

Impact recession on the business british airways economics essay

[Environment](#), [Air](#)



During the past year and a half, the world economy has experienced its severest recession since the 1930s (World Bank 2009; IMF 2009a). Most advanced economies have experienced falling output, although the crisis has been mainly intensely felt in the UK (Weale 2009) because of the quantity of dependence on the hard-hit financial services division and the excessive level of household indebtedness (e. g. OECD 2009; Simpson 2009).

The UK has experienced falling Gross Domestic Product (GDP) for five consecutive quarters (ONS 2009) - declining GDP for two quarters constitutes the official UK definition of a recession. GDP has undergone a decline equivalent to an annual drop of 5.5 per cent, a greater fall than the 3.5 per cent drop predicted by the Chancellor for 2009 (HM Treasury 2009).

Other macroeconomic indicators reflect the decline in business activity.

Unemployment has risen from 1.73 to 2.47 millions in the year to July 2009 (7.9 per cent of the working age population), Bank of England interest rate remains at a record low of 0.5 per cent, and the Retail Price Inflation index is currently negative, standing at -1.3 per cent.

Recession conditions cause chief threats to, but possibly also offer significant opportunities for, businesses. The nature of these threats and opportunities, and their impact on businesses, varies with the nature and origins of particular recessions. While the precise causes of the 2008/9 recession, and the weight to be affixed to them in distinct national contexts, persist to be debated, it is widely accepted that the global banking crisis, sparked off by the extensive non-payment of „subprime“ mortgage holders in the USA, is one of the primary triggers (Peston 2008; Cable 2009).

Recessions associated with financial crises, especially when highly synchronized across countries, have been more harsh and longer lasting than recessions connected with other shocks, and recovery tends to be slower (IMF 2009b: ch3).

The present crisis has had severe implications for the restructuring of banks' balance sheets and liquidity and, consequently, for the supply of credit to businesses and to households. The crisis has led to the fall down, Government bail-out or incomplete nationalization of chief financial institutes in the US and Europe; to main programs of fiscal and monetary improvement; and to encourage for commerce and homeowners in the UK as well as in another place (HM Treasury 2009; IMF 2009b).

The global reach of the financial system has meant that no country has remained insulated from the crisis, although the structure of the banking system and its relationship with the small business sector is variable internationally which contributes to differentiated impacts.

A string of surveys has highlighted the decrease in sales, employment, investment and outlook during 2008 and into 2009 (BCC 2009a; CBI 2009; SERTeam 2009a) although some commentators report that the worst of the recession may now be over (BCC 2009b; NIESR 2009; Ernst & Young 2009; IFF Research 2009; SERTeam 2009b).

A survey of 165 small businesses highlights the diversity of experience with one in twenty firms reporting survival to be threatened, 8 per cent reporting

serious ramifications and larger proportions reporting negligible impacts or no noticeable effects (Intuit 2009).

A telephone survey of 4,400 small business owners by the Federation of Small Business in June 2009 found that over the previous ten months, a rising proportion of owners reported an increase in trade and that the cost of finance was easing (FSB 2009).

Figures released last May 25 2009 showed the airline possess a pre-tax loss of 401 million pounds (636 million U. S. dollars). The plunge in business is a powerful indicator of how the recession is changing the aviation industry with declining passenger numbers and diminished cargo demands cited as main reasons behind the losses. (Welham, 2009)

Even in London, with its greater dependence on financial services, there are signs that the recession may be moderating. Business activity and orders both increased in July 2009 compared with June, and consumer confidence is less negative than in the rest of the UK (GLA Economics 2009).

The Business Link in London Recession Poll of April 2009 found that although 69 per cent of small businesses reported being affected by the recession, 83 per cent planned to maintain current staff levels, 59 per cent were looking to grow in the next 12 months, 42 per cent were looking to expand through aggressively seeking new business opportunities, 17 per cent offered new products and services and 12 per cent reported hiring more people to increase capacity (Business Link 2009a).

