BUSINESS CYCLE MANAGEMENT AND COMPANIES' PERFORMANCE: CURRENT KNOWLEDGE AND THE WAY FORWARD

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Abstract

Purpose: the purpose of the literature review is to analyse and critically assess current research in academia starting with the business cycle phenomenon and gradually narrowing down the analysis to the current research performed on business cycle management in order to summarize research gaps, highlight research possibilities and put forward recommendations for further research in terms of business cycle management and companies' performance indicators.

Approach: in order to reach the aim, the following method is utilized: systematic review of the literature and descriptive statistics via analysis of 47 journal articles, 11 books, 14 scientific conference proceedings and reports on business cycle management and the business cycle as such.

Findings: due to the recent global economic crisis, the researchers have paid particular attention to the business cycle mechanism and how this phenomenon is explained (Dobrescue, Badea and Paicu, 2012; Li, Rong and Wang, 2014; Gali, 2015; Anzoategui, 2015). The business cycle has an enormous impact on companies' sales, profits, cash flow and other financial indicators; however, in the management literature there is a lack of studies that focus on companies' performance and behaviour during the business cycle and look at the issue empirically (Navarro, Bromiley and Sottile, 2010; Lorange and Datson, 2014; Navarro, Sottile and Bromiley, 2008; Conti, Goldszmidt and Asconcelos, 2015). On the basis of the literature review, the authors conclude that there is a lack of holistic research in academia regarding business cycle management from a managerial point of view, a lack of cross-disciplinary, cross-country and cross-industry studies on this matter in the recent business cycle (Navarro et al., 2010; Conti et al., 2015; Kaya and Banerjee, 2012). As can be seen from the literature review, in academia several studies have been carried out on specific business cycle phases and specific factors of business cycle management, not looking at the phenomenon holistically and with concluding factors that are more or less significant.

Research implications: the literature review demonstrates that in academia business cycle management is a topic that has several limitations, such as sample size, the fact that no countrywide comparisons are taken into account, nor how economic dynamics influence business cycle management in different industries and countries, and the fact that no heterogeneous business cycle management model has been developed; in general, research on business cycle management and companies' performance is arguably the least developed research stream in all of management scholarship (Navarro et al., 2010; Conti et al., 2015; Abbasoglu, Genc and Mimir, 2015).

Originality: the article summarizes and classifies measurements of companies' performance that are used in business cycle management literature and summarizes the main business cycle associations, providing a holistic view of business cycle management factors. In addition, the article concludes that there is a lack of research that encompasses a common set of companies' performance indicators and provides a heterogeneous model of business cycle management that encapsulates industry-sensitive factors and the factors' significance.

Paper category: Literature review

Received: 16th April 2019 Revised: 11th June 2019 Accepted: 18th October 2019

Keywords: business cycle management, financial indicators, companies' performance**,** sustainability

INTRODUCTION

The aim of the literature review is to summarize and categorize current business cycle associations or factors that are used by businesses to cope with business cycles. In addition, the literature review identifies research gaps in academia and presents a roadmap for further research. In academia several authors have conducted research regarding business cycle management, namely Peter Navarro and several co-authors, who are some of the first authors to look at the phenomenon holistically (Navarro, 2005; Navarro, 2006; Navarro, Bromley and Sottile, 2008; Navarro and Autry, 2009; Navarro, 2009; Navarro et al., 2010). Other authors in the literature review have looked at the phenomenon either in terms of a specific business cycle phase and/or a specific business cycle association, e.g. a marketing mix. In the next paragraphs the authors will present the business cycle phenomenon and narrow it down to the business cycle management phenomenon.

Literature in the macro-economy regarding the business cycle is well established and the phenomenon of the business cycle dates back to 1819, when Jean Charles Léonard de Sismondi made the first systematic observation of the business cycle. Other milestones include Adam Smith, who argued in 1776 that natural market forces create an economic equilibrium; Jean-Baptiste Say, who claimed that the market would balance demand and supply naturally; Robert Owen, who in 1817 identified over-production and under-consumption as the causes of economic downturns; Charles Dunoyer, who in the 1820s identified the cyclical nature of the economy; and John Maynard Keynes, who argued in 1936 that government spending is crucial to avoid economic fluctuations (Mirowski, 2015; Johnson, Scholes and Whittington, 2007, 2011; Metcalf, 2012).

