

# Small british firms and economic downturn

[Business](#)



Economic downturn has been defined in many ways by different elites, academicians and professionals, meanings that there no single phrase which has been adopted as the only authentic definition for this term. Although there are arrays of discourse or defining discourses which have been put forward, they are more or less having the same features of wording or meaning.

Generally, most of the experts define an economic down turn as a long period of at least six months of declining economic activity thus affecting the overall production of a nation or a region. This declining productivity has negative impacts on the industrial production including both large and small scale firms (Gale, 2009). The other major indicators of economic down turn is increasing trends of unemployment which in most cases is accompanied by reduction of salaries or wages of the employees. These results from a mosaic business activities which leading to lean return in sales and low rate of return in investment. The decrease in returns both from sales and low rates of return in investment greatly affects business operations mostly by having decreased production accompanied by high production costs.

Though large and small scale firms all experience the effects economic downturn, they have a great disparity on ability to survive through periods of financial hardships, due to inequality in the available resources and sources of financial support, this poses the risk of prolonged risk on the recovery problem from the downturn menace(Ram, 1992). Small scale firms are highly discriminated or less considered as creditworthy by the creditor organizations due to high risks of falling victims of loan defaulters. It therefore becomes very vital for small scale organizations to look for <https://assignbuster.com/small-british-firms-and-economic-downturn/>

recovery ways through recession by maintaining health flow of their finances. This implies that the company management needs to devise ways for its finances to maintain the organization on the track with the other competitors and even rise to the leader positions (Ferguson, 2008). While organizations are considered as open systems, the effects of economic downturn impacts all pillars of business management including labor force, marketing and distribution, operations and financial management. Although there are complexities associated with the various managements, the financial management is portrayed to be greatest threat during the recession.

Surely, most small scale management firms fall victims of depression due to poor management of cash flow. For any company to be a better competitor in any kind of industry, it must have stringent controls of its working capital. Health working capitals ensures that there is coordination of every day-to-day activity. This aids the management in the general planning of the work which further relieves the management team from work stresses. The most important factor of having proper controls and management of cash flows or the working capital which funds the company's continuous operations is its ability of bolstering the overall relationship of the organization in each and every sphere of the business operations (Ferguson, 2008).

Most businesses have the understanding of the importance of controlling cash flows so as to allow companies produce or manufacture its products without experiencing hardships management- workers' strikes or raw material shortages or even marketing and distribution difficulties, empirically, the chaotic environments during economic downturn are <https://assignbuster.com/small-british-firms-and-economic-downturn/>

indications of misappropriation cash flow. Whereas some of the organizations have exceeding idle cash held by debtors due to unclaimed payments, it becomes a nightmare for other organizations languishing in the scramble to earn extra liquidities. The fear together with the broad propensity of organization to decline from making investment making some of the company's cash the stay poisons the company from taking the opportunities for growth and expansion. This affects the company's future returns in investments as well as having profit degradation (Gale, 2009). Financial sources Normally, Small businesses can access funding from several sources though they are very few as compared to large business firms, hence, small British firms are not an exceptional to such limited financial sources. Banks play major role in numerous commercial operations and they have always been a key driving factor that maintains most of the small British firms on their competitive tracks through financial funding in terms of short-term loans (Ram, 1992).

Despite the fact that banks acts as a financial resort for most of the small businesses, their lending propensity is often determined by the monetary flow in the financial markets. This is evidenced through the formulation of restrictive lending measures that denies access to finances to most of the small businesses in times of recession. The operations on constricted finances makes most of the small scale firms not to meet their productions and sales targets which makes greater number of the companies to operates below profits margins or even incur losses. As results low profits or losses operation, there is prolongation of the effects of economic downturn during the recovery period (Gale, 2009). Some of the creditor for the small business

firms incorporate direct and indirect restrictive conditions such as lending to organizations of a particular industry, raising of annual turn over as one of the qualifications need to acquire a loan or even including unrealistic interest rates on return of the borrowed amount to discourage the tendency of small business owners from seeking loans.

