

**“Turning Adversity Into Advantage: Does Proactive
Marketing During a Recession Pay Off?”**

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ABSTRACT

Recessions can severely affect the performance and even the survival of firms. However, all firms are not equally affected by a recession. In fact, some firms even prosper during recessions. Anecdotal evidence suggests that some firms view a recession as a disguised opportunity, and develop an aggressive marketing response, 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*, to represent the strategic response of firms to a recession, or more generally, to an adverse environment. We show that the proactive marketing is an important driver of how firms view and react to recessions. Specifically, 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 recessions. With regard to the antecedents, our results indicate that firms are more likely to develop a proactive marketing response during a recession if they have a strategic emphasis on marketing, embody an entrepreneurial culture, possess slack resources and have strategic flexibility. Our results also show that proactive marketing results in improving both market and business performance during the recession. We discuss the implications of our results for both marketing theory and managerial practice.

INTRODUCTION

“It was the best of times, it was the worst of times” ---Charles Dickens (1859)

Business cycles, in general, and recessions in particular, can severely affect the performance of individual firms, industries and entire economic sectors (Domowitz, Hubbard and Pearson 1988; Gabisch and Lorenz 1987; Zarnowitz 1985). However, not all firms perform poorly or fail during recessions—some firms prosper and even grow during a recession.¹

Anecdotal evidence (Dobbs, Jesudason and Malige 2002; Dobbs, Karakelov and Malige 2002; Rigby 2001) suggests that some firms (e.g., BMW, Dell, General Motors, Intel, Microsoft, and Wal-Mart) view recessions as opportunities to strengthen their businesses, invest aggressively and overtake their weaker competitors. For example, in a recent personal interview, Ron Riordan, VP of Services Marketing at Cisco Systems, commented, “We view this economic downturn as a major opportunity. We have significantly increased our marketing expenditures in the last year to further separate ourselves from competition” (<http://www.cisco.com>). At the same time, many firms hunker down, cut back investments and wait for the recession to pass. We address two central questions in this paper: 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 questions are important for both managerial practice and theory. History suggests that business cycles are a common occurrence in the U.S. economy: there have been eleven recessions in the 58 years since World War II, indicating that 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 current recession), firms across different industries and sectors feel the effects. Despite the severe effects of recessions on

firms' performance, we know little about what constitutes an appropriate marketing response during these challenging times. Several observers, primarily outside of academia (American Business Press 2002; Dobbs, Jesudason and Malige 2002; Dobbs, Karakelov and Malige 2002; Hillier and Baxter 2001; McGraw-Hill Research 2002; Strategic Planning Institute 2002), have suggested that firms that invest during recessions (particularly in advertising) see significant benefits. However, most of these studies do not provide much guidance in terms of the types of firms that are likely to benefit the most by maintaining or increasing their marketing activities during recessions. In fact, most firms cut back drastically on marketing during a recession (Picard 2001), as evidenced by the worst recession in 75 years currently facing the US advertising industry (<http://www.adage.com>). The above observations point to the need for academic research that can guide firms facing marketing decisions during recessions.

Interestingly, academic research in this area is sparse, offering weak and equivocal insights. Several studies (e.g., Bonoma 1991; Fields 2000; McMaster and Strout 2001; Porter 2001; Rigby 2001) argue in support of increasing or maintaining marketing activities during a recession. A significant finding from our review of the literature (Table 1) is that business cycles in general, and recessions in particular, affect both business strategy and business performance (Mizuchi and Stearns 1988; Yang 1964). Some research (Venkatraman and Prescott 1990) suggests that marketing investments during recessions improve performance, while other research (Sadhu, Prescott and Grant 1990; Wagner 1984) suggests that such investments during recessions may hurt performance.

A review of the leading academic marketing journals (*Journal of Marketing*, *Journal of Marketing Research* and *Marketing Science*) resulted in only three articles (Coulson 1979; Cundiff 1975; Yang 1964) addressing issues related to recessions, none of which were published

in the last 20 years when there were four recessions. The standard marketing strategy texts show a similar lack of coverage; of the 20 textbooks we reviewed, only seven (Assael 1985; Boone and Kurtz 1974; Capon and Hulbert 2000; Kotler 1999; McDaniel and Darden 1987; Pride and Ferrell 1985; Solomon and Stuart 2000) mention recessions, with four textbooks recommending increasing marketing activities during the recession and the three others non-committal. Thus, there is a lack of understanding about the appropriate strategic marketing response in recessions.

---- Insert Table 1 here ----

Both business press accounts and theoretical developments in the strategy literature (Bourgeois 1984; Lane and Lubatkin 1998; Miller 1988; Teece, Pisano and Shuen 1997; Weick 1979) suggest that the environment plays a major role in shaping firms' business strategies. A recession is a hostile environmental condition that drives some firms to hunker down and cut back on marketing activities, going into a defensive mode while others go on the offense, increasing their marketing activities. To investigate firms' strategic responses to a recession, we adapt and extend the current theories in the strategy and marketing literature that have studied how the environment influences firms' behaviors and performance. Specifically, we propose that some firms engage in *proactive marketing*, viewing the recession as an opportunity and develop marketing responses 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.

According to the marketing strategy literature (e.g., Conant, Mokwa and Varadarajan 1990; Kohli and Jaworski 1993; Moorman 1995; Menon et al. 1999) organizational traits are major determinants of a firm's strategic behavior, its resource deployment, and its subsequent performance. Consistent with this line of reasoning, we hypothesize that organizational traits will

determine whether, and the extent to which, a firm will pursue proactive marketing during a recession. In turn, proactive marketing will drive firm performance during the recession.

Using the current recession as the context, we develop and test a model of the antecedents of proactive marketing and its effects on market and business performance. We collected data during the second and third quarters of 2002 from a sample of 154 executives in business-to-business (B2B) SBUs to test our model. We develop a reliable measure of proactive marketing and establish its distinctiveness from the related constructs of market orientation (Kohli and Jaworski 1993), competitor orientation (Slater and Narver 1994) and strategic flexibility (Grewal and Tansuhaj 2001).

Our results show that firms with (1) a strategic emphasis on marketing, (2) an entrepreneurial culture, (3) slack resources, and (4) strategic flexibility are more likely than others to exhibit proactive marketing during a recession. Importantly, proactive marketing has a direct positive effect on market performance, and an indirect positive effect (through market performance) on overall business performance. Thus, for the firms in our sample, it generally 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 demonstrate its distinctiveness from related constructs. We 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.

DEFINING PROACTIVE MARKETING

We developed our construct of proactive marketing based on several theoretical developments in the strategy literature. First, a number of researchers (e.g., Weick 1979; Miller 1987; Miller and Friesen 1983) have conceptualized and empirically demonstrated that the environment plays a significant role in inducing firms to adapt, with the attendant consequences for firm performance. Some researchers (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. We draw upon this literature to articulate why some firms may proactively adapt to a recession, an adverse environmental change.

