challenge. Despite these studies providing evidence that economic crises lead to debt problems, it is still evident that not all firms will face the same problem. Firms dealing in very essential goods and services could be thriving because they do not face interruption in the consumption of their products. In the next section, we review studies that show that beyond debt, firms experience other operational challenges as a result of economic crises.

- ***Operational Challenges***

Empirical work testing the impact of the crisis on the operations of firms has produced results that show that firms also face other operational challenges such as economic crime, volatility in currency prices, higher costs of operations due to corruption, and scarcity of inputs.

The rise in economic crime is one such direct impact of the crisis on firm operations. Fligstein and Roehrkasse (2015), in a study of the mortgage industry in the United States, accurately point to how fraud underpinned the mortgage securitization industry during the economic crisis from 2007 to 2009. Mortgage and insurance operators engaged in improper regulatory settlements, and consequently, many had to pay multibillion-dollar penalties. Fraud and corruption rise when as a result of economic crises, many personnel in businesses or governments find it difficult to make ends meet. Washington (2009), in one report for the audit firm Deloitte on the relationship between fraud and economic crisis, indicates that during economic crises, for some, desperate times, lead to a higher risk of fraud or malevolent activity. The report raises alarm bells about fraud and calls for firms to put safeguards in place against these tendencies. Economic crises can indeed lead to fraud and other forms of economic crime. In these periods, firms, households, and governments are challenged by how to survive forcing them to pursue illegal means of survival.

In the same breadth, economic crises may lead to a rise in corruption. As considerable research indicates, economic crises result in higher levels of corruption when public officials try to make ends meet. Subsequently, corruption raises the cost of doing business. Having to pay bribes to public officials or private personnel, during the crisis, increases the cost of doing business for most firms [see also

Makochekanwa, 2017; Ivlevs, & Hinks, 2014]. According to a study of corruption during economic crises in Turkey, Onis and Rubin (2004) emphasize that corruptive activities play a role, with varying degrees in different socio-economic conditions, in the emergence of economic and political crises adversely affecting firms' businesses [see also Madura, 2006]. Corruption increases the cost of conducting business, or it can reduce revenue for the firm. Svensson's (2001) study, however, suggests that it is difficult to determine the actual effect of corruption on firm performance. Until recently, it was considered impossible to measure corruption systematically. There is no doubt that economic crises increase the possibility of an increase in public and private sector corruption.

Economic crises also lead to volatility in foreign exchange rates, poising another operational challenge for firms. The volatility of the rates arises out of the fact that international currency exchange rates affect export and import prices and, thus, the competitiveness of firms in world markets [Industrial Systems Research, 2013]. As such, when foreign exchange rates are volatile, firms suffer from difficulty in financial planning. Rapidly changing foreign exchange rates result in the unpredictability of cash flows [Global Economics Crisis Resource Center, 2010; see also Lussier, & Hendon, 2012]. Fluctuations in foreign exchange rates particularly affect firms that import products or raw materials for production. For multinational firms, volatility in the foreign exchange rates could negatively impact profitability. Mauer (1999), demonstrates how during economic crises, frequent forex rate changes on Multinational Corporations (MNCs), affect corporate (firm) performance. An International Monetary Fund (IMF) study about currency crises in Africa, during the global financial crisis, also found that they suffered large depreciations. These deprecations occurred at the onset of the global financial crisis, which affected overall business and economic performance. Collapsing trade and financial flows led to a substantial balance of payments gaps, triggering fast depreciation and higher exchange rate volatility, beginning in mid-2008. The exchange rate losses varied largely commensurate with the extent and nature of each country's exposure to trade and global financial markets [Ltaifa, Kaendera, & Dixit, 2009]. The challenges of failing to access foreign exchange to do business, or a rapidly depreciating currency that results in losses, are not unique to the literature.

Subsequent research has emphasized that the conditions created by crisis including those listed above, could make it expensive for firms to produce. Yet, in some cases, it might force them to withdraw from activities of production altogether.

During economic crises, there are high costs of inputs and production in general [see also Hrastelj, 2013; Hrastelj, 2013; Yalman, Demirkoparan, & Aras, 2011]. A shortage of inputs or high costs of inputs makes it difficult for firms to operate by affecting their production activities [Makochekanwa, 2017].

