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Turning adversity into advantage: Does proactive marketing during a recession pay off?

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Abstract

Recessions can severely affect the performance of firms, and even their very survival. However, all firms are not equally affected by a recession. Some firms view recessions as opportunities to strengthen their businesses, invest aggressively and establish their advantage over their weaker competitors, whereas others cut back, waiting for the recession to pass. Why do some firms view the recession as an opportunity and develop an aggressive marketing response to it? What are the effects of such a marketing response on the performance of the firm? These are the two central questions we address in this paper.

We propose a new construct, which we call proactive marketing in a recession, as the firm's interpretation of the recession as an opportunity (opportunity interpretation) and development and execution of a response to capitalize on the perceived opportunity created by the change (offensive response). We develop and test a model of the antecedents and consequences of proactive marketing during a recession.

The results of a survey of 154 senior marketing executives show that some firms do indeed adopt proactive marketing during a recession. Both organizational and environmental contexts influence firms' proactive response to a recession. Firms that have a strategic emphasis on marketing, an entrepreneurial culture, and slack resources are proactive in their marketing activities during a recession, while the severity of the recession in the industry negatively affects proactive marketing response. In addition, firms that have a proactive marketing response in a recession achieve superior business performance even during the recession.

Our results suggest that not all firms do, or should, respond in a proactive manner during a recession. Those firms with a strategic emphasis on marketing already have programs in place (e.g., well-recognized brands, differentiated products, targeted communications, good support and service, etc.) that enable them to derive benefits from a proactive marketing response during the recession.

Keywords: Recession; Proactive marketing; Structural equation model; Marketing strategy

1. Introduction

Business cycles, in general, and recessions in particular, can severely affect the performance of

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individual firms, industries and entire economic sectors (Domowitz, Hubbard, & Peterson, 1988; Gabisch & Lorenz, 1987; Zarnowitz, 1985). However, not all firms perform poorly or fail during recessions—some firms prosper and even grow.[1] Some firms view recessions as opportunities to strengthen their businesses, invest aggressively and overtake their weaker competitors. For example, brands, such as Camel cigarettes and Chevrolet, seized top market positions from their competitors through aggressive marketing campaigns during the Great Depression in the US in the 1930s. Procter and Gamble, a company noted for consistent spending during periods of recession, heavily promoted some of its best-known brands (e.g., Camay, Ivory, and Crisco) at that time. Other firms (e.g., GM's Saturn Division, and Intel Corporation) invested during the 1990–1991 recession to improve their competitive position, with Intel launching its "Intel Inside" brand-building program, aggressively promoting the brand when there was little advertising competition. Likewise, DeBeers aggressively launched its "Shadows" campaign globally during the recession of 1989–1990. Renault aggressively introduced its Clio brand with the second highest price point in the category and Barclaycard initiated an aggressive brand re-launch, aimed at increasing market share through customer acquisition (along with a new fee) during the depths of the same recession. We observe a similar response by firms in the most recent recession, where some firms (e.g., BMW, Cisco, Dell, and, Wal-Mart) view the recession as an opportunity, and invest aggressively, hoping to capture market position from their weaker competitors. As a senior Intel executive put it recently "the belief at the company is that you don't save your way through a recession."[2] We address two central questions in this paper: First, why do some firms view a recession as an opportunity, and develop an aggressive marketing response to it? Second, what are the effects of such a marketing response on the performance of the firm?

These questions are important for both managerial practice and theory. Business cycles are a common occurrence in the world's major economies: there have been eleven recessions in the U.S. in the 58 years since World War II, indicating that, in the US alone, recessions occur once every six years or so (http://www.nber.org). Even though a recession may be triggered by events in a single sector (e.g., the dot-com bust is purported to have started the most recent recession in the US), firms across industries, sectors, and countries feel its effects. Despite the severe effects of recessions on firms' performance, we know little about what constitutes an appropriate marketing response during those challenging times. Several observers, (e.g., American Business Press, 2002; McGraw-Hill Research, 2002; Strategic Planning Institute, 2002), suggest that firms that invest during recessions see significant benefits. In a similar vein, Barwise (1999) notes that some firms either maintain or increase their marketing spending during difficult economic times. However, most firms cut back drastically on marketing expenditures during such times (Barwise & Styler, 2002; Picard, 2001), as evidenced by the deepest cutback in spending in 75 years in the US advertising industry associated with the most recent recession (http://www.adage.com).

Academic research in this area offers weak and equivocal insights. A review of the leading marketing journals identified three articles (Coulson, 1979; Cundiff, 1975; Yang, 1964) addressing issues related to recessions, none of which were published in the last 20 years. More recent reports (Goodell & Martin, 1992; Shama, 1993) provide limited insights ("build a recession marketing plan based on the firm's strategic capabilities" and "response to the recession varies by geography, sector and firm size.") with limited theoretical support or generalizability. Based on the PIMS database, Hillier (1999) finds that strong firms generally benefit from investments in marketing but suffer from cost reduction initiatives. He cautions, however, that there is no panacea, indicating that for some firms with certain business characteristics, the best strategy would be to cut back on marketing spending during a recession, but he provides no generalizable results. We need studies to bridge the gaps in our understanding of the appropriate choice and relative effectiveness of marketing response in

[1] In the US and in EU countries, a recession is defined as two consecutive quarters of a decline in real Gross Domestic Product, although the National Bureau of Economic Research (NBER) has recently developed other indicators of recession based on monthly indicators for the US.

[2] Joseph Miner, President of Intel Capital and Vice-President of Intel Inc. Quoted in Newsweek, 17 Nov 2003, p E12.

recessions, and to generate insights that can guide firms in their decision making during recessions.

The environment plays a major role in shaping firms' business strategies (Lane & Lubatkin, 1998; Miller, 1988; Teece, Pisano, & Shuen, 1997; Weick, 1979). Extending this theoretical viewpoint, we propose that some firms engage in proactive marketing, viewing the recession as an opportunity and develop marketing strategies to capitalize on the perceived opportunity. The operational unit of analysis for proactive marketing is the strategic business unit (SBU); in the rest of the paper, we use the terms organization, firm and business interchangeably to refer to the SBU.