Second, there has been considerable research in recent years on the resource-based view (RBV) of the firm (e.g., Barney 1991; Wernerfelt 1984), which explores how firms build competitive advantage by building on some of their specific internal resources. Extensions to the RBV theory (e.g., Lane and Lubatkin 1998; Teece, Pisano and Shuen 1997) suggest that competitive advantage derives from unique and inimitable internal resources (e.g., innovativeness, culture), and from how the firm exploits the complementarity's between internal resources and the external environment. Teece, Pisano and Shuen (1997) propose the concept of dynamic capabilities to represent a firm's ability to reconfigure internal competencies to cope with rapidly changing environments. We draw upon this literature to articulate why some firms (e.g., those with a strategic emphasis on marketing) may be more proactive in their marketing activities during a recession.

In line with current conceptualizations in the strategy literature, we suggest that firms differ both in their inclination to view a recession as an opportunity and in their ability to

develop a marketing response to capitalize on the perceived opportunity. We call this strategic behavior *proactive marketing*. We posit that there are two facets to proactive marketing: *recession opportunity perception* and *offensive marketing response*.

Recession opportunity perception is the firm's perception of the general economic downturn as an opportunity. Research by Dutton and Duncan (1987) and Dutton and Jackson (1987) suggest that how an individual or 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 they have control over both the situation and the resultant outcome, and, therefore, plan to invest (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 planning to conserve 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. The marketing response to a recession includes both the level and speed at which the firm deploys marketing resources, i.e., the domain of the response includes how the firm modifies the scope (extensiveness) and speed of its marketing plans.

The concept of proactive marketing is consistent with several research streams in organizational theory. Proactive firms are in an enactment mode (Daft and Weick 1984) 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, Pisano and Shuen 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 market place. Proactive marketing may be viewed as an outside-in boundary spanning behavior in Day's (1994) framework, where the firm senses changes in the environment because of the recession and harnesses these changes for its benefit by investing in marketing.

Distinctiveness of Proactive Marketing

Proactive marketing shares some conceptual similarities with three organizational traits—market orientation (Jaworski and Kohli 1990; Kohli and Jaworski 1993) competitor orientation (Slater and Narver 1994) and strategic flexibility (Grewal and Tansuhaj 2001; Sanchez 1995). We next discuss the conceptual distinctiveness of proactive marketing from these organizational traits.

Jaworski and Kohli (1990) define *market orientation* as organization-wide gathering of market intelligence pertaining to customer needs, dissemination of intelligence among departments, and organization-wide responsiveness to that intelligence. Market orientation researchers (e.g., Deshpandé, Farley and Webster 1993; Jaworski and Kohli 1990; Kohli and Jaworski 1993; Slater and Narver 1994) have focused on the collection, analysis, and interpretation of intelligence related to present and future customer needs and the response of the organization to that information. The domains of proactive marketing and market orientation overlap because both include sensing the firm's environment. But there are key differences. First, proactive marketing involves the perception of the recession as an opportunity, i.e., the firm perceives a hostile environment as an opportunity, a conceptualization missing from market orientation. Second, proactive marketing pertains specifically to a firm's perception of, and strategic response to the recession, while market orientation is conceptualized and measured as

an enduring organizational trait. Similar arguments apply to *competitor orientation* (Slater and Narver 1994; Gatignon and Xuereb 1997), a more focused version of market orientation pertaining to the nature of the competitive landscape: the ability of the firm to track, learn about, and respond to competitive actions.

Researchers have conceptualized *strategic flexibility* in different ways. Some (e.g., Evans 1991; Sanchez 1995) define it as flexibility inherent in product-creating resources (resource flexibility), and flexibility in using those resources (coordination flexibility). Others (e.g., Grewal and Tansuhaj 2001; Harrigan 1980) define strategic flexibility as the organizational ability to manage political and economic risks by responding to market threats and opportunities. A review of theoretical and empirical literature indicates that strategic flexibility covers the capability of the firm to coordinate resource allocation to meet external challenges. As a construct, strategic flexibility differs from proactive marketing in three ways. First, proactive marketing involves the perception of an opportunity, where the firm perceives a hostile environment as an opportunity; a conceptualization missing from strategic flexibility. Second, strategic flexibility is defined and measured as a general organizational capability which can come into play in various situations (e.g., changes in market structure, competitive threats, and new product developments), whereas proactive marketing describes the firm's marketing response specifically to a general economic downturn. Finally, as defined and measured, strategic flexibility can involve either a reactive or a proactive response by the firm, while proactive marketing is limited to focused, aggressive marketing behavior during times of economic stress. Indeed, as we note below, we view strategic flexibility as an antecedent (i.e., a necessary condition) to admit proactive marketing.

THEORETICAL FRAMEWORK AND HYPOTHESES

Research in marketing strategy suggests that a firm's organizational traits are major determinants of its strategic behavior and resource deployment. Organizational traits such as strategic types (Conant, Mokwa and Varadarajan 1990), market orientation (Kohli and Jaworski 1993), organizational culture (Deshpandé, Farley and Webster 1993; Moorman 1995), innovativeness (Menon et al. 1999), and strategic flexibility (Grewal and Tansuhaj 2001) influence 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, results in different firm outcomes (e.g., organizational learning, market performance). Likewise, we posit that a firm's organizational traits will influence its proactive marketing during the recession, which, in turn, will influence its performance during the recession.

Because proactive marketing is a new construct, we chose a discovery-oriented approach (Deshpandé 1983) to identify its organizational antecedents. Field interviews with senior marketing executives indicated that (1) the firm's marketing and organizational culture and (2) the firm's resource availability and deployment influence its inclination to deploy proactive marketing during a recession. Based on these field interview inputs, we conducted a review of the related literature (Porter 1980; Miller 1988, Bourgeois 1981; Nohria and Gulati 1996, Covin and Slevin 1989; Johnson and Sohi 2001, Evans 1991 and Grewal and Tansuhaj 2001) and determined that the antecedents of proactive marketing can be grouped into four main dimensions: the firm's strategic emphasis on marketing, its entrepreneurial culture, organizational slack, and the firm's strategic flexibility. We examine the effects of proactive

marketing on two sets of outcomes—market performance and business performance. Figure 1 outlines our theoretical framework. We next describe the hypotheses relating the four organizational antecedents to proactive marketing and, the consequences of proactive marketing on firm performance.

---- Insert Figure 1 here ----

Strategic Emphasis on Marketing

Firms that place high strategic emphasis on marketing use positioning, market segmentation, and marketing communications to create a distinct, favorable image for their offerings relative to those of competitors (Miller 1988; Moorman and Rust 1999; Porter 1980). For such firms, marketing activities help in generating 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 targeted consumers.