Makochekanwa's study of Zimbabwe over the years of crises considers that the economic crisis led to a decline in manufacturing activities. This decline came about due to a lack of finance to purchase inputs forcing many firms to either stop production or engage in production in a limited form. This finding is consistent with another study of Hungary during the economic crisis of 2007/2008, where the most definite impact of the crisis on firms was an increase in input costs [Ramalho, Rodríguez-Meza, & Yang, 2009]. Thus, economic crises lead to scarcity of resources such as capital and raw materials to produce [Sternad, 2012]. In other cases, an economic crisis may increase the cost of operation because of high inflation or scarcity of resources. For example, during the crisis in Zimbabwe, some firms were forced to purchase or construct power generators to sustain production. The use of power generators implied sunk costs (in terms of purchase), operating (variable) costs in the form of petrol/diesel, and maintenance costs. Generator-related costs also imply diminished profits for exporting firms [Makochekanwa, 2017]. The findings of these studies clearly show that economic crises create operational challenges for firms in economies that are going through economic crises.

Market dynamics change during economic crises making it difficult for firms to operate as a study by Hall [cited in Chaston, 2012] proposed. The study demonstrates how economic crises make it difficult for firms to operate being stiffening competition. As more customers scale down on spending, firms are pushed to compete for fewer customers. A feature of markets during an economic downturn is that the intensity of competition will usually increase as firms seek to sustain revenue in the face of declining customer spending. This view is shared by Makochekanwa (2017) in research on the impact of economic crises on firms in Zimbabwe. He reveals that the economic crises increased competition between firms as they struggled for cautious customers. Failing to attract some customers made it very difficult for firms to survive. Indeed, economic crises do not only shrink existing resources. They also make it difficult for firms competing to attract customers who are reluctant to spend.

With these operational challenges, one of the likely outcomes of economic crises is that firms may go bankrupt. In the next section, literature that examines how economic crises lead to bankruptcy is reviewed.

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• ***Bankruptcy***

It is well known and widely accepted that debt defaults accruing from economic crises could lead to the bankruptcy of firms [Gilson, cited in Faccio, & Sengupta, 2006]. Bankruptcy is a state in which a firm is unable to discharge its debts, or it is unable to pay those they owe money [Dorling, & Thomas, 2011]. A series of studies examine the relationship between economic crises and the bankruptcy of firms. The majority convincingly found that with the decrease in demand and decline in production affecting the revenues and profitability of firms during an economic crisis and the debt defaults of firms, they could go bankrupt [Hrastelj, 2013, Yalman, Demirkoparan, & Aras, 2011]. Many Asian firms became bankrupt during the 1997-98 Asian financial crises [Yap, Mohamed, & Chong, 2014]. Further, the global economic crisis which erupted in the financial systems of developed countries in the autumn of 2008 created widespread enterprise bankruptcies [Rani, & Torres, 2011; Dombrovska, 2014]. Yap, Mohamed, and Chong's (2014) study on the financial performance of Malaysian firms during the economic crisis of 2008 found that the financials of 46 firms, were severely and adversely impacted. Most of these firms went on to face liquidity and solvency issues that had the potential to or led to collapse and bankruptcies. While it is true that firms may go bankrupt during economic crises, it should be stressed that not all firms will eventually go bankrupt. Firms that are generating revenues or that are profitable because of the type of business they do could survive bankruptcy during economic crises.

Due to their operational conduct during economic crises, the public's perceptions of firms may change for worse. With hikes in prices of their products and services and probable inefficiencies, the image of firms can be damaged. The next section takes a look at how economic crises can affect the goodwill and public image of firms.

• ***Loss of goodwill or public image***

There is general agreement in the literature that firms could lose goodwill internally or externally as a result of an economic crisis. Goodwill refers to a good reputation or advantage or benefit of a business beyond the mere value of the capital stock, funds, or property [Oldham, 2017]. Generally, goodwill has appeared to be an umbrella concept embracing many features of a firm's activities that could lead to superior earning power. Goodwill includes excellent management, an outstanding workforce, effective advertising, and market penetration [Stern, 2006]. During economic crises, as firms increase prices of their commodities, or realize a decline in the quality of their goods and services, their goodwill may decline or be

