

# In a recession, large firms are more likely than SMEs to resort to personnel cuts

[blogs.lse.ac.uk/businessreview/2016/01/15/in-a-recession-large-firms-are-more-likely-than-smes-to-resort-to-personnel-cuts/](http://blogs.lse.ac.uk/businessreview/2016/01/15/in-a-recession-large-firms-are-more-likely-than-smes-to-resort-to-personnel-cuts/)

1/15/2016

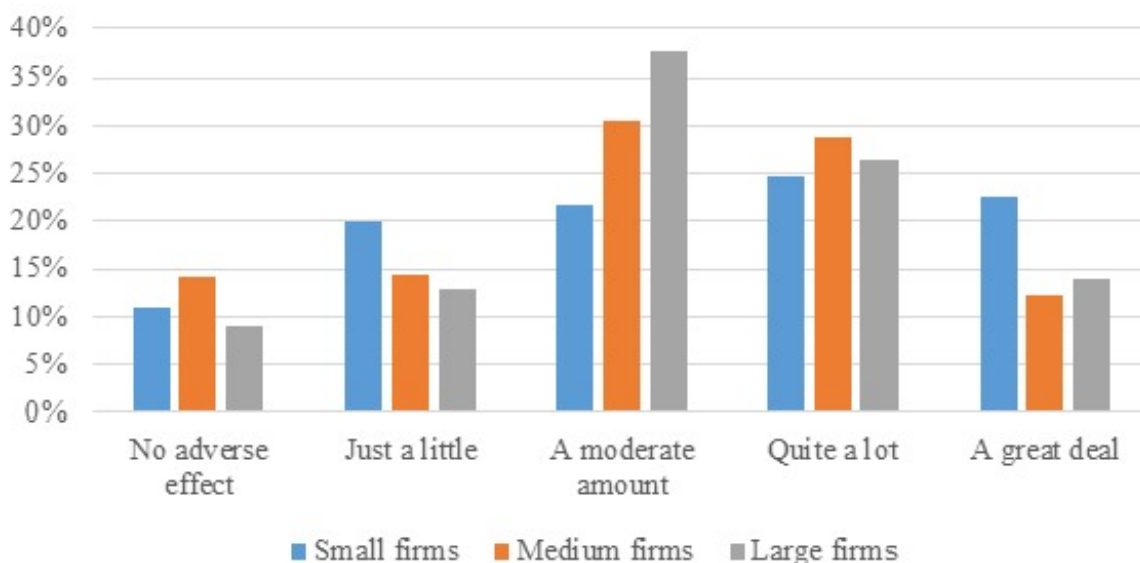


Contributing to 99 per cent of British business, small and medium-sized enterprises (SMEs) are considered to be the engine of the economic growth and are critical to rebuilding the British economy from the recent financial crisis. However, they are also particularly vulnerable to a volatile economic environment and more likely to experience churn even in a stable economy. In response to economic adversity both SMEs and large firms may seek to introduce a variety of cost-saving measures to maintain survival and resilience, as well as revenue-generating activities to explore the growth opportunities. The latest wave of government funded Workplace Employment Relations Surveys ([WERS2011](#)) provides an opportunity to examine both firm responses and employees' experiences of organisations in times of substantial economic and social uncertainty. It also allows us to compare HR responses in workplaces of different size.