We hypothesize that factors both internal and external to the firm may induce firms with a strategic emphasis on marketing to exhibit proactive marketing during a recession. Because of their traditional strategic emphasis on marketing differentiation and their historical investments in marketing, executives in such firms (not just those in the marketing function) have an appreciation of the importance of, and the process by which marketing investments help their firm 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 and Palia 1982; Homburg, Workman and Krohmer 1999). In addition, non-marketing executives (e.g., finance, top management team) in such firms are likely to understand and appreciate the role marketing investments play in buffering the firm's response to a demand recession and downward pressure on prices. Thus, even non-

marketing executives in these firms may be reluctant to cut back marketing investments during the recession.

In addition, there may be some external factors that influence the proactive marketing in firms that strategically emphasize 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 demand recession and subsequent cutback in overall marketing investments, offer more cost-effective marketing investments in terms of both total outlays (e.g., discounts) permitting more cost-effective increases in share-of-voice. Even though cost-effective investments are available to all firms, firms with a strategic emphasis in marketing are more likely (because of their prior expertise and buying clout) to capitalize on these opportunities (Cahners 2002). 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 and Anderson 1986) for such firms. Hence,

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

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 in order to obtain a competitive advantage (Covin and Slevin 1989; Johnson and Sohi 2001). The strategic orientation of these firms is similar to those of Miles and Snow's (1978) prospector firms. 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. Entrepreneurial firms perform well in hostile and uncertain environments partly because they adapt their competitive efforts to the prevailing conditions and seek competitive advantage by taking risks in such environments (Covin and Slevin 1989). Investing during a recession is a risky, contrarian strategy (DeDee and Vorhies 1998). The risk-taking proclivity of entrepreneurial firms will be more likely to induce them to make 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 during a recession.

Organizational Slack Resources

Consistent with past research on organizational slack resources (Bourgeois 1981; Nohria and Gulati 1996), we define slack as the pool of resources an organization has that is in excess of the minimum necessary to produce a given level of output. Slack resources include underutilized human resources, unused production capacity, and excess cash resources. Past research suggests that firms use slack to respond to uneven performance (Kamin and Ronen 1978) or environmental jolts (Meyer 1982) as well to engage in innovation (Nohria and Gulati 1996). Specifically, slack resources permit firms to experiment with new or unusual business strategies (Levinthal and March 1993). Slack can allow firms to focus on longer-term results, providing the means to pursue opportunities presented by a recession. Hence,

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

Strategic Flexibility

As discussed earlier, strategic flexibility is the organizational ability to manage political and economic risks by promptly responding to market threats and opportunities (Grewal and Tansuhaj 2001). Built by means of a flexible resource pool, and a portfolio of strategic options, strategic flexibility enables firms to manage effectively in uncertain and fast-occurring markets. Proactive marketing calls for resource deployment in marketing activities during the recession—which will necessitate the efficient re-allocation of resources in the firm to implement the firm's response to the recession. Thus, strategic flexibility will allow firms to more easily reallocate resources during a recession, allowing them to alter and adapt programs and strategies effectively (Evans 1991). Hence,

H4: The greater a firm's strategic flexibility the greater its proactive marketing during a recession.

Effects of Proactive Marketing on Firm Performance

Research on firm performance in hostile environments suggests that risk-taking may be necessary for survival and growth in such environments (Covin and Slevin 1989; Miller and Friesen 1983). Therefore, firms that are capable of effectively investing in marketing during a recession (i.e., taking risks) should perform well. 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. In addition, during a recession, some customers become more conservative and take fewer risks, favoring stronger brands and firms (Hillier and Baxter 2001). 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 brands/firms that they perceive to be weak. For example, Godar and O'Connor (2001) discuss the non-selling objectives of trade show participation and show that exhibition attendance can signal strength and stability both to buyers and competitors. Hence, we hypothesize a positive effect of proactive marketing on market performance. In addition, costs of inputs (e.g., advertising, human resources, and raw materials) decrease during a recession (Zarnowitz 1985) and this reduction in input costs, combined with the increased marketing effectiveness of the proactive firm should result in improved business performance. This hypothesized relationship is consistent with past research on the relationship between market performance and business performance (Buzzell and Gale 1987). Hence,

H5a and H5b: The greater the proactive marketing of a firm during a recession, the better its a) market performance and b) business performance.

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

METHOD

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 B2B 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 investments of firms in a recession, we used senior marketing executives as key informants.

Of the 1200 surveys we mailed out, 90 surveys 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 1100), yielding an effective response rate of 14 percent, which is similar to the response rates obtained in recent surveys of senior managers (Frels, Shervani and Srivastava 2003). Table 2 contains the descriptive statistics of the sample, which indicates that our sample represents a broad range of B2B firms both in terms of industry and size.

---- Insert Table 2 here ----

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 middle-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 Miller's (1988) scale for differentiator marketing strategy.

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

Organizational slack resources (SLACK) can be measured using either objectively or subjectively (Bromiley 1991; Chattopadhyay, Glick and Huber 2001; Nohria and 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, Glick and Huber (2001). For the 20 firms in our sample that were publicly limited corporations, we obtained objective measure of slack measured 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 *strategic flexibility* (FLEX), we used the four-item measure developed by Grewal and Tansuhaj (2001).

For *market performance* (MPERF), we developed a measure that includes performance on four dimensions—sales, sales growth, market share and market share growth.

For *business performance* (BPERF) our measure includes performance on two dimensions—profitability and cash flow. In the survey, we also collected data on the firm's performance prior to the recession on all performance measures to serve as a covariate in our analysis.

To establish the convergent and discriminant validity of proactive marketing, we also collected measures of the related traits of market orientation (Kohli and Jaworski 1993), and competitor orientation (Slater and Narver 1994). To reduce respondent fatigue, we used the 10-

item version of market orientation (Deshpandé and Farley 1998) instead of the 20-item scale (Kohli, Jaworski and Kumar 1993).

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 quite long (mean tenure = 8.03 years). Hence, the respondents appear quite 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, and Anderson 1993; Van Bruggen, Lilien and 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 condensed 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 market and business performance measures between the two informants' reports indicated that these means were not statistically different: (M = marketing informant and F = finance informant): market performance (M = 18.24, F = 18.50, ns), and

business performance ($M = 9.48$, $F = 9.25$, 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 20 publicly listed single-division firms in our sample. Our two-item measure of business performance correlates well with the following objective performance measures obtained from secondary sources: return on assets relative to industry ($\rho = 0.60$; $p < 0.01$), 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.