Organizational and environmental characteristics are major determinants of a firm's strategic behavior, its resource deployment, and its performance (e.g., Conant, Mokwa, & Varadarajan, 1990; Menon, Bharadwaj, Adidam, & Edison 1999). Accordingly, we hypothesize that organizational and environmental traits will influence the extent to which a firm will pursue proactive marketing in a recession. In addition, we hypothesize that proactive marketing will positively influence the firm's performance using the recession.

Using the most recent recession as the context, we develop and test a formal model of the antecedents of proactive marketing in a recession and its effects on business performance. We collected data during the second and third quarters of 2002 from a sample of 154 executives in US business-to-business (B2B) SBUs to assess our model and test a series of hypotheses. We find that organizations with a strategic emphasis on marketing, an entrepreneurial culture, and slack resources engage in proactive marketing during a recession. In addition, we find that organizational and environmental characteristics moderate how a strategic emphasis on marketing impacts the firm's proactive marketing response in a recession. We also find that proactive firms achieve superior business performance in a recession. Thus, for the firms in our sample, it pays to deploy a proactive marketing strategy during a recession if they have the supporting resources and capabilities.

We proceed as follows. In the next section, we define proactive marketing and then present our conceptual framework, hypotheses, and model for the antecedents of proactive marketing and its effects on the firm's performance. In subsequent sections, we describe the method we use to calibrate and test our model, and present the results of our analyses. We conclude by discussing the implications of our findings for theory and practice, summarizing the limitations of the study, and identifying directions for future research.

2. Theory

We developed the construct of proactive marketing based on several theoretical developments in the strategy literature. Past research (e.g., Miller, 1987; Miller & Friesen, 1983; Weick, 1979) has conceptualized and empirically demonstrated that the environment plays a significant role in inducing firms to adapt, with attendant consequences for firm performance. Others (e.g., Bourgeois, 1984; Child, 1972) go further, suggesting that organizations proactively manipulate their environments or create new environments (e.g., by exploiting technology developments, bringing about market changes) to achieve their objectives.

Drawing upon these viewpoints, we suggest that firms differ both in the extent to which they view a recession as an opportunity and in their ability to develop a marketing response to capitalize on the perceived opportunity. To borrow from a common sporting metaphor, athletes often choose times of stress to mount attacks ("When the going gets tough..."): strong runners and bicycle racers may increase their pace on hills or under other challenging conditions. A strong American football team often employs a punishing ground attack late in a game when an opponent is tired. Hence, proactive marketing includes both the sensing of the existence of the opportunity (a tough hill and fatigued opponents) and an aggressive response (possessing the necessary strength or nerve) to exploit the opportunity. We define proactive marketing in a recession as the organization's interpretation of the recession as an opportunity (recession opportunity interpretation) and the development and execution of a response to capitalize on the perceived opportunity created by the change (offensive marketing response).

Recession opportunity perception is the firm's assessment of a general economic downturn as an opportunity. Research by Dutton and Duncan (1987) and Dutton and Jackson (1987) suggest that how an organization perceives a change in the environment (in this case a recession) significantly affects both the level and the type of response. Firms that view a recession as an opportunity perceive that they have control over both the situation and the resultant outcome, and, therefore, invest during the recession (e.g., building marketing assets). Firms that consider the recession a threat, perceive a lack of control over the situation and the resultant outcome, and respond by conserving resources.

Offensive marketing response is the firm's development and execution of a marketing plan to capitalize on the perceived opportunities created by the recession. By itself, perceiving the recession as an opportunity is not enough to make a firm proactive—the firm must also be able to develop and implement a marketing program to capitalize on the perceived opportunity. Marketing response to a recession includes both the scope (extensiveness) and speed at which the firm deploys marketing resources.

Thus, proactive firms are in an enactment mode (Daft & Weick, 1984; Srinivasan, Lilien, & Rangaswamy, 2002) with respect to the recession, taking the necessary strategic actions to capitalize on it. Their marketing plans will be modified to exploit the changes in the environment. Proactive marketing may also be viewed as a manifestation of dynamic capability (Teece et al., 1997), whereby the firm leverages internal resources and capabilities (i.e., its marketing plan and investments) and external constraints (i.e., the recession) to cope with the changes in the marketplace. Proactive marketing may be viewed as an outside-in boundary spanning behavior in the framework of Day (1994), wherein the firm senses changes in the environment because of the recession and harnesses these changes for its benefit by investing in marketing.

3. Hypotheses

Firms' traits are major determinants of their strategic behavior, resource deployment and performance. Organizational traits of firms including strategic type (Conant et al., 1990; Gatignon & Xuereb, 1997), organizational culture (Deshpandé, Farley, & Webster, 1993), innovativeness (Menon et al., 1999), and strategic flexibility (Grewal & Tansuhaj, 2001) influence their strategic behaviors with significant implications for firm performance. For example, Menon et al. (1999) find that certain organizational traits (e.g., centralization, formalization and innovative culture) affect the process of marketing strategy making (e.g., situation analysis, strategy consensus commitment, and strategy resource commitment) which, in turn, influences firm outcomes (e.g., organizational learning, market performance). Accordingly, we theorize that a firm's organizational traits will influence its proactive marketing during the recession, in turn, influencing its business performance.

Consistent with past research on organizational sense-making (Chattopadhyay, Glick, & Huber, 2001; Daft & Weick, 1984; Weick, 1979), we develop a contingency-based framework, incorporating a firm's strategic profile, its entrepreneurial culture, its availability of slack resources and the severity of the recession facing the industry as antecedents of proactive response in marketing and link that response to the firm's business performance. We also hypothesize moderating effects of (1) entrepreneurial culture, (2) availability of slack resources and (3) the severity of the recession facing the industry on the effects of a firm's strategic emphasis on marketing on its proactive response to a recession. Fig. 1 summarizes the conceptual model.

3.1. Strategic emphasis on marketing

Firms that place a high strategic emphasis on marketing use market segmentation, positioning and branding, and marketing communications to create a distinct, favorable image for their offerings relative to those of competitors (Miller, 1988; Moorman & Rust, 1999). For such firms, marketing activities help generate price-premiums and higher customer loyalty, resulting in superior market performance (e.g., higher market share and more loyal, stable customer base), while also providing superior value to their consumers.