The new Business Link Diverse Business Confidence Index (July 2009) found that of 3, 264 London small business owners surveyed, 84 per cent are planning to grow their business over the coming year, primarily through increased marketing activity (48 per cent of those intending to grow within the next 12 months), entering new markets (43 per cent) and by launching new products (35 per cent) (Business Link 2009b). 1

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

identifies the effects of the recession and financial crisis on British Airways;

investigates responses in terms of lay-off;

analyses business performance outcome.

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

ANALYTICAL FRAMEWORK

Recessions impact unevenly on industries, regions and businesses, and this shapes the variety of knowledge of recession and of business reactions. The study conceptualises small business adaptation and performance under recession conditions as dependent both on human agency and the wider social structures that enable and constrain their activity.

All businesses interact with other stakeholders and these relations influence business activity and performance. The capital, labor and product markets contained by which firms work, and the wider institutional background, as well as the quantity and quality of support to business from government and other sources, influence how firms adapt and their subsequent performance.

Business owners always have some carefulness concerning the strategies they take on, even though the degree of choice is often strictly limited by resources or conditions (e. g. Whittington 1989). Small businesses are co-authors of their own destinies, and not simply the passive victims of external forces, although their capacity to shape outcomes is variable.

Business tactic and performance differ with resources and abilities, owner-manager opinions of the threats faced and chances available (Thomas et al. 1993), and the wider organizational, market, institutional as well as cultural perspectives (e. g. Clark and Mueller 1996; Schoenberger 1997; Whitley 2007).

Performance depends on how well firms adapt to recession conditions comparative to others with whom they fight for resources and markets – without foreknowledge of what constitutes „better“Ÿ. Strategies to beat

the recession are probable to be context-specific, different with sectoral and spatial setting.

There is, as a result, no single „ recession effect“ for businesses, nor as result in any particular „ best practice“ strategy of adaptation appropriate to all businesses. Recessions produce contradictory trends, some constraining business owners from attaining their objectives, while others are enabling.

Recessions are characterised by falling aggregate business sales, and typically by downward pressure on asset prices, which is enabling for resource acquisition. To the extent that recession increases market exit, this is also enabling for surviving firms.

Recessions, therefore, present small businesses with a major dilemma: to cut costs in order to preserve survival in the short-run at the danger of reducing their capacity to adapt adequately when recovery comes; or, alternatively, to maintain greater capacity, acquiring higher costs in the short-run, with the intention of retaining the capability to realise opportunities for long-term value creation when the upswing comes.

Both processes - constraining and allowing surviving firms - happen simultaneously, but unequally, during recession. Identification of particular constraints and enablements, however, tells us nothing about how firms become accustomed or why they do so, or what the outcomes of adaptation are.

Methodology

This chapter contains the different tests that the researchers will use in order to determine: identifies the effects of the recession and financial crisis on British Airways; investigates responses in terms of lay-off; and analyses business performance outcome.

The different test would try to answer the following sub-problems, i. e. the effects of recession on the operations as a whole and in terms of their labour cut-off. The research paper will also tackle how the different variable such as inflation, affects a business as a whole.

Research Design

The design of the study is a qualitative research design of historical research since it is intended to determine: first, how recession affects the business of British Airways; second, how businesses response in terms of cost cutting by lay-off; third, how recession affects the performance of the said business.

Research is the systematic collection and objective evaluation of data related to past occurrences in order to test hypotheses concerning causes, effects, or trends of these events that may help to explain present events and anticipate future events. (Gay, 1996)

It is also a research of structural stability since the research is intended to see how democracy is being affected by socio-economic, historical, and cultural factors. It will be studying how different factors would be a reason for destabilization and consistency of democracy.

Data Collection

The researchers visited the different libraries for journals, articles and studies needed for the research. The researchers gathered time-series data from different government institutions to assure of its validity and consistency. The researchers would also gather different news and articles regarding the past events that involves or has the democracy as its main issue. It would tackle evidences of how recession, inflation, and unemployment factors affect businesses such as British Airways. They would also research data on other business that was affected by recession and how they dealt with it. The researcher would gather data from 1986-2005 to be able to assure consistency and reliability.