Finally, 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 marketing (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), slack (ER = 13.32, LR = 13.83, ns), strategic flexibility (ER = 17.81, LR = 18.23, ns), market performance (ER = 18.80, LR = 19.08, ns) and business performance (ER = 9.32, LR = 10.08, ns). We estimated the reliability of each scale by computing its Cronbach's alpha. The reliabilities range from 0.73 to 0.91, which exceed the 0.70 recommended for exploratory research (Nunnally 1978). Table 3 provides descriptive statistics, the pair-wise correlations, and the reliabilities of the multi-item scales.

---- Insert Table 3 here ----

RESULTS

Construct Validity of Proactive Marketing

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 ($n=130$), with the scale values ranging from 11 to 63 (out of a possible range of 9 to 63). Exploratory factor analysis of the nine-item proactive marketing scale, using the eigen-value criterion, indicated that all the items loaded onto one factor, indicating the uni-dimensionality of the scale.

We performed a confirmatory factor analysis to investigate the distinctiveness of proactive marketing from market orientation, competitor orientation and strategic flexibility (Table 4). All factor loadings are large and significant ($p < 0.01$), indicating that the items display good measurement properties. Our model yields non-normed fit index (NNFI) = 0.93, comparative fit index (CFI) = 0.93, root mean square error of approximation (RMSEA) = 0.08, and standardized root mean square residual (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 proactive marketing (Fornell and Larcker 1981). The composite reliability (CR) and average variance extracted (AVE) are as follows: proactive marketing: CR = 0.91, AVE = 0.53; market orientation: CR = 0.91, AVE = 0.50; competitor orientation: CR = 0.74, AVE = 0.45; and strategic flexibility: CR = 0.80, AVE = 0.52. Hence, the results indicate that the four constructs demonstrate satisfactory levels of internal consistency and convergent validity. Regarding discriminant validity, the 95% confidence intervals of the correlation between the constructs are well below 1.00 ($p < 0.01$). The AVE of proactive marketing (0.53), market orientation (0.50), competitor orientation (0.45) and strategic flexibility (0.52) exceeds the squared correlations between them and excluding the AVE for competitor orientation (not the key construct in this

study) all of them exceed 0.50. Hence, proactive marketing is empirically distinct from market orientation, competitor orientation, and strategic flexibility.

---- Insert Table 4 here ----

General Theory Testing Approach

We tested our model of the antecedents and effects of proactive marketing by using structural equation modeling with LISREL 8.52. We included performance measures before recession for both market performance and business performance as controls for market and business performance respectively.

We first estimated the path model in Figure 1, studying the relationship between the antecedent variables and proactive marketing and market and business performance to test our hypotheses (Model 1). Next, we investigated whether proactive marketing completely mediates the effects of these antecedent variables on performance. Past research in strategy has separately shown the effects of each of our antecedent variables of proactive marketing on firm performance: strategic emphasis on marketing, entrepreneurial culture (Covin and Slevin 1989), slack (Bromiley 1991), and strategic flexibility (Evans 1991; Grewal and Tansuhaj 2001). Hence, we estimate a model (Model 2) which includes these relationships (shown by dashed lines) between the four antecedents and market and business performance (Figure 2 with additional relationships shown by dashed lines). Then, to examine the explanatory power of proactive marketing in mediating the effects of the antecedent variables on market performance and business performance, we estimated a model in which we eliminated proactive marketing but included only its antecedents (Model 3). 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) and conditions for convergent and discriminant validity are satisfied.

---- Insert Table 5 here ----

Hypothesized model. Table 5 summarizes the results. We first report the results of the estimation of the hypothesized model (Model 1: Figure 1) in column 1 of Table 5. The overall fit measures suggest that the hypothesized model provides a good fit to the data, particularly given the attenuation in fit measures for complex models such as the ones we test here. The overall model $\chi^2 = 1471.04$ (degrees of freedom (df) = 641, $p < 0.01$) is significant and the model fit (CFI= 0.91, NNFI = 0.91, SRMR = 0.08, RMSEA = 0.08) is good and compares well with those obtained in the marketing strategy literature (e.g., Matsuno, Mentzer and Özsoyler 2002; Noble and Mokwa 1999). As expected, market and business performance before the recession have an effect on market and business performance during the recession respectively. We find support, at varying levels of significance, for hypotheses H1-H4 characterizing the effects of the antecedents of proactive marketing. As hypothesized in H1, H2, H3 and H4 respectively, there is a positive effect of strategic emphasis on marketing ($b = 0.24$, $t = 2.60$, $p < 0.01$), entrepreneurial culture ($b = 0.21$, $t = 2.04$, $p < 0.01$), organizational slack ($b = 0.30$, $t = 3.50$, $p < 0.01$), and strategic flexibility ($b = 0.17$, $t = 1.71$, $p < 0.10$) on proactive marketing, providing support for the proposed antecedent model.

With respect to market performance, as hypothesized in H5a, we find a positive effect of proactive marketing on market performance ($b = 0.54$, $t = 6.52$, $p < 0.01$). However, contrary to H5b, we find no direct effect of proactive marketing ($b = -0.06$, $t = -0.74$, ns) on business performance. Market performance has a positive effect on business performance ($b=0.68$, $t = 5.80$, $p < 0.01$); therefore proactive marketing has an indirect positive effect on business

performance ($b = 0.31 = 0.54 \times 0.68 - 0.06$) through its effect on market performance. In sum, the results of the path analyses support the theoretical framework and most of the hypothesized relationships.

---- Insert Figure 2 ----

Model including direct effect of antecedent variables on performance. To investigate the mediating effects of proactive marketing, we estimated a model that included proactive marketing *and* the direct effects of the four antecedent variables on the two performance measures (Model 2: the model in Figure 2 and results in Column 2 of Table 5). The overall fit is good (CFI = 0.92, NNFI = 0.91, SRMR = 0.07 and RMSEA = 0.07) and the model $\chi^2 = 1453.07$ (df = 633) fits better than the hypothesized model, which excluded the direct effects of the antecedent variables. We once again find support for all hypothesized effects except for H5b, the effect of proactive marketing on business performance. In addition, our results support two un-hypothesized direct relationships between the antecedents and market performance: strategic emphasis on marketing ($b = 0.24$, $t = 2.43$, $p < 0.01$), and strategic flexibility ($b = 0.20$, $t = 1.96$, $p < 0.01$) and two relationships between the antecedents and business performance: organizational slack ($b = 0.31$, $t = 3.64$, $p < 0.01$) and strategic flexibility ($b = -0.21$, $t = -2.18$, $p < 0.01$). Somewhat to our surprise, strategic flexibility has a negative effect on business performance. Business performance is a complex, multi-dimensional construct (Venkatraman and Ramanujam 1986) dependent on a number of other factors (e.g., debt leverage, capital expenditure) that we did not examine here. Also, we measured business performance concurrently with its antecedents. Hence, strategic flexibility, the deployment of resources to manage a current crisis (with a view toward improving long-term performance), may have a temporary negative effect on business performance. This result is consistent with Grewal and

Tansuhaj (2001; p. 76) who find that strategic flexibility has a negative effect on performance before an economic crisis but a positive effect on performance later on.