We hypothesize that factors both internal and external to the firm induce firms with a strategic emphasis on marketing to exhibit proactive marketing

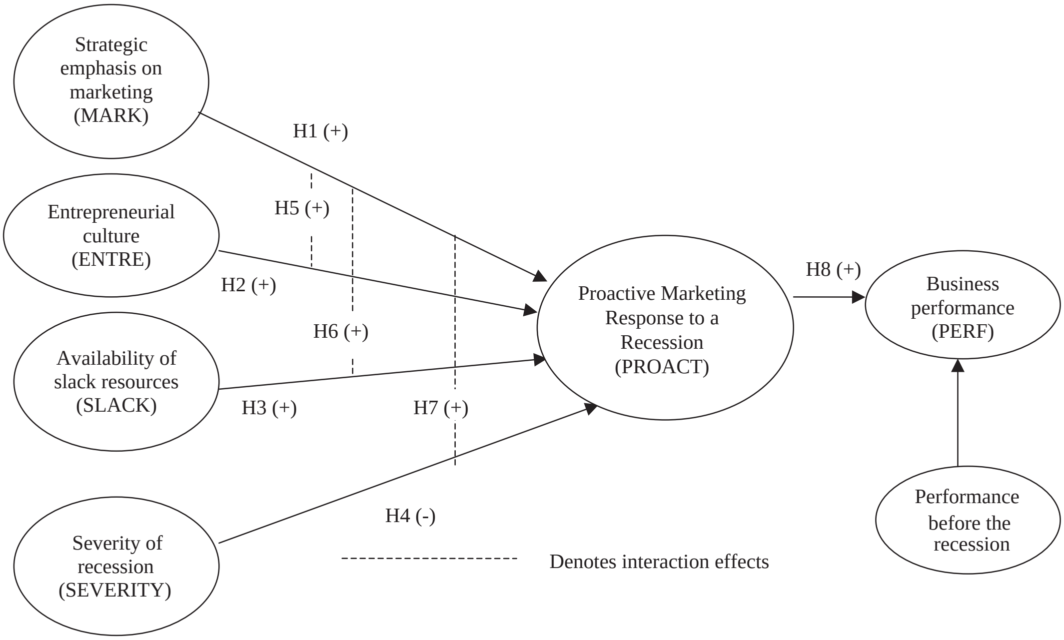

Fig. 1. Model of proactive response in marketing in a recession and relation to hypotheses.

in a recession. Because of their historical strategic emphasis on marketing differentiation and investments in marketing, senior executives (not just those in the marketing function) in such firms appreciate the importance of, and the process by which marketing investments help their firms achieve superior performance. And, given the strategic role of marketing in providing a competitive advantage in those firms, marketing executives wield significant influence on resource allocation decisions (Hitt, Ireland, & Palia, 1982; Homburg, Workman, & Krohmer, 1999). In addition, non-marketing executives in such firms are likely to understand and appreciate the role marketing investments play in buffering the firm's response to a recession and the resultant downward pressure on prices. Thus, even non-marketing executives in such firms may be reluctant to cut back marketing investments during the recession.

In addition, there may be some external factors that influence proactive marketing in firms that have a strategic emphasis on marketing. Such firms are likely to have strong relationships with marketing and advertising services suppliers (e.g., advertising agencies, media buyers) because they have historically been large buyers of these services. During a recession, marketing services suppliers, who are usually severely affected by the recession and subsequent cutback in overall marketing investments, offer more cost-effective marketing investments in terms of total outlays (e.g., discounts) permitting more cost-effective increases in share-of-voice (Broadbent, 1999). Even though cost-effective investments are available to all firms during a recession, firms with a strategic emphasis in marketing are more likely (because of their prior expertise and buying clout) to capitalize on these opportunities. Given these favorable supply factors, we hypothesize that firms that strategically emphasize marketing will view the recession as an opportunity to invest in marketing for both short-term and long-term gains. Indeed, the recession might well serve as a competence-enhancing discontinuity (Tushman & Anderson, 1986) for such firms. Hence,

H1. The greater a firm's strategic emphasis on marketing, the greater its proactive marketing in a recession.

3.2. Entrepreneurial culture

We define a firm's entrepreneurial culture as the extent to which the firm and its top managers are inclined to take business-related risks, and to favor change as a way to obtain competitive advantage (Covin & Slevin, 1989; Johnson & Sohi, 2001). The strategic orientation of these firms is similar to those of prospector firms of Miles and Snow (1978). Entrepreneurially-oriented firms, because of their greater inclination to take risks and favor change over the status-quo, are likely to view a recession as an opportunity to gain an edge over their competitors. Entrepreneurial firms perform well in hostile and uncertain environments partly because they adapt their efforts to the prevailing conditions and seek competitive advantage by taking risks in such environments (Covin & Slevin, 1989). Making investments during a recession is a risky, contrarian strategy (DeDee & Vorhies, 1998). The risk-taking proclivity of entrepreneurial firms more likely to induce them to make more investments during a recession than non-entrepreneurial firms. Entrepreneurial firms are also competitively aggressive, and therefore, are more likely than less entrepreneurial rivals to invest aggressively in marketing during a recession to increase market share, drive out weaker competitors, and consolidate their market position in the shakeout that follows (Zarnowitz, 1985). Hence,

H2. The greater a firm's entrepreneurial culture, the greater its proactive marketing in a recession.

3.3. Availability of slack resources

Slack is the "resource that enables an organization both to adjust to gross shifts in the external environment with minimal trauma and to experiment with new postures in relation to that environment" (Bourgeois, 1981; p. 31). Slack resources are under-utilized resources in the firm (e.g., under-utilized workers, cash reserves, spare production capacity) that may be available for deployment. Slack resources such as under-utilized budgets and staff time could be deployed on marketing activities during a recession without requests for supplementary resources. Slack resources permit a reduction in the necessity for tight control, leading firms to take actions associated with greater uncertainty and risk (Nohria & Gulati, 1996), thus enabling them to experiment with new or unusual business strategies and effective adaptation to environmental jolts (Meyer, 1982). In organizations lacking slack resources, environmental changes may trigger internal political actions aimed at commandeering a greater share of the scarce resources, rather than triggering actions that successfully exploit external opportunities (Dougherty & Hardy, 1996). In the context of the recession, slack resources can free firms from a focus on short-term cost control, and provide them the impetus to invest in offensive marketing actions to enhance their long-term competitive advantage. Hence,

H3. The greater a firm's availability of slack resources, the greater its proactive marketing in a recession.