Data Treatment

The different data such as inflation and recession would be the dependent variable and will stand as the fixed variable. The researchers used unemployment as the independent variable and will be used as changing variables.

Statistical Tools

The multiple linear regression model will take the form of:

$$S/I = b_0 + \ln b_1 + \text{Un} b_2 + u$$

Where:

b_0 = different economic factors

b1 = data on inflation rate

b2 = data on unemployment rate

u = unobserved data (margin of error)

S/I = Sales or Income

In = Inflation Rate

Un = unemployment

To be able to conclude the justification of the study, the researchers will observe the following tests:

TEST OF SIGNIFICANCE

The researchers will use t-test. This test is a procedure by which sample results are used to verify the truth or falsity of a null hypothesis. (Gujarati, Basic Econometrics, 4th Ed.) If the test showed a negative probability then it means that the independent variable being tested is not affecting the dependent variable. If the probability showed a result that is positive, then it means that it is positively correlated which means that the independent variable being tested do affect the dependent variable.

$$t = \frac{\hat{\beta}_1 - \beta_1}{\text{SE}(\hat{\beta}_1)}$$

if

TEST OF STRUCTURAL STABILITY

The Chow Test is a prediction failure test. It can be use to test the predictive power of a regression model. It is most commonly used in time series analysis to test for the presence of a structural break. (Gujarati, Basic Econometrics, 4th Ed.) Chow test is used whenever there is a change in the variable, such as implementation of law, change in government control, change of president, and the likes.

$$(RSSR - RSSUR) / K$$

$$F =$$

**

$$F [K1(N1 + N2-2K)]$$

$$(RSSUR) / (N1 + N2 - 2K)$$

The researchers will use Eviews 3. 1 in conducting these tests.

BUSINESS PERFORMANCE DURING THE RECESSION

A deteriorating macroeconomic environment of falling GDP does not impact every small business in the same way, at the same time, or with the same consequences for performance. The nature, timing and duration of the impact for particular enterprises - as well as their responses and the performance outcomes achieved - are variable.

Some firms experience falling sales and/or profit margins, while others achieve increased sales and profit margins and yet others report no noticeable impacts. Online/mail survey respondents were asked to report

whether the value of sales and profit margins had increased between the first quarter of 2008 and the first quarter of 2009.

The period was considered sufficiently wide to encompass the start of the downturn⁵ and to provide an adequate period over which performance change could be measured. The results demonstrate the range of performance outcomes among sample businesses (Table 2).

More firms reported lower sales and profit margins than higher figures, but the data show that even during recession periods, some firms are able to improve performance: a quarter of businesses achieved higher sales revenues, and one in five achieved higher profit margins during the period.

TIMING OF RECESSION-RELATED IMPACTS

To obtain data on the timing of recession-related impacts, business owners were asked the month/year when their businesses first felt the recession. Business owners might perceive the impact of recession through falling sales or profit margins, increasing customer late payment and bad debt, tightening credit terms from lenders and suppliers or via other sources.

Respondents reported a wide range of responses, from August 2007 through to July 2009, while almost one in five reported no impacts at all thus far (Table 3). A marked upward shift in business owners' reports of recession impacts occurred in September/October 2008, around the time of the collapse of Lehman Brothers, the major US finance corporation, and the subsequent flurry of activity by western governments, with a pronounced

spike in January 2009 when 11 per cent of respondents reported first feeling the recession.