The definition of the business cycle has several interpretations, but one consensus is very clear: that business cycles are fluctuations in economic activity (Johnson et al., 2007, 2011; Black, 1981; Metcalf, 2012; Mascarenhas and Aaker, 1989; Zarnowitz, 1984). Business cycles in essence are fluctuations in GDP and can vary from more than one year to ten or twelve years (Banerji, Layton and Achutan, 2012; Moore and Shiskin, 1967; Sherman and Sherman, 2008; Johnson et al., 2007). The business cycle has four main phases: expansion, peak, contraction (recession) and trough (Johnson et al., 2007, 2011) (Figure 1). There are several theories that are built around the business cycle mainly focusing on the reasons that lie behind business cycle fluctuations, such as the monetary and credit system, investments, innovations, income, output and investments, and economic growth; thus, no two business cycles are alike (including in length) (Johnson et al., 2007, 2011; Metcalf, 2012). In terms of business cycle management, research on actions performed by businesses is carried out just before the peak (e.g. one year prior) and just after the through (e.g. one year after); thus, in the context of the last economic crisis, it would be from 2006 to 2010, according to the National Bureau of Economic Research, since recessions start at the peak of a business cycle and end at the trough (NBER, 2016). Taking into account the main effects of business cycles, and by summarizing and classifying current research in academia, the authors have chosen to focus on how businesses manage their operations during different business cycle phases and how they can consequently improve their sustainability or even gain a competitive advantage by utilizing business cycle management.

Thus, as mentioned, research regarding the business cycle is established; however, ways management can utilize business cycle theory from a managerial standpoint has somehow been missed in academia (Navarro et al., 2010; Lorange and Datson, 2014; Navarro et al., 2008; Conti et al., 2015). Business cycle management (further in the text – BCM) is a term that encompasses the strategy of applying countercyclical actions and, if applied in a timely manner during different business cycle phases, it can improve companies' performance relative to their competitors (Dhalla, 1980 cited by Navarro et al., 2010). In essence, BCM's aim is to utilize the business cycle phenomenon via a countercyclical response to different business cycle phases (Navarro et al., 2010). It must be emphasized that according to Navarro et al. (2010), a response to business cycle phases does not necessarily involve forecasting macroeconomic movements; rather, it entails timeliness.

The business cycle has an enormous impact on companies' sales, profits, cash flow and other financial indicators; however, in the management literature there is a lack of studies that focus on companies' performance during the business cycle and look at the issue empirically (Navarro et al., 2010; Lorange and Datson, 2014; Navarro et al., 2008; Conti et al., 2015). The majority of the research in academia focuses on the analysis of one area – marketing, R&D, staffing or capital expenditures – in

terms of business cycle management and does not look at the issue holistically (Conti et al., 2015; Navarro et al., 2010; Navarro et al., 2008). Several researchers in academia argue that companies can take advantage of the business cycle through countercyclical behaviour (Navarro et al., 2010; Abbasoglu et al., 2015; Escribano and Stucchi, 2013; Kaya and Banerjee, 2012; Navarro et al., 2008; Yiannopoulos, Giannopoulos, Tsirkas and Kampouridis, 2015). For example, expanding advertising in a recession could help firms take advantage of lower advertising costs; hiring during a recession allows firms to hire better workers at lower wages; investment in R&D companies that upgrade their products to match new demand in a recession may perform better; and acquisition of other companies during a recession for lower prices tends to work out better after the recession period (Dhalla, 1980; Greer, 1984; Greer et al., 1989; Greer and Stedham, 1989; Greer and Ireland, 1992 cited by Navarro et al., 2010; Conti et al., 2015). Thus, a recession can be an opportunity to achieve faster and easier cultural change, to examine company values and review managerial control to unlock potential within the organisation in order to maximise wealth, creating the ability to conserve resources, which suggests that redundancy and cutbacks in training are not appropriate survival techniques during a recession (Choppin, 1991; Katzenbach and Bromfield, 2009; Conti et al., 2015; Navarro et al., 2010).