We next examined the difference in Chi-square between this model and the hypothesized model (Figure 1). That difference is statistically significant (diff in $\chi^2 = 17.97$, difference in df = 8, $p < 0.02$), indicating that a model that includes direct effects of antecedents fits better than one that excludes them. In addition, the squared multiple correlation (SMC) denoting the variance explained in the two performance variables increases with the inclusion of the direct effect of the antecedent variables: SMC increases to 0.45 and 0.44 in the model with the inclusion of the direct effects of the antecedents on performance (Figure 2) compared to 0.31 and 0.24 in the hypothesized model (Figure 1) for market and business performance respectively.

Model excluding proactive marketing, but including antecedent variables. We next estimate a model that excludes proactive marketing and only includes the four variables and the two performance variables (Model 3: results in Column 3 of Table 5). The model fit is poor (CFI = 0.91, NNFI = 0.90, SRMR = 0.19 and RMSEA = 0.10); the model $\chi^2 = 1524.53$ (df = 639). The difference in Chi-square between this model and the model with the partial mediation of proactive marketing with the direct effects of antecedents included (Column 2 of Table 5) is significant (diff in $\chi^2 = 71.46$, difference in df = 6, $p < 0.01$). Thus a mediating model that includes proactive marketing provides a superior explanation of the underlying relationships than a model that excludes it.

Additional Analyses

We performed additional analyses to determine the robustness of our model specifications, to test for the presence of latent classes in the sample, and to check for a possible mono-method bias in the performance data provided by our key informants.

Interaction effects of antecedents. Because of a lack of prior theory, we did not develop a priori hypotheses about interaction effects between the antecedents of proactive marketing. However, we estimated a post-hoc model of the interaction effects of the strategic emphasis on marketing with the three organizational antecedents—entrepreneurial culture, organizational slack resources and strategic flexibility. We computed the latent scores, created interaction terms, and re-estimated a path model by incorporating those interaction terms (Jaccard and Wan 1996). That analysis produced no statistically significant interaction effects. We also investigated non-linear relationships (e.g., inverted U-shape) between proactive marketing and performance by estimating a path model that included quadratic terms, but found no support for such relationships.

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 ($\alpha = 0.70$).³ 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 research and development (R & D) investments during the recession on firm 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 firm during the recession (which correlates well with proactive marketing; $\rho = 0.47$, $p < 0.01$).⁴ We re-estimated a path model including R & D investments, but, as expected, we do not find effects of R & D on either market or business performance.

Latent classes in the sample. The structural relationship between the antecedents and consequences of proactive marketing may be dependent, in part on the presence of different, latent strategic regimes (Wedel and Kamakura 2000). The appropriate way to investigate this issue is to estimate a structural equation model within a mixture model framework (Jedidi, Jagpal and DeSarbo 1997). However, our small sample size ($n = 154$) precluded such analysis (Jedidi, Jagpal and DeSarbo 1997; p. 57). Hence, we sought possible latent classes by separately estimating latent class regression models of the antecedents and consequences relationships (i.e., by regressing proactive marketing on the antecedents, and regressing performance on proactive marketing). In both the antecedents and the consequences models, information complexity criteria (AIC and BIC) indicated that a single-class model provided the best fit.

Validity of performance measures provided by key informants. We collected information on the performance of the firms from another informant—the senior finance executives—for 25 of the 154 firms in our sample—which is too small to estimate a structural path model. Instead, we estimated a regression model relating proactive marketing to market performance and 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 finance or marketing executive-provided performance ratings) and constructed an interaction term between the proactive marketing variable and the dummy variable and examined

the significance of this interaction term. For both market performance ($b = 0.12$, $t = 0.69$, ns) and business performance ($b = -0.21$, $t = -1.07$, ns), the interactions are not significant. These results provide evidence, albeit indirect, of the internal validity of the performance measures provided by our key informants.

DISCUSSION

"Every crisis is a brilliantly disguised opportunity, when looked at creatively"---Anon

There is limited (and mixed) evidence in the literature on the rewards to marketing activities undertaken during a recession. To address this research gap, we examined why some firms aggressively invest in marketing in a recession and others do not, and the implications of such marketing activities on firm performance. Our results confirm business press accounts of companies such as Dell, Microsoft, and BMW that view recessions as opportunities and exploit that perceived opportunity with aggressive marketing programs. Although business press anecdotes seem to indicate that marketing during a recession provide mainly long-term advantages, our research suggests that there are some immediate returns as well. We find that proactive marketing has a strong direct effect on market performance *even during the recession* and an indirect effect (through market performance) on business performance. Therefore, a pleasantly surprising 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 respond proactively 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. Note also that a strategic emphasis on marketing has

both a direct and an indirect (through proactive marketing) positive effect on market performance. This result highlights why not all firms would benefit by increasing marketing spending during recessions. Those firms that have a strategic emphasis on marketing have already 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 is more likely to benefit from the recession than K-Mart if they both choose to increase spending during the current recession. In terms of market and business performance, proactive marketing only partially mediates the effects of the organizational antecedent variables on performance, indicating that those antecedent variables also have direct effects on performance during a recession—over and above their effects through proactive marketing.

Theoretical Contributions

Proactive marketing during a recession. Anecdotal evidence and studies outside academia have highlighted the importance of sustaining marketing activities during a recession. However, to our knowledge, no academic research has systematically examined the nature of a firm's response to recession, particularly with respect to marketing, and 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, and demonstrate its distinctiveness from the constructs of market orientation, competitor orientation and strategic flexibility. Our results indicate that proactive marketing partially mediates the effects of its organizational antecedents and provides a significant explanation of performance during a recession over and above that provided by the organizational antecedents.

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. 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 such proactivity extends to other domains of the firm (e.g., human resources, new product development, and finance).

Impact of proactive marketing during recessions. Despite the severe effects of a recession on firm performance, there is very little research in general, and no recent research at all on this topic. Our study is the first systematic theory-based empirical investigation of this topic. Our results are reassuring—if firms have certain traits (e.g., a strategic emphasis on marketing) it does appear that they can improve their market and business performance during a recession by investing aggressively in marketing activities.

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 suggests that organizational traits affect firm performance in a recession through intervening strategic processes, such as proactive marketing.

Managerial Contributions

Our results of the positive relationship of proactive marketing with market performance and business performance (indirectly through market performance) are reassuring to firms stepping up marketing activities in the current recession. 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 executives who are advocates for stepping up marketing activities during a recession. 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, (3) slack resources, and (4) strategic flexibility, i.e., ability to rapidly re-deploy resources to adapt to changing circumstances.