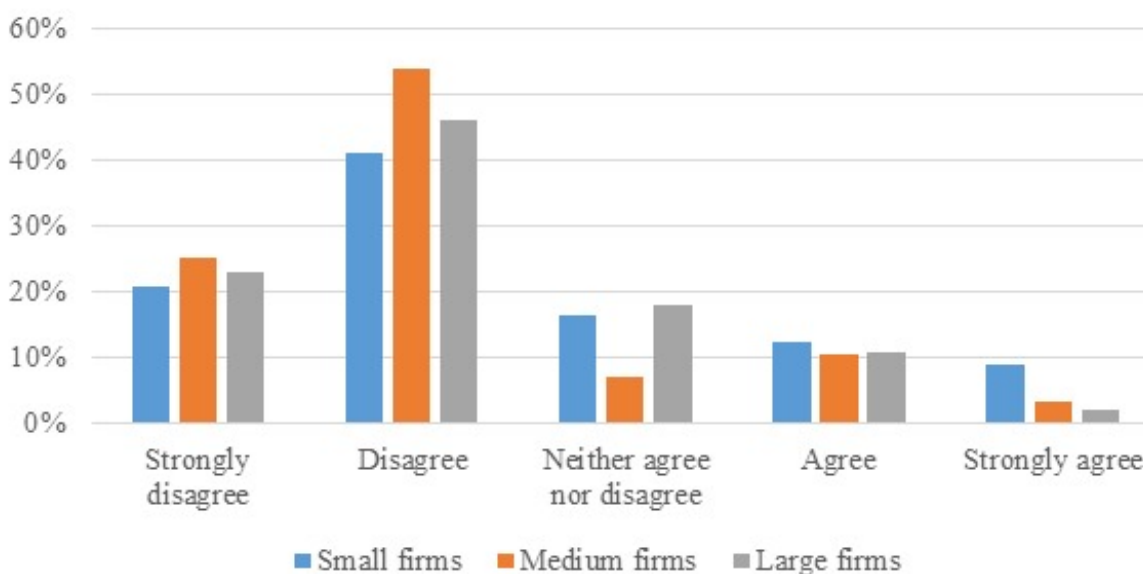
## ***Firm performance***

Given their relative resource poverty (finance, skills and network), weak external environmental control and limited options of financing, small firms are *a priori* more likely to experience hardship during an economic downturn than large corporate firms. Indeed, analysis of the WERS2011 reveals that smaller enterprises (5-249 employees) are more likely than their larger counterparts (250 and more employees) to be negatively affected by recent economic shock, with the group of the smallest firms (5-49 employees) having the worst experience (see Figure 1). Surprisingly, only a minority of small, medium and large firms blamed the recession for their poor performance (see Figure 2).