3.4. Severity of recession

We define severity of recession as the extent to which the recession has reduced the demand for products from the firms in that industry. Managers of firms that have fewer choices in responding to shrinking demand and other adverse environmental changes will interpret those changes as threats. For example, the greater the dependence of college administrators on a pool of resources (e.g., 18–22 year old students) the more likely they were to interpret a change in the resource supply as a threat (Milliken, 1990). The greater the perceived severity of the recession, the fewer the choices managers have in responding to the recession, and therefore, are less likely to treat the recession as an opportunity. Under pressure from hostile environments, organizational decision makers may seek marketing strategies that are perceived to be less risky and focus on the conservation of scarce resources (Koberg, 1987). Although, this may not be the case for firms following a contrarian strategy (e.g., DeDee & Vorhies, 1998), we expect that most firms will cut back on marketing during the recession. Hence,

H4. The greater the severity of the recession in an industry, the lower the level of proactive marketing for firms in that industry.

3.5. Entrepreneurial culture and strategic emphasis on marketing

Entrepreneurially-oriented firms, i.e., those willing to take risks to improve their market position, will seek both internal capabilities and external opportunities that would enable them to gain a competitive edge (Covin & Slevin, 1989; Lumpkin & Dess, 1996). Entrepreneurial firms that pursued a marketing differentiation strategy in an uncertain or heterogeneous environment enjoyed superior sales growth, profitability and overall performance (Dess, Lumpkin, & Covin, 1997). Thus, firms that have a strong entrepreneurial culture will have the confidence to reinforce their strategic emphasis on marketing using a recession. When combined with the risk-taking ability fostered by the entrepreneurial culture, a strategic emphasis on marketing should result in an enhanced proactive response to a recession. Hence,

H5. The more entrepreneurial an organization, the stronger is the effect of its strategic emphasis on marketing on its proactive marketing in a recession.

3.6. Availability of slack resources and strategic emphasis on marketing

Having more slack resources allows the organization to relax controls and engage in actions associated with greater risk (Nohria & Gulati, 1996). The availability of slack resources in firms that emphasize marketing will enable them to be less focused on the near-term effects of their marketing investments and allow them to pursue offensive marketing strategies during a recession. Therefore, slack resources may enable even more aggressive actions by the firm in response to control-enhancing opportunities. In effect, firms with more slack resources are more likely to act externally to exploit environmental opportunities than firms without such resources (Chattopadhyay et al., 2001). Hence,

H6. The greater the availability of slack resources in a firm, the stronger is the effect of its strategic emphasis on marketing on its proactive marketing in a recession.

3.7. Severity of recession and strategic emphasis on marketing

Competitors' responses to aggressive, offensive actions are, in general, less predictable than their responses to more passive actions (Covin & Slevin, 1989). Hence, managers of firms that have a strategic emphasis on marketing may believe that they can best ensure the performance of their firms in a severe recessionary environment by adopting an offensive response to the recession. In addition, when an industry faces a severe recession, some firms perform poorly, raising concerns among their customers about the ability of those firms to service their needs, and more importantly, their ability to survive the recession. Hence, some customers may become more conservative and take fewer risks, favoring stronger brands and firms (Rigby, 2001). In such a situation, firms that invest aggressively in marketing send a reassuring signal to such concerned customers about their staying power. Hence,

H7. The greater the severity of recession in an industry, the stronger is the effect of strategic emphasis on marketing of a firm in that industry on its proactive marketing in a recession.

3.8. Proactive marketing in a recession and business performance

A proactive marketing response to a recession, especially when other firms are cutting back, may provide a competitive advantage to the proactive firms (Miles, 1982). In hostile environments, a proactive strategic posture and organic structure result in superior performance (Covin & Slevin, 1989). As other firms in the industry reduce their marketing activities (e.g., advertising) the relative market presence gained by the proactive firm could help it achieve superior market performance. As other firms in the industry reduce their marketing activities during a recession (Picard, 2001), the proactive firm will increase its marketing activities, gaining a higher share of voice in the marketplace, and acquire and retain customers. In such situations, firms that invest aggressively in marketing send a reassuring signal of confidence to concerned customers about their staying power and provide an incentive for customers to switch from weaker brands/firms. In addition, costs of inputs (e.g., advertising, human resources, and raw materials) decrease during a recession because of reduced demand (Zarnowitz, 1985) and this reduction in input costs, combined with the increased marketing effectiveness of the proactive firm, should enable it to improve business performance. Hence,

H8. The greater the firm's proactive marketing in a recession the better is its business performance.

We next describe the method we use to test the hypotheses and evaluate the proposed framework.

4. Method

4.1. Field interviews, sample and procedure

We conducted field interviews with 20 senior marketing executives in twelve organizations in eight industries to help understand the domain of proactive marketing and develop the items for our measures. We acquired a mailing list of firms from Corptech for the formal surveys. With a view to increasing the generalizability of our findings, we surveyed a cross-industry sample of executives in firms covering four primary industry groups: engineering, computers, telecommunications and light manufacturing. Because of our focus on the marketing activities of firms in a recession, we used senior marketing executives as key informants.

Of the 1200 surveys we mailed, 90 were returned due to incorrect addresses and ten managers returned the surveys because they were not qualified to respond. We received 154 completed surveys (out of 1093 properly addressed surveys), yielding an effective response rate of 14%, which is similar to the response rates obtained in recent surveys of senior managers (Frels, Shervani, & Srivastava, 2003). Table 1 contains the descriptive statistics of the sample, which indicates that our sample represents a broad range of firms both in terms of industry and size.

Table 1
Profile of firms in the sample ($n=154$)

Size	Number of respondents	% of sample
Industry groups		
Semiconductors and electronics	16	11
Heavy manufacturing	10	6
Light manufacturing	44	29
Telecommunications	32	21
Computer	32	21
Energy and environment	10	6
Others	10	6
Total	154	100%
Sales turnover		
<$10 million	8	6
$10–24.99 million	42	30
$25–49.99 million	39	28
$50–99.99 million	25	18
$100–249.99 million	13	9
>$250 million	13	9
Total	140*	100
Number of employees		
<100	14	9
100–499	103	67
500–999	20	13
1000–2499	14	9
>2500	3	2
Total	154	100%

* The remaining firms did not disclose their sales figures.