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completely eroded. Internally the firm could lose its goodwill among employees, especially when it sacks some of their colleagues or cuts wages and benefits for staff. Kolb (2011) found that the global economic crisis of 2008, led to the animosity of workers, especially towards large corporations. Accordingly, factory workers who lost their jobs saw a causal connection leading directly from a greedy pursuit of profits. They consider that a high level of compensation for top executives, and flagrant risk-taking, in the firms led to their financial difficulties. A firm hiking its prices for which customers begin to perceive it negatively causes external loss of goodwill. These customers may consider the firm to be trying to exploit them in tough times [see also Kasfir, 2013, for discussions on unjust prices and perceptions of exploitation in Uganda]. As opposed to buoyant market conditions during a phase of economic prosperity, where higher prices are more acceptable to customers, during a recession, the circumstances are different [Fernie, Fernie, & Moore, 2015]. Loss of goodwill within customers during an economic crisis could also be a result of inefficiencies. These inefficiencies arise from operational challenges the firms face. When firms decide to lay off staff and find it difficult to offer products and services like in pre-crisis times, they may lose goodwill. How firms handle the dismissal of employees could also lead to a loss of goodwill for the firm. Sometimes it becomes difficult for the firm to regain its goodwill when the crisis is over. The loss of goodwill indeed affects firms in the end. Customers tend to be loyal to firms that they think of positively.

Faced with a myriad of challenges accruing from an economic crisis, a firm can become challenged by uncertainty. Uncertainty is detrimental for firms, because it breeds reluctance to plan, and curtails the growth and performance of the firm. In the next section, we review research on how economic crises affect firms by creating uncertainty.

- ***Uncertainty***

Many studies examining the impact of the crisis on firms have focused on the role of crisis in causing uncertainty within firms. According to Ghai & Gupta (2002), there is more significant uncertainty within firms, during recession and depression than during a boom period. Levels of uncertainty are essential to studies on firm operations. The less certain a firm is about its future, the more likely it that it will not take actions that can make it prosper in the future. A firm will not invest and will focus on closure.

A cross-sectional study by Sigindi (2017) of firms in different countries found that economic crises were a source of uncertainty in firms. When uncertain, firms find it difficult to anticipate and adjust to a crisis unless there are prior mechanisms for these adjustments. Although it was quite generalized, Sigindi's results are in sync with another study by Morikawa (2016), which specifically researched the effect of crisis-driven economic uncertainty in Japan. Morikawa's longitudinal study covered ten years (2004-2014). It indicates that most Japanese firms across the manufacturing and non-manufacturing sectors, cut back on investment because of the fear of an uncertain future. The study also posits that because of the irreversibility and adjustment costs of investment, economic uncertainty brought by crisis hurts investment. As such, firms may not invest in equipment, research, and development (R&D), and hiring of employees. This mechanism is referred to as the option value of waiting. Morikawa's work builds on research conducted a few years before by Bloom, Bond, and Van Reneen (2007). The latter agrees that uncertainty reduces the responsiveness of investment to demand shocks. Uncertainty also makes firms more cautious when investing or disinvesting. Consequently, firms may lose competitive advantage because of their reluctance to engage in further investment. Whereas these studies reflect the impact of crises in creating uncertainty in firms, they do not suggest how firms can prepare for the economic crisis to minimize the effects of the unknown.

In past research published by Ramalho, Rodríguez-Meza, and Yang (2009), World Bank (2009), and Yalman, Demirkoparan, and Aras (2011), they also discuss how conditions of economic crises create uncertainty, which leads to pessimism in firms. There are several outcomes of uncertainty in firms. First, it could affect employee morale. Second, it could also influence management to scale down on operations and shelve expansion plans because of a feeling of uncertainty. Most businesses fear most changes in economic factors that can have such a dramatic effect, as witnessed by the global economic crisis of 2008-2009 [Dransfield, 2014]. As a result, crisis creates pessimism in firms and uncertainty of firm survival during an economic crisis in the process dampening business confidence similar to the situation during the 1997-98 Asian financial crises [Yap, Mohamed, and Chong, 2014]. Relying on a large panel of unquoted UK firms over the period 2000-09, Byrne, Spaliara, and Tsoukas (2015) also discuss how uncertainty eventually affects firm survival.

While the theoretical and empirical literature that uncertainty has negative consequences for economic activity is convincing, there are unresolved questions about the exact mechanism by which uncertainty affects the economy. One of the causes of uncertainty in firms during times of economic crises is how the media reports on the crisis. Moraru (2012) states that the constant mediatization of harsh economic conditions boosts the emotional impact of the crisis effects on consumers' lives and projects a state of uncertainty. The next section examines literature about how economic crises may scale down the operations of firms.