Our results also suggest that even though a firm may be market-oriented, it does not necessarily imply that it will have the appropriate marketing response to a recession. While market orientation is crucial for managing markets profitably (Kohli and Jaworski 1993), firms should also be proactive to environmental changes, when it makes sense to do so, as in the case of a recession. For firms that wish to develop a proactive marketing response to a recession, we have identified three actionable drivers — instill an entrepreneurial culture, build slack resources, and establish strategic flexibility within the firm. 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, slack resources, and strategic flexibility would ensure greater productivity for their marketing efforts.

Limitations and Possible Extensions

Our research has 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—for which we find only an indirect effect through market performance. Performance during the recession is an important dependent variable worthy of investigation in its own right. Recessions usually represent a period 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 to explore how proactive marketing affects post-recession business performance.

We used a cross-sectional study 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, while representative, is limited to B2B firms, which have been hit particularly hard in this 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.

In sum, while there are some limitations to this study, the theoretical and empirical evidence we have presented in support of proactive marketing during a recession is both a compelling and reassuring finding and one that we hope spurs further work on this important topic.

FIGURE 1 (MODEL 1)

ANTECEDENTS AND CONSEQUENCES OF PROACTIVE MARKETING DURING A RECESSION

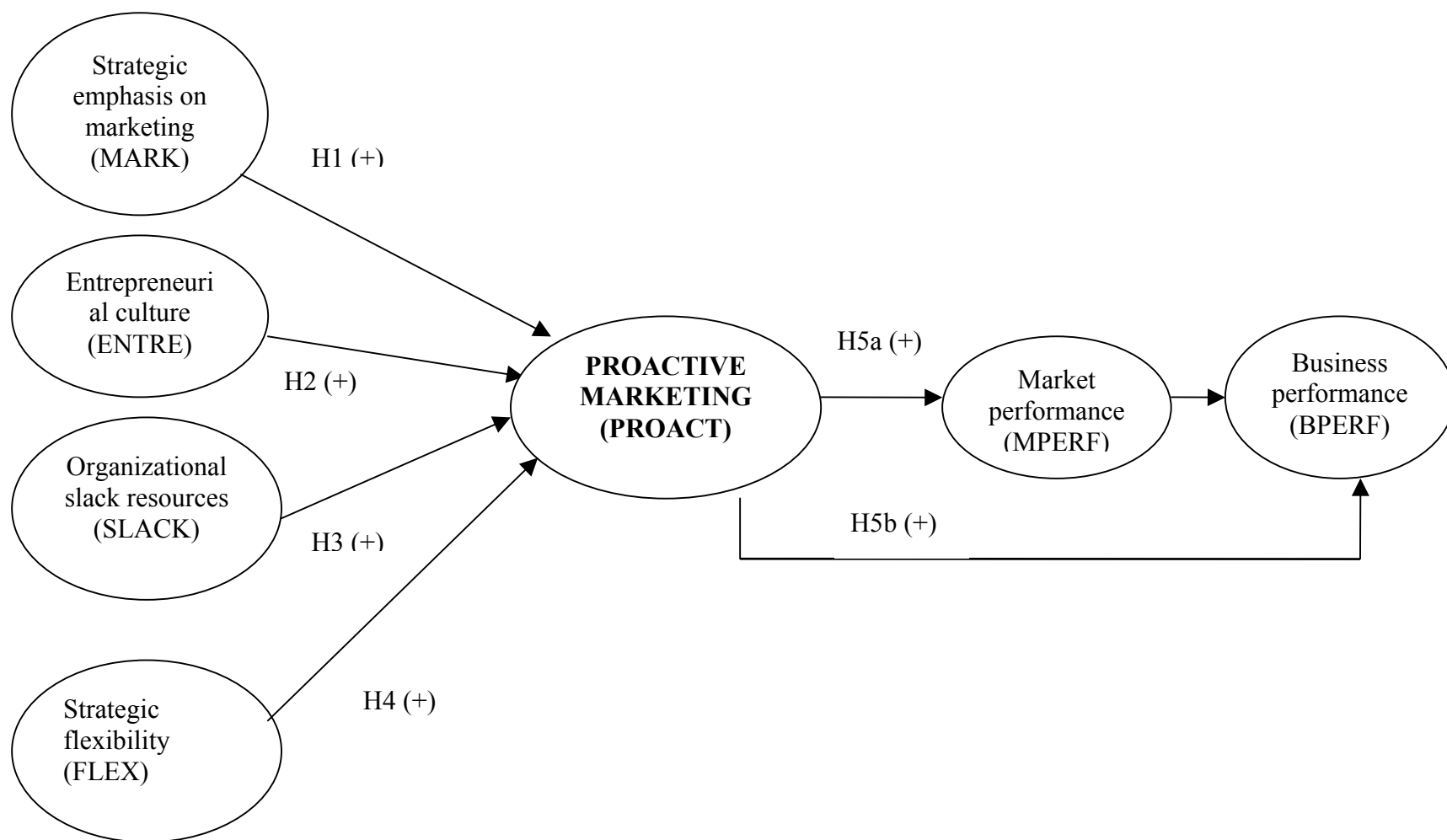


FIGURE 2 (MODEL 2)
ANTECEDENTS AND CONSEQUENCES OF PROACTIVE MARKETING DURING A RECESSION INCLUDING
ALL DIRECT EFFECTS OF ANTECEDENTS ON PERFORMANCE