In the common sense and empirical operations, creditor companies do not make immediate changes but takes time prior to making amendments on such policies during the recovery process. This habit is based on the fear and lack confidence on the recovery of the world's economics which are depicted to be on transitional dynamics. The maintaining of these policies means continuation of firms operations under constrained finances, thus limiting company's production and subsequently its profits (Ram, 1992). Some of the small scale British firms are advantaged to qualify for bank loans or loans from other lending organizations. On one way, this helps them to facilitate company operations that make the organizations to survive the heat of downturn. However, the move to acquire a high interest rated loan is a major disadvantage to the firms during the resurgence time.

This arises from the fact that the firms acquires only short-term loans, implying that they compelled to remit their loan repayments together with interests within the next one year from time the loan was disbursed. The firms are therefore given inadequate recovery time as the loan has to be repaid before recovering or full resurgence from downturn effects. The draining of the finances through repayment of the additional high loans costs on the basis of loan interests create unfavorable environment for business operation (Gale, 2009). Small British firms can be kept ongoing during <https://assignbuster.com/small-british-firms-and-economic-downturn/>

recession period from acquisition of grants. This is one of the viable sources of finances for most of the small British Businesses. Although it is be considered is the most advantageous and beneficial for small firms, they are often not easily and readily available for the large number of business financial seekers.

Furthermore, grants are commonly aimed at assisting the disadvantaged group(s) of persons. This kind of financial support best fit for people with viable business plans or projects, which implies that existing businesses may not qualify for such funding (El-Erian, 2008). Grants are thus embraced to generate employment opportunities to individuals extremely hit by the move of recession, but supporting evidence of the validity of the business needs for it to receive the optimal funding of its needed finance act as a key barrier to access funds for both prospective businesses and small British businesses. Despite the numerous challenges which face the small businesses during economic downturn, the firms can position themselves through the management of stock. Obviously, investors get apprehended with fear to make investment during recession times, and this halts the company's growth and development.

it becomes necessary for firms to expand the business in which ways to position itself and rise in the ladder of competitors to the leaders positions. The Small British firms can achieve this by acquisition, which is also referred to as inorganic growth, or it might make organic growth, whereby the business developments are funded by the use company's reserves. All this integrates regional diversification of the business as well as product diversification. Product diversification is the most important one for it helps <https://assignbuster.com/small-british-firms-and-economic-downturn/>

to maintain and manage product portfolios that are reasonable or balanced. The monitoring and balancing of the product portfolio aids the business to maximize cash flow and liquidity in the business operations (Ram, 1992). It has not been uncommon for companies to reduce inventories/stock during recession times as a strategy to manage risks.

For instances, major companies such as Dow transport company, Google corporation among others were among the canons of those organizations that decided to reduce their inventories in the 2006 from forecast of the impending downturn that hardly hit the global economy in 2008-2009. The decision to reduce stock is to enable organizations to have sufficient cash which becomes a serious matter during recession. However, the monitoring and control of cash flow and liquidity of an organization is also a major challenge. The reduction of stock or inventory investment has always been recommendable ideology from many consultancy organizations, but still there are key challenges associated with such practices.

Reduction of companies stock is laden with several risks including losing of future potentials clients. Whereas maintaining of low stock/ inventory within the firm's premises and store could eminently unleash trapped cash, the invisible, unpredictable dynamics and volatility of markets are like to affect the company performance. That is low stock automatically triggers a decline in sales as result of frequent occurrence of underestimated of the stock held by the firms as compared to the demand needs. It feels embarrassing for clients to lack the products they need; hence situations of out-of-stock should be avoided by maintaining optimal stock (El-Erian, 2008). On the other hand, firms that have too much of their finances held-up in non-

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productive stock running in to difficulties to keep business running due lack of enough cash to cater for other expenses. The reduction of stock can therefore relieve small businesses from going through difficulty financial situations and incurring bad debts.

In addition, reduction of stock involve cutting down those production lines with the products of low demands. The shutting down of such production line reduces the company's costs of storage, premises and marketing by eliminating the related unnecessary expenses of production and operations. The operation of small British firms experiences severe problem of financials funding in times of recession. This result from the stringent lending procedures and policies required for loan extension. During this difficulty times, the Small British firms can access and fund their development from revenue reserves and profits generated from the sales to evade the high additional expense of interest rate imposed on bank loans or other lending organizations. This calls for appropriate understanding and knowledge of balancing the stock and sales as key factors of generating revenues that acts working capital.