**Figure 1: The extent to which the firm has been adversely affected by the recession**



**Figure 2: This firm is now weaker because of its experience in the recent recession**

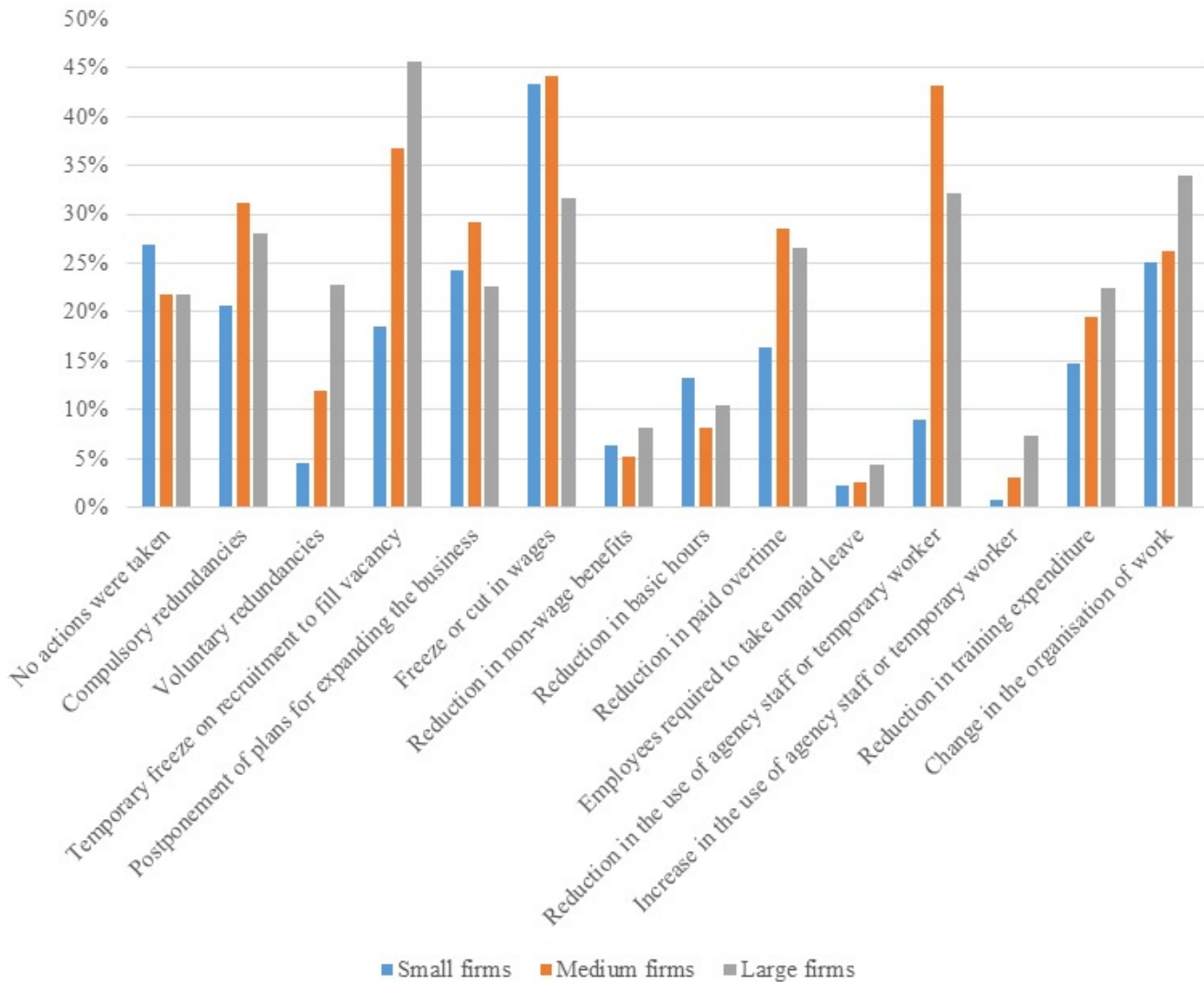


**Cost-saving HR responses: the firm-size effect**

The analysis suggests that in response to the challenges posed by the recession, the majority of surviving SMEs and large firms chose a strategy of HR retrenchment. This involves a variety of HR practices to reduce labour costs, including downsizing, cutting or freezing wages, reducing working hours, and reducing discretionary and fringe benefits (see Figure 3). For instance, large employers were more likely to lay off employees by introducing redundancies and freezing recruitment. In contrast, SMEs frequently opted to use cost-cutting measures by focusing upon pay and working hours. The choice of these HR practices is probably attributed to an informal HR system in smaller firms: HR decisions are more discretionary and flexible compared to larger organisations where HR policies

are set through formal HR structures and employment relations institutions (Broughton, 2011; Marlow et al., 2005).

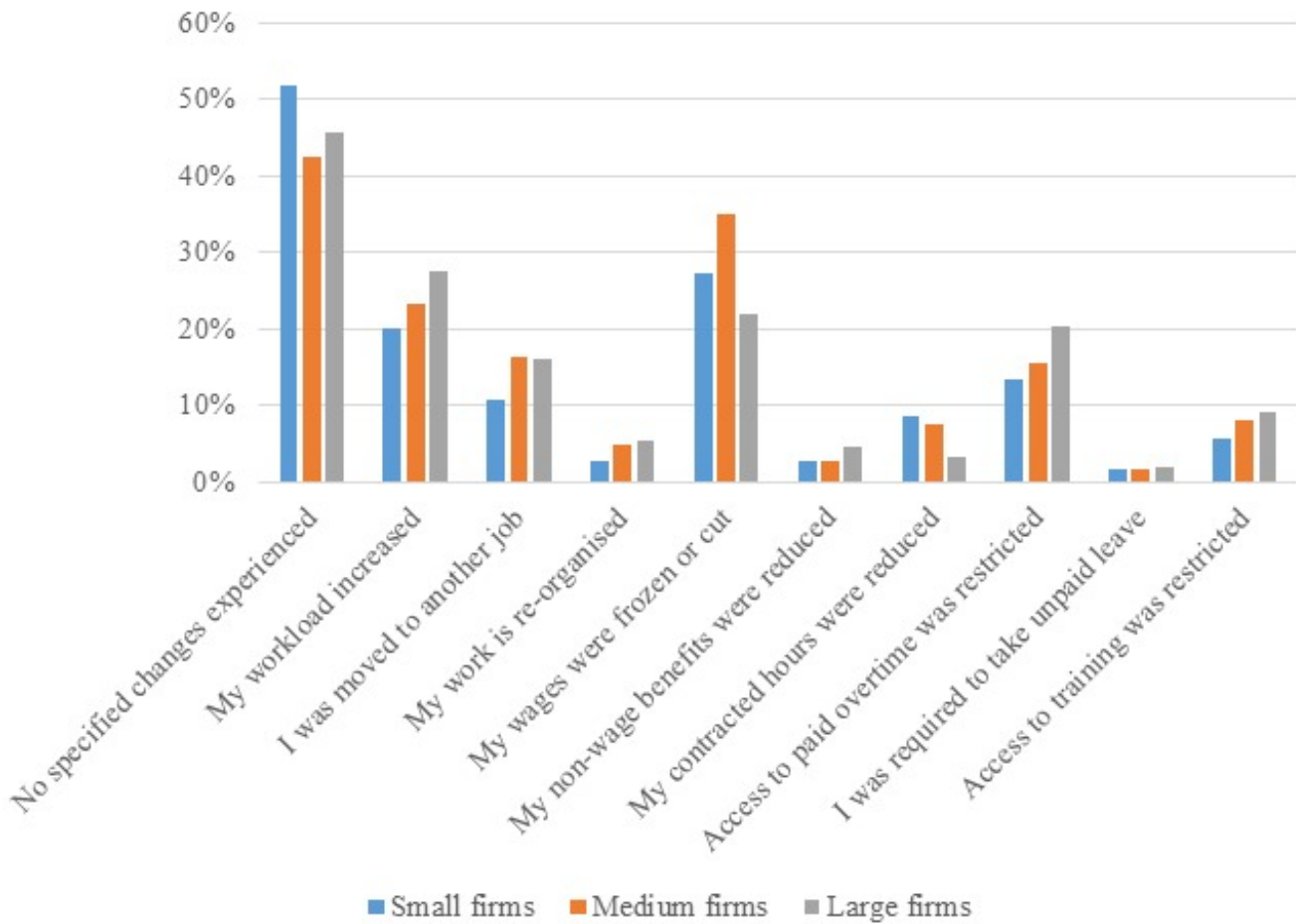
**Figure 3: Actions taken by British firms in response to the recent recession**