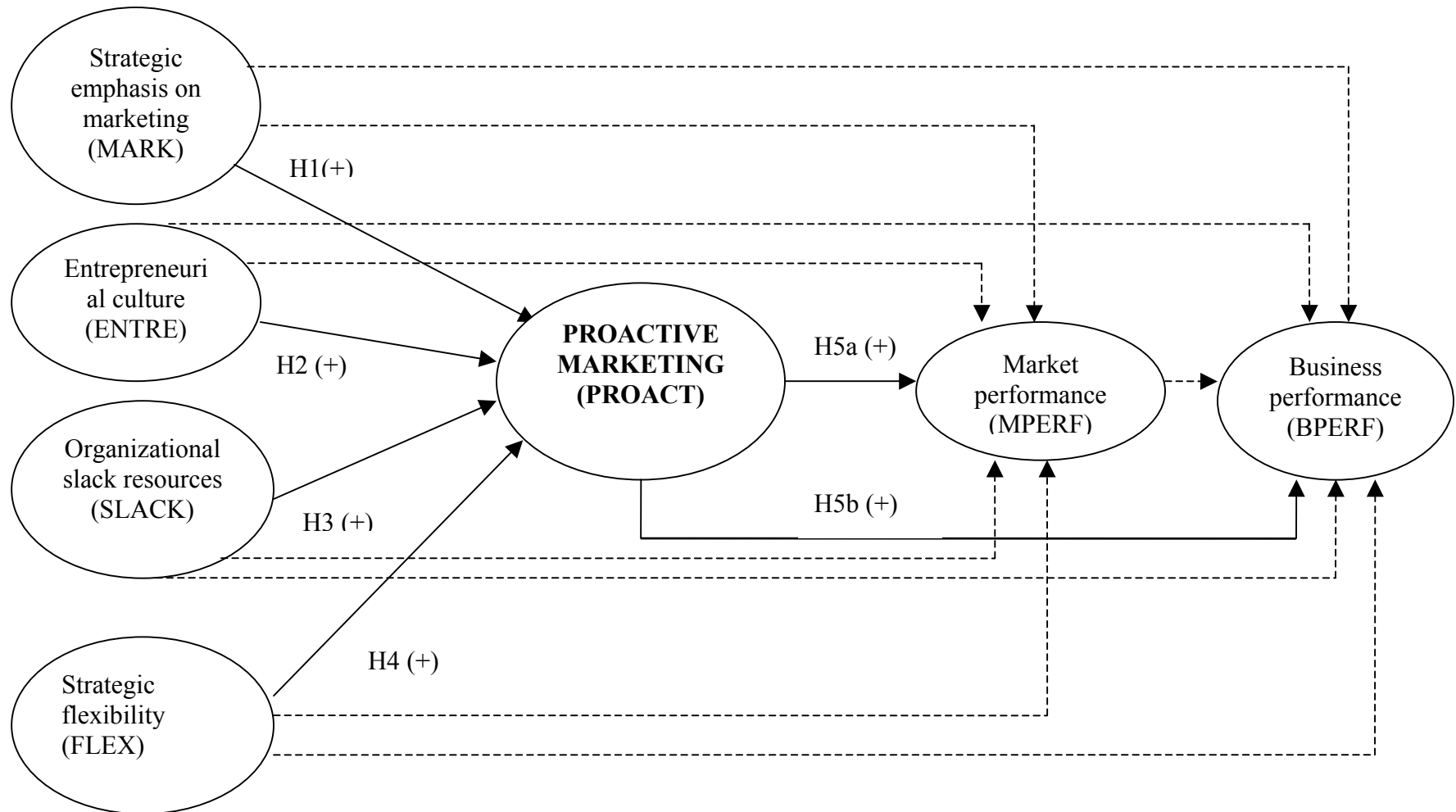


TABLE 1
KEY LITERATURE ON BUSINESS STRATEGIES DURING A RECESSION/BUSINESS CYCLE

Source	Theoretical Focus	Context; Sample	Results
Coulson (1979)	Problems of market planning in turbulent environments	Conceptual	Highlights the issues associated with market planning in a volatile economy.
DeDee and Vorhies (1998)	Contrarian human resources strategy of hiring employees on performance during a recession	Multi-industry; n=110	Retrenchment activities of firms during an economic downturn improved their performance.
Dhalla (1980)	Effects of changes in advertising expenditure on market performance	Multi-industry; n=Not available	Increased advertising expenditures for airlines during the 1974-1975 recession both increased sales and market share in both years, while airlines that reduced advertising lost both sales and market share in both years.
Mascarenhas and Aaker (1989)	Marketing strategies over the stages of a business cycle	Oil-well drilling industry; n=679	Firms adjust their strategies significantly and asymmetrically over business cycle stages.
Mizuchi and Stearns (1988)	Effects of environment on organizational decision making	Multi-industry; n= 22	Interlocking directorates from financial institutions are a function of business cycles.
Pearce and Michael (1997)	Effect of firm's marketing strategy of entrepreneurial firms on their performance during a recession	Multi-industry; n=118	Firm's marketing strategies preceding a recession strongly impact the effects of the downturn and its subsequent recovery. In addition, an emphasis on efficiency alone results in poor performance.
Picard and Rimmer (1999)	Impact of the recession on newspaper companies	newspaper companies; n=15	Larger firms in the newspaper industry were more affected by the recession than small firms and non-newspaper diversification reduced the effects of the recession.
Rigby (2001)	Contrarian strategy of investing on performance during a recession	Conceptual	During an economic downturn, firms that employ a contrarian strategy outperform slumping competitors and strengthen company for the upturn.
Sadhu, Prescott and Grant (1990)	Investment intensity and firm performance during a recession	PIMS data base; n=269	Increased investments during a recession negatively affect current profitability.
Shama (1993)	Difference between large and small firms in the effects of, and response to the recession	Fortune 500 firms; n=120	The meaning, perceived impact of, and the response to a national recession to marketing managers varied by firm size and business sector.
Venkatraman and Prescott (1990)	Relationship between market share and profitability in different stages of the business cycle	PIMS data base; n=899	Relationship between market share and profitability varies with different business cycles.
Wagner (1984)	Effects of investments on firm performance	PIMS data base; n=460	Profit growth and not the level of investment influence a firm's return on investment during a contraction in the business cycle.
Yang (1964)	The relationship between sales and advertising during a recession	Product categories; n=11	A strong effect of the cyclical nature of advertising—with reduction in advertising during a recessionary situation.

TABLE 2
PROFILE OF FIRMS IN THE SAMPLE (N=154)

Size	Number of Respondents	% of Sample
Industry Groups		
Information technology	48	31
Engineering	54	35
Telecom/Internet	33	22
Others	19	12
Total	154	100%
Sales Turnover		
< \$ 10 million	8	6
\$ 10 million - 24.99 million	42	30
\$ 25 million - 49.99 million	39	28
\$ 50 million - 99.99 million	25	18
\$ 100 million – 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
1,000 – 2,499	14	9
> 2,500	3	2
Total	154	100%

* - the remaining firms did not disclose their sales figures.

TABLE 3
CORRELATION MATRIX OF CONSTRUCTS IN STUDY (N=154)

	Min/Max Range	Means (sd)	1 PROACT	2 MARK	3 ENTRE	4 SLACK	5 FLEX	6 MPERF	7 BPERF
1. Proactive marketing in the recession (9 items)	11-63 9-63	38.70 (11.00)	<i>0.91</i>						
2. Strategic emphasis on marketing (4 items)	7-28 4-28	18.99 (4.59)	0.53	<i>0.73</i>					
3. Entrepreneurial culture (6 items)	8-42 6-42	27.25 (7.31)	0.55	0.51	<i>0.87</i>				
4. Slack (3 items)	3-21 3-21	13.46 (4.64)	0.47	0.25	0.39	<i>0.85</i>			
5. Strategic flexibility (4 items)	7-28 4-28	17.93 (4.50)	0.45	0.41	0.46	0.29	<i>0.79</i>		
6. Market performance (4 items)	4-28 4-28	18.88 (4.82)	0.56	0.48	0.43	0.37	0.38	<i>0.91</i>	
7. Business performance (2 items)	3-14 2-14	9.52 (2.67)	0.38	0.28	0.33	0.50	0.13 (ns)	0.63	<i>0.83</i>

Reliabilities of measures are on diagonal in italics. All correlations significant at $p < 0.001$, except ns denotes not significant.