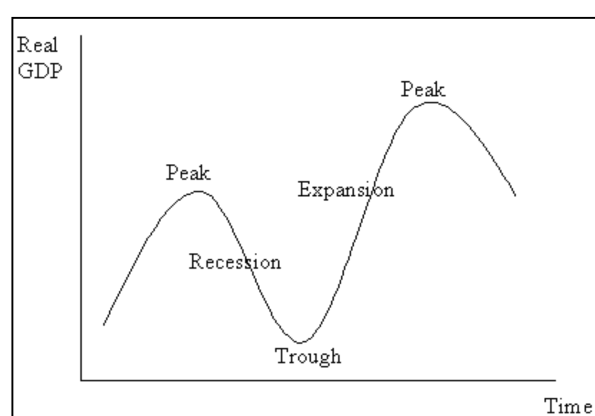

Figure 1. High-level view of the business cycle
Source: Johnson et al. (2007, 2011)

Thus, taking into account the previously stated information, the authors will identify business cycle management and review the current literature regarding business cycle management and companies' performance. The aim of the literature review is to analyse, classify and critically assess current studies starting with the business cycle phenomenon and gradually narrowing down the analysis to the current research on business cycle management in order to summarize research gaps, highlight research possibilities and put forward recommendations for further research in terms of business cycle management and companies' performance indicators.

THEORETICAL FRAMEWORK OF THE RESEARCH

The research is based on theoretical research methods, which include a systematic literature review and analysis methods. The literature review follows the guidelines below (Jesson, Matheson and Lacey, 2011; Clark, Wilkie and Szivas, 2010; Hart, 1998; Saunders, Lewis and Thornhill, 2012):

1. Definition of the research subject;
2. Identification of the research aim;
3. Development of research tasks;
4. Choosing a research method;
5. Identification of the relevant sources (e.g. journal articles, books, conference proceedings);
6. Systematically summarizing current literature using classification systems;
7. Creation of a conceptual schema;
8. Carrying out analysis, summarizing results and drawing conclusions.

Following these literature review guidelines , and after summary, analysis and synthesis of the information, the article will provide an overview of current trends and research in academia as well as

grounds for potentially identifying research gaps and making recommendations, including a theoretical framework and rationale, for further research.

ANALYSIS OF THE RESEARCH RESULTS

In order to systematically summarize, analyse, record and locate similarities and differences in the current research, the authors utilize a summary of the "record sheet" method as suggested by Hart (1998). In the record sheet in Table 1, the following main aspects are summarized in order to provide a structure that is easy to read and follow with the aim of summarizing the main financial indicators and business cycle management associations that are used in recent studies so as to analyse companies' performance and behaviour over different business cycle phases. It should be noted that the time period for the summary that is included in Table 1 is 2008 to 2016, since this literature review is broadly based on the literature review of Navarro et al. (2008) and continues to revise it further. In addition, some articles do not cover the whole business cycle – rather, they cover just a phase of it – and due to the scarcity of research on business cycle management. such articles are included in Table 1 as well. One of the main aspects of Table 1 is the last column, "Set of factors", which summarizes associations and effects of business cycle management from the articles. This column includes information on how different scholars utilize different associations to explain possible effects on companies' financial performance during different business cycle phases. The term "association" is used instead of "cause", as mentioned in the introduction, due to the lack of holistic research carried out in academia and in order to state a certain causality between BCM factors and financial performance indicators.

Table 1

Summary of literature on business cycle management

No.	Author/date	Theory/standpoint	Evidence	Argument	Set of factors
1.	Conti et al., 2015.	Strategies for superior performance in recessions: pro or counter-cyclical? Research on Brazilian firms in the 2008-2009 global recession.	Questionnaire including reverse-coded items and partial least squares path modelling.	The article finds that while most firms pro-cyclically reduce costs and investments in recessions, a counter-cyclical strategy of investing in opportunities created by changes in the market enables superior performance. The most successful firms are those with a propensity to recognize opportunities, an entrepreneurial orientation to invest, and the flexibility to implement investments efficiently.	Association: Staffing; Production; Purchasing; Marketing investments; Pricing; R&D investments; Credit policy; Capital expenditures in fixed assets; Acquisitions. Effect: Operating revenue; Operating profit; Net profit; Cash flow; Market share.