- ***Scale down of operations***

Economic crises may force firms to scale down their operations or shelve expansion plans. As a last resort, economic crises could make firms close, shut down, or suspend operations indefinitely [Makochekanwa, 2017]. For some firms, this scale down could be for the period of the crisis, while for others, it could be permanent. As the conditions make it more difficult for them to operate, firms could also close down during economic crises [Hrastelj, 2013]. Liquidation of firms is typical during economic crises [Gilson, cited in Faccio, & Sengupta, 2006], and crises have been known to lead to a higher level of business failures [Sternad, 2012].

Beyond driving firms to scale down operations, economic crises may discourage investors from starting new firms [see Shane cited in Pandey, 2013]. Shane indicates that entrepreneurship was negatively affected by the great recession in the United States. For example, the formation of firms in 2009 declined by 17.3% compared to 2007. Similarly, Mann (2011) writes about how economic crises affected start-up firms in 2009, where there was a reduction in the start-ups leading to an increase in unemployment. Whereas a firm slowing down operations during economic crises is the norm, it can be argued that there can be exceptions. Some firms instead opt to invest, grow, and expand during periods of economic crisis. The next section indicates that whereas many firms are adversely affected by economic crises, some have been positively impacted.

The positive impact of economic crises on private sector firms

- **Stimulates efficiency**

Some of the literature on the impact of economic crises on firms convincingly suggests that crises could have a positive effect on firms and the broader economy. One of the positive impacts of the crisis on firms is that it improves their efficiency. Kim (2013) emphasizes that the economic crisis has the effects of cleansing inefficient elements out of the economy; and provides surviving firms with an opportunity for productivity improvement. For example, crises may purge the economic system of unwanted products, obsolete technologies, incompetent management, and inefficient practices.

Despite the distresses that crises cause and the social costs, which Marx and Engels underscored, Schumpeter [cited in Fontefrancesco, 2013] in some studies considered crises as a generative force in the market economy. In this regard, crises lead individuals to explore new forms of production and products. These explorations result in the overall betterment of the market and an expansion of the possibilities of individuals.

Other research further emphasizes how recessions are essential to the process through which economies renew themselves. New goods, new methods of production, and new forms of industrial organization replace the previous in the economy [Caballero & Hammour, 1994; Schumpeter, 1934, 1942 cited in Peltone, 2014].

Also, Kitching, Blackburn, Smallbone, and Dixon (2009) have identified the concept of *Creative destruction* concerning how economic crises impact firms. Accordingly, recessions are regarded as periods of 'creative destruction,' during which some businesses and industries decline, often terminally, while new ideas, technologies, products, and industries emerge and become the driving forces of subsequent economic activity and growth. Recession conditions contribute to this economic restructuring through stimulating business churn, the entry, and exit of firms, and by motivating incumbent firms to adapt products and business processes.

Another publication by O'Connor (1998) has construed the advantage of economic crises in restoring discipline within those affected by it. O'Connor suggests that boom periods can lead to better performance against competitors by lowering costs, offering better services, and producing better products. In times of crisis and bad times, it can lead to reducing costs, increasing flexibility, expelling living labour, and making new and higher quality products at the same or even lower prices. Thompson and Martin (2005) build on this position. They suggest that any recovery from a difficult situation will be related to becoming effective. In this case, it should lead to improved marketing effectiveness, competitiveness, and revenue, and managing the organization more efficiently to reduce costs. Where these changes in functional and competitive strategies prove inadequate, something more drastic will be required. They, therefore, argue that economic crises are not entirely negative for firms.

While most firms find it challenging to survive economic crises, not all firms experience difficulty in such periods. Myers (2011) argues that even during the worst recession, although most of the firms perform poorly, some firms will be performing well and increasing turnover.

Such performance depends on the foresight of entrepreneurs who can take advantage of opportunities. For example, during the run-up to Christmas 2009, high street retailers were said to suffer some of the worst results in history. Yet

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Carphone Warehouse and Mothercare increased sales during the same period. Consumer spending tends to decline if interest rates rise sharply. Thus, the demand for residential, retail, and manufacturing property reduces and, in some instances, may even become surplus to requirements. Foreseeing these general cyclical turns is part of becoming a successful property entrepreneur; being able to recognize the exceptions to the rule is even more promising. It is however important to note that it is in rare instances that economic crises have a positive impact on firms. Understanding the firm's context as we state in the next section, will go a long way in understanding how economic crises can have positive impacts on the firm.