TABLE 4
DISCRIMINANT VALIDITY OF PROACTIVE MARKETING FROM
RELATED CONSTRUCTS*

Non-normed fit index (NNFI) = 0.93, Comparative fit index (CFI) =0.93,
Standardized root mean square residual (SRMR) =0.08, and Root mean square error of
approximation (RMSEA) =0.08, n=154

Construct	Loadings (λ)	t-value	Composite Reliability	Average Variance Extracted
Proactive marketing (PROACT)				
PROACT1	0.81	12.04		
PROACT2	0.87	12.77		
PROACT3	0.78	10.98		
PROACT4	0.70	9.51		
PROACT5	0.84	12.21		
PROACT6	0.64	8.48		
PROACT7	0.60	7.83		
PROACT8	0.69	9.21		
PROACT9	0.59	7.60	0.91	0.53
Market orientation (MKT)				
MKT1	0.70	8.34		
MKT2	0.86	9.89		
MKT3	0.64	7.46		
MKT4	0.74	8.53		
MKT5	0.80	9.25		
MKT6	0.72	8.35		
MKT7	0.78	8.95		
MKT8	0.43	5.09		
MKT9	0.60	7.06		
MKT10	0.73	8.45	0.91	0.50
Competitor orientation (CO)				
CO1	0.68	7.34		
CO2	0.78	7.78		
CO3	0.62	6.52		
CO4	0.48	5.19	0.74	0.45
Strategic Flexibility (SF)				
SF1	0.48	5.34		
SF2	0.64	5.19		
SF3	0.82	5.76		
SF4	0.88	5.84	0.80	0.52

TABLE 5
MODELS OF THE ANTECEDENTS AND CONSEQUENCES OF PROACTIVE MARKETING

Variables	Proposed Model Parameter estimates ¹ (t-stat) (Model 1)	Proposed model plus direct effects of antecedents on performance (Model 2)	Model without proactive marketing, and only antecedents (Model 3)
Antecedents of proactive marketing			
Strategic emphasis on marketing (H1)	0.24 (2.60)***	0.23 (2.43)**	-
Entrepreneurial culture (H2)	0.21 (2.04)***	0.23 (2.15)***	-
Organizational slack resources (H3)	0.30 (3.50)***	0.30 (3.45)***	-
Strategic flexibility (H4)	0.17 (1.71)*	0.16 (1.60)*	-
Antecedents of market performance			
Proactive marketing (H5a)	0.54 (6.52)***	0.34 (3.39)***	-
Strategic emphasis on marketing	-	0.24 (2.43)***	0.31 (3.08)***
Entrepreneurial culture	-	-0.12 (-1.07)(ns)	-0.05 (-0.43) (ns)
Organizational slack resources	-	0.06 (0.72)(ns)	0.16 (1.85)*
Strategic flexibility	-	0.20 (1.96)**	0.26 (2.35)***
Market performance before the recession	0.31 (3.53)***	0.32 (3.45)***	0.33 (3.37)***
Antecedents of business performance			
Market performance	0.68 (5.80)***	0.70 (6.45)***	0.66 (6.47)***
Proactive marketing (H5b)	-0.06 (-0.74)(ns)	-0.12 (-1.31)(ns)	-
Strategic emphasis on marketing	-	-0.05 (-0.54)(ns)	-0.07 (-0.80)(ns)
Entrepreneurial culture	-	0.08 (0.86)(ns)	0.06 (0.66)(ns)
Organizational slack resources	-	0.31 (3.64)***	0.28 (3.51)***
Strategic flexibility	-	-0.21 (-2.18)***	-0.23 (-2.31)***
Business performance before the recession	0.22 (2.97)***	0.22 (2.92)***	0.22 (2.99)***
Chi-square (df)	1471.04 (641)	1453.07 (633)	1524.53 (639)
CFI	0.91	0.92	0.91
NNFI	0.91	0.91	0.90
SRMR	0.08	0.07	0.19
RMSEA	0.08	0.07	0.10

*** denotes $p < 0.01$, ** $p < 0.05$ and * $p < 0.10$. ¹ –standardized solution

APPENDIX A
MEASURES OF CONSTRUCTS USED IN THE STUDY

Constructs	Items
<p>Proactive marketing* (PROACT) ($\alpha = 0.91$)</p>	<ol style="list-style-type: none"> 1. Our firm's top 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 some of our cautious 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). [^]
<p>Strategic Emphasis on Marketing (MARK) ($\alpha = 0.73$) (adapted from Miller 1988)</p>	<ol style="list-style-type: none"> 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.
<p>Entrepreneurial Culture (ENTRE) ($\alpha = 0.87$) (adapted from Covin and Slevin 1989)</p>	<p><i>In dealing with competitors,</i></p> <ol style="list-style-type: none"> a. Our firm typically adopts a very aggressive posture. b. Our firm typically initiates actions which competitors then respond to. 1. Our firm is very often the first business to introduce new products/services, administrative techniques etc. 2. The top managers of this firm believe that bold strategies are required to achieve our business objectives. 3. When confronted with uncertainty, my firm typically adopts an aggressive posture to exploit potential opportunities. 4. In general, the top managers of this firm have a strong inclination for high-risk projects (with chances of high rates of return).

APPENDIX A
MEASURES OF CONSTRUCTS USED IN THE STUDY (CONTD.)

Constructs	Items
Organizational slack resources (SLACK) $(\alpha = 0.85)$ (adapted from Chattopadhyay, Glick and Huber 2001)	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.
Strategic flexibility (FLEX) $(\alpha = 0.79)$ (Grewal and Tansuhaj 2001)	1. We regularly share investments and costs across business activities. 2. We strive to derive benefits from operating in a diversity of market environments. 3. Our strategy emphasizes exploiting opportunities arising due to variability in the environment. 4. Our strategy reflects high level of flexibility in managing political, economic, and financial risks.
Market performance (MPERF) $(\alpha = 0.91)$	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). [#] <ul style="list-style-type: none"> • <i>Sales</i> • <i>Sales Growth</i> • <i>Market Share</i> • <i>Market Share Growth</i>
Business performance (BPERF) $(\rho = 0.83)$	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). <ul style="list-style-type: none"> • <i>Profit</i> • <i>Cash flow</i>

[^] (R) denotes reverse-coded

* 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.

- Because the 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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Endnotes

¹ In the US, 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. In November 2001, the NBER Committee determined that a peak in business activity occurred in March 2001, followed by a decline in two subsequent quarters.

² The operational unit of analysis for preemptive 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.

³ The three item measure for cost-cutting is as follows ($\alpha = 0.70$): 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.

⁴ The four-item measure for R & D investments during the recession is as follows ($\alpha = 0.70$): 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.