2.	Yiannopoulos et al., 2015.	The relationship between total quality management (further in the text – TQM) and financial performance of Greek companies in the structural construction sector in the crisis period. Research on Greek structural construction during the years 2008-2011.	Various statistical methods.	The aim of the study is to investigate an important problem: What is the impact of ISO 9001:2008 certification and Process Management practices on the financial performance of companies in the structural construction industry during the years of deep economic recession in Greece (2008-2011).	Association: TQM. Effect: Liquidity; Efficiency; Profitability; Solvency.
3.	Heerde, Gijsenberg, Dekimpe and Steenkamp, 2013.	Price and advertising effectiveness over the business cycle. Research on 150 brands across 36 consumer packaged goods categories, using 18 years of monthly U.K. data from 1993 to 2010.	Phillips-Perron test and unit root tests.	The study investigates the business cycle's impact on the effectiveness of two important marketing instruments: price and advertising.	Association: Sales elasticity; Advertising elasticity; Price. Effect: Sales.
4.	Kaya and Banerjee, 2012.	The impact of the business cycle on retail and wholesale firms' asset values, leverage ratios and cash flows: evidence from US listed firms of the 2001 recession.	Mean, median, st. deviation, wilcoxon.	The study focuses on the impact of the 2001 recession on firms' short-term assets and liabilities and analyses differential effects of long-term debt and cash flow levels among retail and wholesale firms over the business cycle.	Association: Asset liability management; Cash flow tactics. Effect: Better management of inventory; cash balance; account receivables; account payables; current liabilities; long-term debt; net working capital; cash flows.
5.	Srinivasan, Lilien and Sridhar, 2011.	Should firms spend more on research and development and advertising during recessions? Research on U.S. firms for the period 1969–2008 in recessions, including 10,580 firm years.	Empirically tested contingent model (contingent effect and marginal effect).	The authors investigate whether firms should spend more on research and development and advertising via analysing its impact on companies' profits during recessions.	Association: R&D expenses; Advertising expenses. Effect: Profits; Stock returns.

6.	Little, Mortimer Keene and Henderson, 2011.	Evaluating the effect of a recession on retail firms' strategy using the DuPont method: 2006-2009. Research on 111 companies in the United States.	DuPont method.	The findings of the research suggest that retail firms pursuing a differentiation strategy are not more likely to achieve a higher return on net operating assets than firms pursuing a cost leadership strategy in a recessionary period.	Association: Type of business strategy (cost leadership and differentiation). Effect: Return on net operating assets.
7.	Navarro et al., 2010.	Business cycle management and firm performance: tying the empirical knot. Research on a sample of 35 pairs of high vs. low performers from the S&P 500.	Discriminant analysis and conditional logit analysis; Likert scale scoring.	The business cycle strongly influences corporate sales and profits, yet strategy research largely ignores the possibility that corporate management practices related to the business cycle influence profitability. In essence, argues how within a set of financial indicators countercyclical behaviour provides a competitive advantage.	Association: Staffing; Production and inventory control; Supply chain management; Capital expenditures; Capital financing; Acquisitions and divestures; Account receivable and credit management; Pricing the cycle; Advertising and product mix. Effect: Sales; Profits.
8.	Several authors cited by Navarro et al. (2008)	Strategic business cycle management and organizational performance: a great unexplored research stream.	Literature review.	The study explores research carried out in academia (1936 – 2008 regarding BCM activities by functional area mainly in the recession phase, from where BCM associations are extracted).	Association: Advertising and product mix; Staffing; Production and inventory; Capital expenditures; Acquisitions and divestures; Accounts receivables and credit management; Pricing. Effect: Sales; Profit.

Source: constructed by the authors based on Hart (1998)

In addition to Table 1 the authors utilize the "concept map" (Figure 2) method in order to organize approaches in business cycle management research and illustrate linkages between them (Hart, 1998; Jesson et al., 2011; Clark et al., 2010). A concept map is useful in that it constructs relationships between ideas and practices and offers a convenient way to classify them (Hart, 1998).