Variability in the impact of economic crises on firms

The impact of economic crises on firms varies from firm to firm. Some research indicates that some firms will grow faster than others, even in a recessionary environment. Although this view is convincing it cannot apply to all firms. There is a need, therefore, to understand which variables and processes hasten the growth of some firms or make them resilient during a crisis [Peric, & Vitezic, 2016]. After examining some firms, Westergard-Nielsen and Neamtu (2012) suggest that while almost all firms are negatively affected by the crisis, only a small number of firms tend to benefit from the crisis. There are different reasons why firms can experience crises; differently, a matter we tackle in this section.

Recent research has found that economic crises can affect firms in different ways [see Hrastelj, 2013]. This finding reinforces the need to study firm context actually to determine how it is affected by the crisis. For example, the effects of the global financial crisis were different among countries due to the different levels of development in the financial market, the policies of the government, and the sensitivity of that country to external incidents [Trinh, & Phuong, 2016]. Vissak (2012) has also observed that each firm is unique and could be affected by economic crises differently. As such, some firms may even remain stable or even grow during a period of economic crisis. Filip (2011) concurrently observed that economic crises do not affect all industries equally, with a decrease in demand during crises much more visible in some sectors than in others. White [cited in de Jong, 2008] found that crises can have "varied and often highly contradictory impacts in different regions, economic sectors, and groups." Also, Kitching, Blackburn, Smallbone, and Dixon (2009) noted that recessions are having a varying impact on firms, industries, regions, and countries, some firms prosper while others struggle, and yet others are forced into closure. Tamas and Krisztina

(2015), in one study on firms in Hungary during the economic crisis of 2008/2009, show similar results. Each firm's own experience could differ from what the whole economy would explain. These results are instructive to future research on the impact of economic crises on firms, which calls for a case-by-case analysis of the impact of the crisis on each firm.

There are various reasons why the impact of the crisis on firms can be different from firm to firm. First, the availability of credit is an essential factor in the survival of some firms. Firms thus find themselves looking for loans to finance working capital or make new investments that would ensure continuity and growth. Firms that manage to get credit are likely to withstand the crisis more than firms that fail to access credit [Makochekanwa, 2017]. The sector in which a firm operates could also affect how the economic crisis impacts it. Firms that export and, therefore, have access to other markets stand a stronger chance because they have an alternative [see also Makochekanwa's, 2017 example of firms in Zimbabwe]. Prasetyantoko (2006) in a study that reviewed the performance of firms on the Jakarta Stock Exchange, during the economic crisis, also found that firms in the tradable sector were less affected. Yet firms that were from the non-tradable sector were gravely affected by the crisis.

Some authors have pointed out that, during economic crises, firm type impacts the possibility of the firm going bankrupt. The notion of type could include; size, age, ownership, country location, capabilities, and other characteristics of the firm.

More recent studies have validated the findings of the aforementioned research, that economic crises do not affect all firms in the same manner. Primary variables such as capital structure, size of the firm, industry in which the firm does business, all shape how different firms are affected by economic crises [Buratti, Cesaroni, & Sentuti, 2018]. This study focused on the impact of economic crises on Italian firms. Despite its restrictive scope, it fits with other findings from other studies on the impact of the crisis on firms.

Lee, Chen, and Ning (2017) demonstrate how older firms, and firms with high shareholder ratios, were able to perform much better than younger firms and firms with lower shareholder ratios, during the economic crisis. Shareholder ratios refer to how the level of returns by shareholders of a firm is assessed. For example, dividend per share. Older firms have an advantage over younger firms because they have more resources and capabilities to withstand the crisis [Notta, Vlachvei, & Grigorion, 2018].

There is little agreement in the literature about which size of the firm leads to its survival in a crisis. Papaoikonomou, Segarra, and Li (2012), through a collection of sources, capture this debate. One side of the argument suggests that small firms can better survive a recession as a result of their flexibility and fastness to respond to changes. The dissenting argument considers that smaller firms are more vulnerable because they have fewer competitive advantages. They obtain these advantages from economies of scale and scope, learning curve effects, and diversification. This finding, which I agree with, is consistent with a suggestion by Yalman, Demirkoparan, and Aras (2011) that middle-sized firms are also less affected by crises than small-sized firms. In another study conducted in Greece, Kontogeorgos, Pendaraki, and Chatzitheodoridis (2017) made similar conclusions. It indicated that the economic crisis affected mainly the smaller sized businesses than larger sized ones that they studied. The smaller-sized firms presented the most significant efficiency and profitability losses.