4.2. Measure development

We measured all constructs at the level of the strategic business unit (SBU). Some of the items were reverse-coded to guard against acquiescence bias. As scales for the key constructs in our research were not available in the literature, we developed them where necessary, using an appropriate refinement procedure (Churchill, 1979). We pre-tested the measures with thirty mid-level marketing executives enrolled in an executive MBA program. We refined the measures based on the results of the pre-test and the feedback provided by the pre-test respondents. Appendix A contains measures of the constructs in the study.

We measured proactive marketing (PROACT) using a nine-item scale. Consistent with our definition, we measured proactive marketing based on behaviors related to the organization-wide perception of the recession as an opportunity and to the marketing response of the firm during the recession. Three of the nine items pertain to recession opportunity perception and six pertain to offensive marketing response.

For strategic emphasis on marketing (MARK), we developed a four-item scale adapted from the scale of Miller (1988) for differentiator marketing strategy.

For entrepreneurial culture (ENTRE), we used a six-item scale adapted from Covin and Slevin (1989).

Availability of slack resources (SLACK) can be measured either objectively or subjectively (Bromiley, 1991; Chattopadhyay et al., 2001; Nohria & Gulati, 1996). Because our unit of analysis is the SBU, and because we were unable to get objective performance and resource deployment information at the level of an SBU, we developed a three-item perceptual measure of slack based on Chattopadhyay et al. (2001). For the 20 firms in our sample that were publicly limited corporations, we obtained objective measure of slack using the current ratio (current assets/current liabilities: Bromiley, 1991) and found that it correlated quite well with the subjective measure provided by our key informants ($\rho = 0.45$, $p < 0.01$).

For severity of recession (SEVERITY), we developed a new three-item scale measuring the perceived effect of the most recent recession on the SBU. This measure also captures any cross-industry variations that may exist among the firms' industry in our sample.

For business performance (PERF), the four-item scale includes sales growth, market share, profitability and cash flows (e.g., Dess et al., 1997).We also collected data on the firm's performance prior to the recession to include as a control in our model. These measures were identical to those used for firm's performance during the recession, except that they referred to the "period before the recession."

4.3. Validity of measures

Our respondents were senior marketing executives—with 59% of the respondents having a title of Vice-President or higher and 80% having a title of Director or higher. The average tenure of the respondents in our sample was long (mean tenure= 8.03 years). Hence, the respondents appear competent to serve as key informants. Also, 96% of the respondents have agreed to participate in a follow-up survey following economic recovery, signaling their high level of interest in the topic, and engagement in providing the data.

To help assess the quality of the data provided by our respondents, we asked them to report their confidence levels about the information provided, since confidence levels of key informants are positively related to their competence for providing the information (Kumar, Stern, & Anderson, 1993; Van Bruggen, Lilien, & Kacker, 2002). Our final sample showed confidence levels [mean and standard deviation (sd)] on a 7-point scale as follows: marketing strategy: 6.08 (0.89); firm's characteristics: 5.91 (0.91); and firm's environment: 5.80 (0.93) indicating high competence of our respondents.

We took two additional steps to assess the reliability of the self-reported performance measures. First, we obtained contact information for the head of finance for 115 of the 154 firms in our sample, and mailed them a survey on the performance of the firm. We received 25 responses, too small a sample for a formal multi-trait, multi-method assessment. However, *t*-tests of the difference in means of the business performance measure between the two informants' reports indicated that these means were not statistically different (Marketing informant=9.48, Finance informant=9.25, ns). Later in this paper, we report results of a model of the effects of proactive marketing on the performance reported by the finance managers. Second, we collected financial performance information for the quarter ending June 2002 from secondary sources for the 20 publicly listed single-division firms in our sample. Our four-item measure of business performance correlates well with two objective performance measures obtained from secondary sources: return on assets relative to industry ($\rho = 0.60$; $p < 0.01$) and return on sales relative to industry ($\rho = 0.55$; $p < 0.01$). Hence, the self-reported performance measures provided by our key informants appear to be valid.

To assess non-response bias, we performed a test using the extrapolation procedure suggested by Armstrong and Overton (1977) and found no significant difference between early and late respondents on the key variables. The results of these tests are as follows ($n = 154$; ER=early respondent and LR=late respondent): proactive response (ER=38.64, LR=38.83, ns), strategic emphasis on marketing (ER=19.18, LR=18.46, ns), entrepreneurial culture

(ER = 26.97, LR = 28.00, ns), availability of slack resources (ER = 13.32, LR = 13.83, ns), severity of the recession (ER = 15.23, LR = 15.43, ns) and business performance (ER = 19.10, LR = 18.78, ns). We estimated the reliability of each scale by computing its Cronbach's alpha. The reliabilities range from 0.71 to 0.91, which exceed the 0.70 recommended for exploratory research (Nunnally, 1978). Table 2 provides descriptive statistics, the pair-wise correlations, and the reliabilities of the multi-item scales.

The Cronbach's alpha (α) for the proactive marketing scale is good ($\alpha = 0.91$). The descriptive statistics indicate that the firms had a mean score of 38.70 and a standard deviation of 11.00 ($n = 154$), with the scale values ranging from 11 to 63 (out of a possible range of 9–63). Exploratory factor analysis of the nine-item proactive marketing scale, using the eigenvalue criterion, indicated that all the items loaded onto one factor, confirming the unidimensionality of the scale. We also examined a two-factor confirmatory factor analysis model, where proactive marketing is conceptualized as a higher order construct, with two first-order constructs, namely, recession opportunity perception and offensive marketing response. The phi coefficient of the estimated factor correlation of the two first-order constructs was not significantly different from 1.0 (phi = 0.67, std error = 0.45; $t = 1.467$), suggesting that the proactive marketing construct encompasses both recession opportunity perception and offensive marketing response.