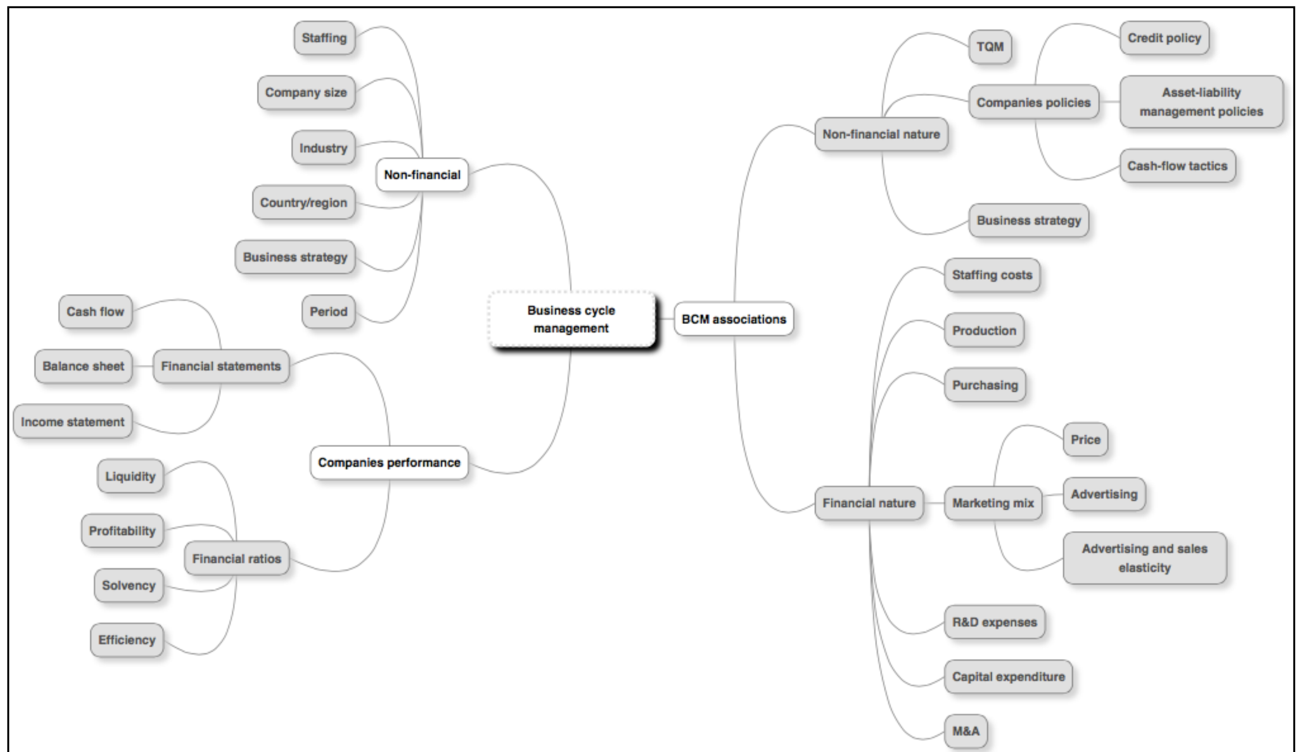

Figure 2. Concept map of business cycle management indicators
Source: Hart (1998), Jesson et al. (2011), Clark et al. (2010), constructed by the authors

As can be seen from Figure 2, high-level taxonomies can be identified: factors that are related to companies' performance, financial data from companies' financial statements (e.g. sales, profit, etc.), financial ratios and non-financial data such as business strategy, quality management, industry, country, etc.