Of businesses reporting no recession effects, most reported increases in sales and profit margins in the year to Q1, 2009: 59 and 54 per cent respectively, compared to 18 and 11 per cent among those reporting feeling the recession at some point. 6

Businesses with a greater dependence upon public or voluntary sector sales – 50 per cent or more of total sales – were slightly more likely to report that the recession had not affected them yet. Just over a quarter of firms (31 per cent) with public and voluntary sector sales of more than 50 per cent reported that they had not felt recession yet; for those with lower sales to the public and voluntary sectors, the proportion is 22 per cent. 7

This is likely to reflect Government attempts to support the private sector through maintaining levels of public expenditure. Weale (2009) found a positive correlation between government consumption and GDP growth across the 28 countries for which the Organisation for Economic Cooperation and Development provides quarterly data.

BUSINESS RESPONSES UNDER RECESSION CONDITIONS

Business owners' responses under recession conditions are influenced by the nature and extent of the impacts experienced (Geroski and Gregg 1997). Recessions constitute threats to business in so far as economic activity

decreases, with implications for business turnover, but also create opportunities for businesses in at least four ways.

One, recessions impart downward pressure on asset prices, which means inputs are often cheaper for firms to acquire. Investments in staff, premises and product development that would otherwise be perceived as uneconomic might become worthwhile because inputs can be obtained at prices that facilitate profitable production and supply.

Second, recessions motivate business owners to adapt inputs, products, processes and prices in order to increase or maintain sales and profit margins and/or to cut costs and increase efficiency. Intensified competition stimulates firms to seek innovative solutions to revenue generation and cutting costs.

Third, purchasers often adapt behaviour during recession periods, switching to new suppliers on either cost grounds, or because they are able to access higher-quality goods and services that were previously unaffordable.

Fourth, declining demand may lead businesses to exit the market, leaving surviving firms to compete to secure the „vacant“ market share.

Examples of all of these influences are evident in the sample enterprises.

Researchers have distinguished between firms undertaking retrenchment activities centred on cost-cutting and asset divestment, and those seeking to generate revenue through investment, innovation and diversification (e. g. Shama 1993; Michael and Robbins 1998).

Given that businesses might adapt to recession conditions in a variety of ways, how, in fact, do they respond? Survey respondents were asked to indicate which actions from a prompt list of categories (plus an „ other“ category) they had taken since the start of 2008 (Table 4).

This wording was chosen rather than asking directly about responses to recession because it was anticipated that some respondents would report that they have not been affected by recession or that they would have taken the action anyway irrespective of the recession.

Business owners might, of course, have been unaware of the influence of recession on their actions; for example, where suppliers reduce prices in response to their declining sales, this may create opportunities to secure better terms. Responses were categorised under nine broad types, listed in order of frequency of response:

changes in sales and marketing;

changes in markets;

changes in employment;

changes in products and/or services offered;

changes in finance;

changes in owner/manager behaviour;

changes in production/business processes;

changes in premises;

changes in business organisation.

Business owners reported a wide range of responses to improve or maintain business performance, including practices intended both to control costs and to generate sales. Almost all businesses (94 per cent) reported taking at least one of the actions in Table 4 since the start of 2008.

The most frequent reported actions were: „ introduced new or improved products or services“ (58%); „ personally working longer hours“ (58%); and „ increased sales effort“ (56%). Conversely, fewer than one in ten business owners reported the following practices: „ reduced the range of products/services offered“, „ increased use of intellectual property“, „ reduced employee training“, „ opened branches or outlets“, „ closed branches or outlets“, „ negotiated a change in the duration of the lease“, „ increased use of unpaid family labour“, and „ sold personal assets to compensate for poor business performance“.

The Intuit (2009) survey also reported a range of cost-cutting and income-generating practices.

Interestingly, given the public debate about the „ credit crunch“ and the limited availability and high cost of bank finance to businesses, it is perhaps surprising that so few respondents reported finance-related actions.

Just over a quarter (29 per cent) reported „ renegotiating terms with suppliers“ but less than one in five reported any of the other specified

actions - including „ reducing debt to external sources“ or „ reducing investment expenditure“. This might reflect the limited demand for credit on the part of small business owners.

Only 39 per cent of the sample businesses reported accessing external finance since the start of 2008, mostly for working capital purposes, although a number of firms had used it to buy fixed assets, develop new products or services or undertake a marketing campaign.