5. Results

5.1. General theory testing approach

Before testing our hypotheses, we established the discriminant validity of the constructs in our antecedent model by estimating a confirmatory factor analysis model. All factor loadings are positive and significant. The model fit is good (NNFI = 0.94 CFI = 0.94, RMSEA = 0.08, and SRMR = 0.08). The NNFI and the CFI indices are above the desirable level of 0.90, RMSEA and SRMR are less than 0.10, indicating a good fit of data to the model. Next, we examined the convergent and discriminant validity of strategic proactivity (Fornell & Larcker, 1981). The composite reliability (CR) and average variance extracted (AVE) are as follows: proactive marketing: CR = 0.91, AVE = 0.57; strategic emphasis on marketing: CR = 0.82, AVE = 0.52; entrepreneurial culture: CR = 0.74, AVE = 0.56; slack resources: CR = 0.80, AVE = 0.57 and severity of recession: CR = 0.82, AVE = 0.55). Hence, the results indicate that the five constructs demonstrate satisfactory levels of internal consistency and convergent validity. Regarding discriminant validity, the 95% confidence intervals of the correlation between the

Table 2
Correlation matrix of constructs

	Min/max range	Means (sd)	1	2	3	4	5	6
1. Proactive response in marketing in a recession (9 items) (PROACT)	9–63; 11–63	38.70 (11.00)	*0.91*					
2. Strategic emphasis on marketing (4 items) (MARK)	4–28; 7–28	18.99 (4.59)	0.52***	*0.73*				
3. Entrepreneurial culture (6 items) (ENTRE)	6–42; 8–42	27.25 (7.31)	0.55***	0.51***	*0.88*			
4. Availability of slack resources (3 items) (SLACK)	3–21; 5–21	13.46 (4.64)	0.47***	0.25***	0.39***	*0.85*		
5. Severity of recession (3 items) (SEVERITY)	3–21; 5–28	15.38 (3.75)	−0.25***	−0.24***	−0.17**	−0.24***	*0.71*	
6. Business performance (4 items) (PERF)	5–28	18.96 (4.62)	0.51***	0.42***	0.42***	0.47***	−0.26***	*0.85*

Reliabilities of measures are on diagonal in italics. ***$p < 0.01$; **$p < 0.05$.

constructs are well below 1.00 ($p<0.05$). The AVE of the constructs exceeds the squared correlations between them and all of them exceed 0.50. Thus, the conditions for convergent and discriminant validity are satisfied indicating that the constructs in our path model are measured reliably and are well-discriminated.

We tested our model of the antecedents and consequences of proactive marketing by using structural equation modeling with LISREL 8.52. We allowed all exogenous constructs to freely correlate. We also included a business performance measure before recession as a control in our model for business performance during the recession. We computed the latent scores, created interaction terms, and estimated a path model incorporating those interaction terms (Jaccard & Wan, 1996).

5.1.1. Hypothesized model

We first report the results of the estimation of the hypothesized model (Model 1: Fig. 1) in column 2 of Table 3. The overall fit measures suggest that the hypothesized model provides an acceptable fit to the data (Hu & Bentler, 1999). The overall model $\chi^2=22.228$ (degrees of freedom (df)=8, $p<0.01$) is significant and the model fit (CFI=0.91, NNFI=0.91, SRMR=0.08, RMSEA=0.08) compares well with those obtained in the related literature (e.g., Matsuno,

Table 3
Path analysis model of proactive marketing in a recession[1]

Variables	Proposed model (Model 1)	Proposed model plus direct effects of antecedents on performance (Model 2)	Final model excluding non-significant effects (Model 3)
Antecedents of proactive response in marketing			
Main effects			
Strategic emphasis on marketing (MARK) (H1)	0.198***	0.198***	0.198***
Entrepreneurial culture(ENTRE) (H2)	0.313***	0.313***	0.310***
Availability of slack resources (SLACK) (H3)	0.267***	0.267***	0.268***
Severity of recession (SEVERITY) (H4)	−0.193***	−0.193***	−0.190***
Moderating effects			
Entrepreneurial culture × Strategic emphasis on marketing (H5)	0.047 (ns)	0.047 (ns)	–
Availability of slack resources × Strategic emphasis on marketing (H6)	0.132**	0.132**	0.135**
Severity of recession × Strategic emphasis on marketing (H7)	0.131**	0.131**	0.120**
Antecedents of business performance			
Proactive response in marketing (PROACT) (H8)	0.403***	0.183**	0.282***
Strategic emphasis on marketing	–	0.072 (ns)	–
Entrepreneurial culture (ENTRE)	–	0.091(ns)	–
Availability of slack resources	–	0.254***	0.280***
Severity of recession	–	−0.078(ns)	–
Business performance before the recession	0.431***	0.365***	0.382***
Chi-square (df)	22.228 (8)	4.205 (4)	9.847(8)
CFI	0.91	0.99	0.99
NNFI (non-normed fit index)	0.91	0.99	0.99
GFI (goodness of fit index)	0.92	0.99	0.99
RMSEA (root mean square error of approximation)	0.08	0.02	0.02
SRMR (standardized root mean square residual)	0.08	0.02	0.02

[1] Standardized solution; $***p<0.01$; $**p<0.05$.

Mentzer, & Özsomer, 2002; Noble & Mokwa, 1999). As expected, business performance before the recession has a positive effect on business performance during the recession ($b = 0.431$, $p < 0.01$).

We find support, at varying levels of significance, for the main effects of the antecedents of proactive response in marketing during the recession. With respect to the main effects hypothesized in H1, H2, H3 and H4 respectively, there is a positive effect of strategic emphasis on marketing ($b = 0.198$, $p < 0.01$), entrepreneurial culture ($b = 0.313$, $p < 0.01$), availability of slack resources ($b = 0.267$, $p < 0.01$) and a negative effect of severity of recession ($b = -0.193$, $p < 0.01$) on proactive marketing in a recession. With respect to the moderating effects, we find mixed support: support for hypotheses H6 and H7 for the moderating effects of availability of slack resources ($b = 0.132$, $p < 0.05$) and severity of recession ($b = 0.131$, $p < 0.05$) with strategic emphasis on marketing respectively on proactive marketing response, but no support for hypothesis H5 for the moderating effect of entrepreneurial culture on the effect of strategic emphasis on marketing on proactive marketing response ($b = 0.047$, ns). Finally, as hypothesized in H8, the results support a positive effect of the firm's proactive marketing on business performance during the recession ($b = 0.403$, $p < 0.01$).