Banasick's (2009) research of firm survival during Japan's Great Recession of the 1990s, also suggests that smaller-sized firms struggled to survive the downturn. Larger firms, on the other hand, appeared insulated against the economic crisis. This finding resonates with a study by Makochekanwa (2017) on the impact of economic crises on firms in Zimbabwe. The study established that older firms are less likely to exit the market than younger firms during an economic crisis. This trend is because older firms could have built capabilities, networks, and relationships that are vital to withstand the crisis. Trinh and Phuong (2016) defend this view contending that large firms tend to be more diversified and less likely to go bankrupt as opposed to smaller firms.

One other factor that could shape how a firm is affected by the economic crisis is its market share. Nonetheless, there is minimal consensus on the significance of market share to a firm's performance and survival during a crisis. Notta and Vlachvei (2014) suggest that during economic crises, firms with significant market share and loyal customers are more competitive and profitable. Firms with smaller market shares and few loyal customers are less competitive and profitable. Cannon and Hillebrandt and Lansley (2016), however, disagree. Their study proposes that sometimes, during a recession, a high relative competitive position is often a bad thing. It is bad for the firm because profitability is negative, so the more substantial the market share and turnover, the more likely it that a firm would lose money. Thus, The Bankers Magazine (1997) states that, in economic crises, it is firms with low market shares that will find it easier to survive.

There is limited research on the role of firm ownership in helping firms survive economic crises. But, some studies show that foreign ownership could be an advantage for firms faced with economic crises. Alfaro and Chen (2010), for example, argue that foreign-owned firms might do better in a domestic crisis, where they could have resources from parent firms to cope with the crisis. This rational view is in line with the results of a study by Nagatani (2003). That study emphasized how big businesses in Japan were increasingly turning to foreign firms for partnerships for survival during economic crises.

The country context of firms could also determine how firms are affected by economic crises. One study on how economic crises increase uncertainty in firms uses evidence from different countries to draw their conclusions. Ramalho, Rodriguez-Meza, and Yang's (2009) study depict during the global economic crisis, the intensity of drop in demand varied across different countries. The proportion of firms that were optimistic or neutral about future sales was more significant than the portion of firms that were pessimistic (except in Latvia and Hungary). However, firms' optimism varied considerably across countries: from more than 50 percent of firms in Turkey having positive responses to only 10 percent in Hungary. Within countries, expectations about future sales varied by firm type. In terms of debt, in Bulgaria and Latvia, the share of small firms overdue on their obligations was significantly higher than the share of large firms with overdue obligations. In Lithuania, firms with foreign ownership and firms with female managers were less likely than domestic firms and firms with male managers to have overdue debts to any financial institutions.

Some studies present contradictions in how economic crises impact firms, which we can logically link to the various contexts of each firm. Kitching, Blackburn, Smallbone, and Dixon (2009) further observe that small and large firms are among high and low performers during an economic crisis. Even in industries harshly impacted by the recession, some businesses perform better than others. Outcomes cannot merely be read off from organizational characteristics; performance, including survival, is contingent, to some degree, on how businesses act.

Kudlyak and Sanchez's (2016) research also concludes that evidence from the 2007-2009 crisis contrasts with previously known models on firm response. Their study suggests that small firms do not always contract more than large firms. In another publication, Wu (2012) claims that in Chile, during the economic crisis of 2008-2009, firms that had sources of external financing were more affected negatively by the crisis. This situation was because their parent firms were unable to support them. A study on the impact of the economic crisis on the working capital of the real sector in Turkey found that the effect of the crisis on firms on the

Istanbul Stock Exchange (ISE) was limited [Kesimli, & Gunay, 2011]. Yet, Tsoy and Hesmati (2017) showed that the capital structure of firms during the Asian financial crisis of 1997/1998 and the global financial crisis of 2008 were greatly affected.

Conclusions and recommendations

It is concluded from this review, that economic crises impact firms negatively and positively. The impact of crises on firms may vary from firm to firm. A host of factors may determine how a firm is impacted by a crisis. These factors could include the size of the firm, ownership of the firm, country context, the sector in which the firm does its business amongst others. Thus, analyses of the impact of crises on firms require a case-by-case approach, to determine the specific circumstances of each firm.

Several issues in the literature remain unresolved. Among these are, first, only a few studies have assessed whether other factors enjoin with an economic crisis, to determine the impact of the crisis on firms. The second matter of concern is that many of the studies that describe the impact of the economic crisis on firms cover a few geographical contexts. Only a few engage in a trans-geographical analysis of the impact of economic crises on firms.

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