Moreover, these low figures do not appear to be due to higher rates of refusal by credit providers to applicants for finance: only 15 per cent of the sample reported an unsuccessful, or only partially successful, application for a bank overdraft since the start of 2008, 11 per cent reported an unsuccessful, or only partially successful, application for a business credit card and 8 per cent reported an unsuccessful, or only partially successful, application for bank loans.

Indeed, large proportions of the sample reported never to have used these sources of finance at all: 62 per cent reported never having a bank loan, 42 per cent an overdraft and 26 per cent a business credit card. Other sources also report a limited impact of access to credit during the recession (Intuit 2009).

Sample businesses reported implementing, on average (mean), 8.1 actions (from the 39 prompted). Small firms“ responses are, therefore, highly diverse under recession conditions although most combine judicious cost-reduction activity, in order to conserve resources, with equally carefully

chosen revenue-generating activities - what might be termed an „ambidextrous“ approach to improving or maintaining performance.

Although many commentators advocate cost-cutting during recession, the survey findings show that small businesses are just as likely to take action seeking to win new business as they are to cut costs. Small business owners are more likely to take both revenue-generating and cost-cutting actions rather than implementing either type of action alone.

Very high proportions of the sample reported taking some action to increase revenue (93 per cent) and to cut costs (88 per cent), and 87 per cent reported taking both types of action. Next, we present interview data to illustrate the range of recession impacts and of small firms' adaptations under recession conditions.

Our purpose is to highlight the heterogeneity of experiences of, and responses to, recession and to link these to business owners' motivations, resources and the wider context. Small businesses possess variable capacities to adapt, with variable consequences for performance.

Recession may not only have diverse impacts upon small businesses, it might also influence the actions they take to manage those impacts. It is arguable that businesses experiencing the most severe adverse impacts will be those most likely to implement the most far-reaching changes to business strategy and practice.

Firms experiencing less severe shocks, arguably, introduce less stringent measures. This may be reflected in the quantity and quality of adaptations implemented. To explore the relationship between perceived impact of recession and actions taken since the start of 2008, chi-square tests were performed.

As expected, perhaps, firms reporting feeling the recession were significantly more likely to report taking action to improve or maintain performance since the start of 2008 than those who did not (8.5 actions reported, compared to 6.2). There were differences in the specific actions taken between the two groups. Those reporting being affected by recession were more likely to report the following actions (all significant at the 1 per cent level, unless otherwise indicated)

RESULTS AND DISCUSSION

This chapter discusses the different test results for the variables in the model namely inflation rate, recession, and unemployment rate. The researchers used E-views to conduct the different test.

4. 1 Inflation rate on unemployment rate

Table 4. 1a

Dependent Variable: INFLATION

Variable

Coefficient

Std. Error

t-Statistic

Prob.

C

24. 57223

8. 246300

2. 979789

0. 0080

UNEMPLOYMENT

-1. 667217

0. 811267

-2. 055079

0. 0547

R-squared

0. 190041

F-statistic

4. 223349

Durbin-Watson stat

1. 629688

Prob(F-statistic)

0. 054679

Appendix E shows the annual data of inflation rate and unemployment rate for the years 1986-2005. T-test result shows that there is a significant relationship between unemployment and inflation rate, there is an increase of 24. 57223 for the estimated average value of inflation rate and an estimated change of -1. 667217 in the average value of inflation rate as a result of a percentage change in unemployment.

Table 4. 1b

White Heteroskedasticity Test:

F-statistic

0. 531607

Probability

0. 597115

Obs*R-squared

1. 177215

Probability

0. 555100

From the results of the White's General Heteroscedasticity Test, the probability is 0. 555100 which is greater than the level of significance, hence, it is homoskedastic.