5.1.2. Model including direct effect of antecedent variables on performance

To investigate whether proactive marketing mediates the effects of antecedent variables on business performance, we estimated a model that included proactive marketing and the direct effects of the four antecedent variables on performance (Model 2: results in Column 3 of Table 3). The overall fit is good (CFI = 0.99, NNFI = 0.99, SRMR = 0.02 and RMSEA = 0.02) and the model $\chi^2 = 4.205$ ($df = 4$). We find a significant direct effect of slack resources on business performance ($b = 0.254$, $p < 0.01$) but do not find significant effects of strategic emphasis on marketing ($b = 0.072$, ns), entrepreneurial culture ($b = 0.091$, ns) or severity of recession ($b = -0.078$, ns) on business performance. These results indicate that the business performance impact of strategic emphasis, entrepreneurial culture and the severity of the recession are fully mediated through the firm's proactive marketing response in the recession, while slack resources has a direct effect on business performance over and above its effect on proactive marketing.

We next examined the difference in Chi-square between this model and the hypothesized model (Fig. 1). That difference is statistically significant (difference in $\chi^2 = 17.923$, difference in $df = 4$, $p < 0.01$), indicating that a model that includes direct effects of antecedents fits better than one that excludes them. These results suggest that proactive marketing response in a recession partially mediates the effects of the antecedents on business performance during the recession. We then re-estimated the model trimming the non-significant paths and report the results of this reduced model as the final estimates (Column 3 in Table 3).

5.2. Additional analyses

We performed additional analyses to determine the robustness of our model specifications.

5.2.1. The effects of other variables on performance

Business press articles, as well as our manager-interviews suggest that most firms undertake extensive cost-cutting measures during a recession in an attempt to improve current business performance. Hence, we re-estimated the path models, including a path from cost-cutting measures to business performance using a three-item measure ($\alpha = 0.70$), as follows: during this downturn, (1) we have aggressively pursued cost-cutting measures, (2) we have significantly reduced costs by improving our supply chain efficiency, and (3) we have cuts costs to a greater extent than our major competitors. Our results revealed that cost-cutting measures had no effect on performance, perhaps, in part, because there was insufficient variance in the measures of cost-cutting (mean = 14.29; sd = 2.93). It appears that most firms in our sample have undertaken significant cost-cutting measures during the recession, so that cost-cutting did not serve as a differentiator in achieving superior performance. We also examined the effects of R & D investments during the recession on business performance. R & D investments generally have a lagged effect on performance (Geroski, 1994) and therefore, we do not hypothesize, a priori, an effect of R & D on current performance. However, we collected a four-item measure of the R & D investments made by the firms during the recession, which correlates moderately with proactive marketing; $\rho = 0.47$, $p < 0.01$. Those items are: (1) we are aggressively pursuing our long-term R & D goals during this downturn, (2) we are spending more money on R & D now so that we will have a lot of new products to introduce when the downturn ends, (3) we are using the downturn as an opportunity to develop new products, and (4) during this downturn, we have significantly increased our R & D investments relative to that of our competitors. We re-estimated a path model including R & D investments, but, as expected, we do not find effects of R & D investment on business performance.

5.2.2. Validity of performance measures provided by key informants

We collected information on the performance of the firms from another informant, the senior finance executive—for 25 of the 154 firms in our sample—too small to estimate a structural path model. Instead, we estimated a regression model relating proactive marketing to business performance, after controlling for performance before the recession, using the ratings provided by the finance and marketing executives of these 25 firms. We created a dummy variable (denoting whether finance or marketing executive-provided performance ratings) and constructed an interaction term between proactive marketing and the dummy variable and examined the significance of this interaction term. The interactions are not significant ($b = -0.21$, ns). These results provide evidence, albeit indirect, of the validity of the performance measures provided by our key informants. It is possible that the limited power of the sample size ($n = 25$) resulted in the non-detection of interaction effects.[3]

6. Discussion

In this research, we have tried to expand the limited knowledge of the role of marketing in a recession. Our results support business press accounts of companies such as Dell, Microsoft, DeBeers and BMW that view recessions as opportunities and exploit that perceived opportunity with aggressive marketing programs. Although most accounts (e.g., Hillier, 1999) stress advantages that accrue during the post-recession recovery, our findings suggest that there are immediate returns as well. Therefore, a pleasingly positive result from our study is that firms do not have to wait until a recession is over to realize benefits from the marketing investments they make during a recession.

Our results also suggest that not all firms do, or should, respond in a proactive manner during the recession. Firms that place a strategic emphasis on marketing, embody an entrepreneurial culture, possess slack resources and have the flexibility to redeploy these resources are more likely to step up their marketing activities during a recession. This finding suggests why not all firms would benefit by increasing marketing spending during recessions. Those firms with a strategic emphasis on marketing have already put in place the programs that help them derive value from their marketing activities (e.g., well-recognized brands, differentiated products, targeted communications, good support and service, etc.). Thus, Wal-Mart would more likely benefit than the much weaker K-Mart franchise, if they had both chosen to increase spending during the most recent recession.

6.1. Theoretical contributions

6.1.1. Proactive marketing in a recession

To our knowledge, no other academic research has systematically examined the nature of a firm's response to a recession, particularly with respect to marketing, or the implications of a proactive marketing response during a recession on firm performance. We develop the construct of proactive marketing, i.e., the firm's response to a recession, and measure it reliably. Our results indicate that proactive marketing partially mediates the effects of the organizational antecedents on the performance of the firm and provides a significant explanation of performance during a recession over and above that provided by the organizational antecedents.

[3] We thank an anonymous reviewer for bringing this point to our attention.

The new construct of proactive marketing is useful not only in the context of the present study on recession but can also inform theory development on strategic issues relating to other hostile developments in the firm's environment (e.g., regulatory changes, demographic shifts etc.). Although we investigated the firm's response to the recession only with respect to marketing, the proactive marketing construct could also be useful in investigating whether proactivity extends to other domains of the firm (e.g., human resources, new product development, and finance).

6.1.2. Impact of proactive marketing on performance

Despite the severe effects of a recession on the performance of firms, there is very little research on it: our study offers a systematic theory-based empirical investigation of this topic. Our results can be viewed as reassuring to firms—if firms have certain traits (e.g., a strategic emphasis on marketing), it appears that they can improve their business performance during a recession by proactively investing in marketing activities.