According to the literature review it can be stated that different authors do indeed focus on different aspects of business cycle management. For instance, Conti et al. (2015) argues that cost reduction and investments are procyclical; however, countercyclical behaviour, if performed correctly, shows better results investment-wise. Other authors such as Yiannopoulos et al. (2015) look at how quality management impacts a financial company's performance during an economic crisis, whereas Heerde et al. (2013), for instance, look at how price and advertising can be utilized in different business cycle phases to enhance a company's financial performance. Research by Kaya and Banerjee (2012) looks at how a recession impacts companies' short-term assets and liabilities, focusing on wholesale companies. Srinivasan et al. (2011) combine interesting aspects such as advertising and R&D to investigate whether firms should spend more during a recession. Little et al. (2011) focus on the strategic point of view and research how different business strategies perform in a recession. As mentioned earlier, Navarro et al. (2008; 2010) look at several factors from business cycle management and argue that the right execution of business cycle associations can provide companies with a competitive advantage.

The literature review shows (as can also be seen in Table 1) that research is mainly carried out within the limits of one industry, rather than several industries, in order to develop a possible heterogeneous business cycle management model determining generic and industry-specific factors (Conti et al., 2015; Navarro, 2010). In addition, it can be seen that there is a lack of focus on soft factors in the current literature that would encapsulate qualitative research with the management of companies to expose whether actions that are performed by companies are accidental or based on company business cycle management policies (Parnell et al., 2012). Moreover, in terms of financial indicators, it can be concluded that there is relatively high fragmentation; in some studies only a few financial indicators are taken into account, whereas in others, several financial indicators are taken into consideration that offer a more advanced view of companies' performance and possible associations of successful business cycle management (Parnell et al., 2012; Navarro et al., 2010). In addition, most studies look at only one phase of the business cycle, mainly the recession, and do not take into account pre-recession and post-

recession phases. Also, what the authors noticed during the literature review was that there is no scientific discussion determining the more important factors (associations) and their interrelationships.

According to the literature review, current research in academia has several limitations, such as sample size and the fact that no countrywide comparisons are taken into account nor how different macroeconomic dynamics influence business cycle management in different industries in different conditions (Navarro et al., 2010; Lorange and Datson, 2014; Navarro et al., 2008 Conti et al., 2015).

Consequently, based on the literature review, the authors conclude with recommendations for further research:

1. Test the impact of business cycle management on a larger data set (e.g. geographical area, industry, company size);
2. Test the impact of the business cycle using countrywide comparisons with a focus on macroeconomic factors that have shaped the business cycle;
3. Include additional BCM behaviours such as changes in operational efficiency, business strategy and cross-sectional analysis of companies' financial statements (Navarro et al., 2010);
4. Within a study, include both managerial insights (soft factors) and financial factors (hard factors);
5. Include more emphasis on financial ratios, including liquidity ratios, solvency ratios, efficiency ratios, profitability ratios, market prospect ratios, financial leverage ratios and coverage ratios;
6. Through carrying out holistic research, it would be possible to identify industry-sensitive and generic factors that have associations with BCM and, as a result, develop a heterogeneous business cycle management model and indicate which of the factors are more or less significant.

CONCLUSIONS

All in all, it can be concluded that research on business cycle management is fairly fragmented and lacks a holistic view of the phenomenon. Within the paper, the authors have analysed and assessed current research in academia starting with the business cycle phenomenon and gradually narrowing down the analysis to the current research on business cycle management, identifying research gaps, highlighting research possibilities and putting forward recommendations for further research in terms of business cycle management and companies' performance indicators. In addition, high-level classification of financial, non-financial and business cycle management association factors has been performed that may be a groundwork for further research. As several academics have stated in their work, there is a lack of holistic and comprehensive research performed in academia regarding business cycle management and no heterogeneous model of business cycle management behaviour has been developed; thus, in the business cycle management area there is potential for further research in order to add value to management studies.

All things considered, it must be taken into account that when economics (especially at the micro level) is involved in any research, it raises many questions. It has been argued that "ultimately, all differences between companies in cost or price derive from the hundreds of activities required to create, produce, sell and deliver their products and services..." (M. Porter, 1996 cited in Wentzel, 2001). Thus, causation within the business cycle management phenomenon must be taken with caution, as already indicated in the literature review by other authors, and more emphasis should be placed on price and costs in combination with other factors; nevertheless, despite some scepticism in microeconomics theory, it is still widely used (especially methodologically) by businesspeople and academics and is a fundamental part of economic theory and a firm's strategy (Wentzel, 2001; Johnson et al., 2007; Kermally, 1999).

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