Table 4. 1c

Chow Breakpoint Test: 1998

F-statistic

0. 447350

Probability

0. 647077

Log likelihood ratio

1. 088226

Probability

0. 580356

In the Appendix B shows the deregulated and deregulated years used for running the Chow Test, it shows that there is structural stability because its

Log Likelihood Ratio probability 0.580356 which is higher than .05, that is the level of significance.

4.2 Sales and inflation rate

Table 4.2a

Dependent Variable: INFLATION

Variable

Coefficient

Std. Error

t-Statistic

Prob.

C

9.285719

2.524508

3.678230

0.0017

SALES01

0.078568

0. 117128

-0. 670787

0. 0411

R-squared

0. 024388

F-statistic

0. 449956

Durbin-Watson stat

1. 088749

Prob(F-statistic)

0. 041087

T-test shows that there is a inverse relationship between sales or income of the business and inflation rate. 9. 285719 is the estimated decrease in sales when there is a 0. 078568 percentage change in inflation.

Table 4. 2b

White Heteroskedasticity Test:

F-statistic

0. 375950

Probability

0. 692205

Obs*R-squared

0. 847121

Probability

0. 654712

White's General Heteroscedasticity test shows that there is an effect in the performance of the business due to the inflation rate for the probability is 0.654712 showing that it is higher than the level of significance, .05.

4. 4 Unemployment Rate and Inflation Rate on Sales

Table 4. 4a

Dependent Variable: SALES

Variable

Coefficient

Std. Error

t-Statistic

Prob.

C

26. 30206

8. 649942

3. 040721

0. 0074

INFLATION RATE

0. 082060

0. 108012

-0. 759730

0. 0458

UNEMPLOYMENT

-1. 677089

0. 821069

-2. 042568

0. 0569

R-squared

0. 216638

F-statistic

2. 350667

Durbin-Watson stat

1. 605482

Prob(F-statistic)

0. 125511

T-test shows that the independent variable, unemployment rate and inflation rate, has an effect with the sales or income of the business. It shows that when there is 0. 082060 percentage change in sales, if the inflation rate is 26. 30206. The unemployment shows a negative relation with sales showing that there is -1. 677089 when inflation rate is 26. 30206

Conclusion

The 2008/9 UK recession has been reported as the worst since the 1930s, involving a collapse of the banking system, as well as falling GDP.

Commentators have suggested that small businesses have suffered badly with many forced to close. While this is undoubtedly true for some, the two-stage research design reported on here has enabled us to provide a more nuanced view of how recessions influence small business activity and performance.

Several major findings are presented.

First, small firms experience recession in a wide variety of ways. This variety has been illustrated by distinguishing cases of severe shock, limited impact and no perceived impact. If small businesses are necessarily vulnerable to recession, the study might have been expected to find that all sample businesses have suffered substantially and struggled to survive.

A deteriorating macroeconomic environment does not, however, impact all small businesses in the same way. Simplistic arguments that recession conditions necessarily impede small business performance must be rejected, since not all businesses suffer lower levels of performance. Some firms experience significantly decreased sales, while others are unaffected or continue to achieve increased sales. These diverse experiences motivate particular small businesses to act in particular ways.

Second, small firms' adaptations to recession conditions are diverse. Although many commentators recommend retrenchment, entailing cost/asset-reduction, it appears that most business owners adopt an „ ambidextrous' approach, combining both revenue-generation and cost/asset-reduction activity.

Business owners always have some degree of choice as to how to respond to changing circumstances, although there is no guarantee that their adaptations will improve the firm's fortunes.

Access to particular resources makes certain business responses possible but it does not determine them. There is an irreducible role for human agency, the capacity of business owners to interpret their circumstances, to define a set of objectives and to choose a course of action they believe (fallibly) will achieve those aims.

Some businesses may treat the recession as a market opportunity and seek to expand through investment, innovation and diversification; others will retrench and concentrate on reducing costs and assets. Through their actions, small business owner-managers are able to influence the impact of recession on their enterprises.

The effects of recession are partly due to firms' responses and not just simply the outcome of the influence of the activities of others - for example