6.1.3. Process mediating the effects of organizational traits on firm performance

Past research in strategy has separately shown the effects of each of the antecedent variables on firm performance in turbulent environments. However, we know little about the processes mediating the effects of these organizational traits on firm performance. Our theoretical framework and results suggest that organizational traits affect firm performance in a recession through intervening strategic behaviors, such as proactive marketing.

6.2. Managerial contributions

Marketing executives under scrutiny from constituencies within and outside the firm (e.g., investors), face severe pressures to cut back marketing investments during a recession. Our results should bolster the arguments of those who advocate investing in marketing activities during a recession. In particular, executives in firms that have one or more of the following antecedent conditions should find our results particularly appealing: (1) a strategic emphasis on marketing, (2) an entrepreneurial culture, and (3) slack resources.

For firms that wish to have a proactive marketing response to a recession, we have identified three actionable drivers—develop a strategic emphasis on marketing, instill an entrepreneurial culture, and build slack resources. Finally, our insights on the antecedents of proactive marketing are useful to managers in the marketing services and advertising industries, who face reduced demand for their services during recessions. Targeting client firms that emphasize marketing, have an entrepreneurial culture, and slack resources would ensure greater productivity for their marketing efforts.

6.3. Limitations and possible extensions

Our research has several limitations that qualify our findings and present opportunities for future research. An important question that we did not address is whether proactive marketing is an enduring organizational trait like market orientation or organizational innovativeness, whose effects may play out in other environmental contexts (e.g., technological turbulence, emerging markets, global opportunities, etc.). The cross-sectional design of this study precludes an investigation of this question, which emerges as an opportunity for future research. Because our unit of analysis is the SBU for which objective measures of performance are not publicly available, we used perceptual measures of performance from our key informants. We also do not explore the effects of proactive marketing on other performance metrics (e.g., customer satisfaction, new product performance, shareholder value). Future research could examine the effects of proactive marketing on other performance metrics, including objective measures of performance. In addition, our focus has been on the effects of proactive marketing on business performance during the recession. Performance during the recession is an important dependent variable worthy of investigation in its own right. Recessions usually represent periods of consolidation at the industry level, and firms that improve their market position during a recession will be well-positioned for superior business performance once recovery starts. Therefore, it would be worthwhile in future studies to explore how proactive marketing affects post-recession business performance.

We used a cross-sectional survey design to generate initial insights, which raises concerns about retrospective justification bias. Our cross-sectional design precluded an investigation of the evolutionary effects of factors (e.g., competitive intensity, institutional pressures) on proactive marketing. While we found no support for the interaction effects of the antecedent variables, there may be other organizational characteristics that we did not measure in this study that may influence both proactive marketing and its effects on performance. In addition, our sample is limited to B2B firms in the US, which have been hit particularly hard in the most recent recession. Future research could use multiple-informants, as well as a longitudinal methodology covering other sectors (e.g., consumer goods, services), to capture the time-dependent dynamics of the antecedents and consequences of proactive marketing. Our data collection strategy limited us to one country. Therefore, it is not clear whether these results generalize to other geographic regions (Europe, in particular), where the organizational culture and strategic emphases may differ from those in the US.

In sum, our theoretical model explicating the antecedents and consequences of proactive marketing in a recession provides a base for further theory building in this area. At the same time, practitioners should take comfort in our finding that under some well defined conditions, it pays for firms to proactively invest in marketing activities during a recession. We hope this paper spurs further research on this important topic.

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Appendix A. Items of constructs used in the study

Constructs	Items
Proactive marketing response in a recession[a] (PROACT) ($\alpha = 0.91$)	1. Our firm's management treated the downturn more like an opportunity than as a threat to the firm. 2. We view this downturn as an opportunity to leapfrog over our competitors. 3. Top managers of our firm view the downturn as an opportunity that will help us achieve our business objectives. 4. Our marketing plans extensively capitalized on the opportunities that arose because of the downturn. 5. We have acted decisively to seize market opportunities generated by the downturn. 6. We responded more quickly to the market changes caused by the downturn than our competitors. 7. We are making the necessary investments to grow our business during the economic downturn. 8. We have been very proactive in developing our marketing plans to counter the downturn. 9. Our marketing plan for the downturn basically involves hunkering down and riding out the recession (R).[b]
Strategic emphasis on marketing (MARK) ($\alpha = 0.73$)	1. Our marketing capabilities provide us with a key advantage over our competitors. 2. Marketing plays a very critical role in the achievement of our business objectives. 3. Top management views marketing to be critical to the success of this firm. 4. Our customers perceive our products to be of much higher quality than those of our competitors.
Entrepreneurial culture (ENTRE) ($\alpha = 0.87$)	1. In dealing with competitors, a. Our firm typically adopts a very aggressive posture. b. Our firm typically initiates actions which competitors then respond to. 2. Our firm is very often the first business to introduce new products/services, administrative techniques etc. 3. The top managers of this firm believe that bold strategies are required to achieve our business objectives. 4. When confronted with uncertainty, my firm typically adopts an aggressive posture to exploit potential opportunities. 5. In general, the top managers of this firm have a strong inclination for high-risk projects (with chances of high rates of return).

Availability of slack resources (SLACK) (α = 0.85)	1. Our firm has difficulty obtaining sufficient funds to produce and market its products (R). 2. We are often unable to implement our business plans because we don't have the required resources (R). 3. Our firm has easy access to resources for growth and expansion.
Severity of recession (SEVERITY) (α = 0.71) (new scale)	1. Our industry's sales have declined significantly during the recession 2. It has been business-as-usual for our industry during the economic downturn (R) 3. This downturn has affected the economic viability of a number of firms in our industry
Business performance (PERF) (ρ = 0.85)	Relative to your industry average, rate your firm's performance during the downturn. Note: In terms of timing, please think of the time "before" the downturn as it applies to your industry (1 = much worse than industry average, 7 = much better than industry average).[c] •Sales Growth •Market Share •Profitability •Cash flow

[a] We used the term 'downturn' to describe the current demand recession experienced by firms, as our field interviews indicated that this term was commonly used by managers to refer to the recession.

[b] (R) denotes reverse-coded.

[c] Because a demand recession affects industries (and firms) at different times, with some firms lagging and other leading the official recession date, we elected to anchor performance relative to the recession timing as it applies to the firm.

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