### ***Employees' experience of work***

Trade unions provide a means of regulating the employment relationship and ensuring the objectives and interests of both employers and employees in the British labour market (Heery, 2010, Johnstone and Ackers, 2015). It therefore seems logical to assume that employees in SMEs may be disadvantaged during difficult economic conditions, given the lower presence of trade unions and workplace representation. Surprisingly, WERS disclosed that small-firm employees were not necessarily more vulnerable than their larger firm counterparts. A bigger proportion of employees in small firms reported no changes at work, and only two out of the nine negative changes listed in the survey were more likely to be experienced by workers in small firms (i.e. cut or freeze in wages and reduced working hours) (see Figure 4); findings that corresponded to HR strategies adopted by their employers.

**Figure 4: Changes experienced by employees as a result of recession**



**Implications**

Despite being more resilient in times of recession, larger firms are generally more likely than smaller firms to take employment-related responses, possibly because of the higher presence of HR professionals and departments who can provide advice on HR strategies. Appropriately managing human resources can create a potential source of significant competitive advantage that may allow small firms to stay competitive and resilient during economic downturns, especially in accordance with their informality, flexibility adaptability nature. However, these results show that there is no single, strategic ‘fix’ for all firms and small and larger firms differ in their responses to HR management during a downturn.

A deeper analysis also shows that there is significant heterogeneity, diversity and complexity within the SME population itself. Many small firms, in particular those with 5-49 employees, have been struggling during the recent recession (see Figure 1) and their anticipated continued growth and contribution to the economic recovery can be problematic.

The above analysis has a number of possible implications at the level of the firm and for public policy related to entrepreneurship. First, the flexibility embedded in smaller firms is to be regarded as a strength rather than a weakness. This allows employers and employees to work flexibly rather than undertake structural shifts that can lead to lay-offs, as is more evident in larger organisations. Hence, encouraging small firms to be more structured in their HR procedures may indeed have a negative effect. For policy makers, the results suggest that more attention should be paid to understanding the distinctive challenges of managing human resources in small and micro firms. It

is important that the distinctiveness of the small employers' work setting is appreciated rather than promoting the introduction of simple one size fits all HR strategies and structures.



Notes:

- *Correction: This blog post from January 2016 has been amended to state the correct percentage in the opening line. It is 99% and not nine, as in the first version we published, due to a glitch in the editing process.*
- *This article is based on the authors' paper [Are the HR responses of small firms different from large firms in times of recession?](#), *Journal of Business Venturing*, Volume 31, Issue 1, January 2016, Pages 113–131.*
- *This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
- *Featured image credit: HR [woodleywonderworks CC-BY-2.0](#)*

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