

Citation:

Gyulavári Tamás, Kolos Krisztina (2015): The Impact of Proactive Strategies on Market Performance in Economic Downturn: the Case of Hungary. In: Adamantios Diamantopoulos, Bodo B Schlegelmilch, Arnold Schuh, Udo Wagner (ed.): "Convergence and Divergence in the New Europe: Marketing Challenges and Issues": Proceedings Of The 6th Emac Regional Conference. Vienna: Vienna University of Economics and Business.
(ISBN:978-3-200-04265-0)

The Impact of Proactive Strategies on Market Performance in Economic Downturn: the Case of Hungary

Recession in 2008/09 affected almost all the European countries seriously but some of them were hurt to greater extent. The timing of economic downturns can never be appropriate but it found Hungary at the time when it was in a vulnerable condition leading to a prolong struggle to find the way out. However, each company's own experience and approach in crisis can differ from what the whole economy would explain. This study aims to contribute to the emerging research field regarding the concept of proactive marketing. We investigated the relationship between approach to crisis as an opportunity and market performance. Based on a survey of 173 companies we demonstrated that proactive marketing can lead to better performance but larger companies have the advantage of implementing this strategy more successfully.

Keywords:

Proactive marketing, recession, market performance

1. Introduction

The 2008-2009 economic crisis had a long term impact on the business opportunities of Hungarian companies. By 2008, the year indicating the emergence of the global crisis, Hungary had already had a relatively low growth rate due to the 2006 stabilization program (Toth, 2013). The economic growth started to improve only from 2013 (from -6.6 % in 2009, -1.5% in 2012, and 1.5% in 2013). Currently the large external debts are more and more difficult to finance. Fiscal deficits are low but the gaps are filled with „crisis taxes” (Hungary Country Monitor, 2015). In 2014, the positive growth was also eroded by the uncertain external environment. It seems that Hungary has to face an extended recession period.

2. Literature Review

Over the past few years there has been a growing interest among academics in studying the impact of economic downturns from different perspectives. Recessions occur in quite unpredictable ways, their time and duration are hard to foresee: the two most recent recessions, the dot-com-related recession of the early 2000s and the housing-related recession of 2007 share those characteristics (Latham and Braun, 2011). The economic downturn is also called a period of austerity (Grossberg, 2009) which describes consumers’ reluctance to spend and a lack of trust in companies. Recession is often discussed in relation to environmental turbulence, considering turbulence as a broader concept of which recession is only a symptom (Rosier, 2011).

2.1 Strategic responses from a managerial perspective

The study of the recession of 2008-2009 and the previous ones led to a large number of papers summarizing the consequences of the crises and giving guidelines for companies (Grossberg, 2009, Kotler and Caslione, 2009, Piercy, Cravens and Lane, 2010, Reeves and Deimler, 2009). After ensuring the short term survival of the firm, companies should also consider the long term implications of their strategic moves in order that the company emerge from the downturn with competitive advantage (Reeves and Deimler, 2009).

A typical reaction in economic crisis is cutting the marketing budget, but this should be guided by strategic considerations (Kotler and Caslione, 2009). Retrenching or investing seem to be critical decisions in recession times. Companies are proposed to decrease marketing expenditures sacrificing future sales and profits. Proactive firms on the other hand have the chance to improve their competitive advantage (O’Malley, Story, and O’Sullivan, 2011) Furthermore companies should understand the psychology of recession and segment customers according to their recession psychology (Quelch and Jocz, 2009).

The key strategic responses are re-evaluation of marketing strategy, aggressive recruiting of marketing personnel, developing CRM, sharing marketing resources within a company, integrating sales and marketing functions, gaining efficiency and finding new expertise (such as social media (Rollins, Nickel and Ennis, 2014), strengthening their key account teams and implementing new marketing techniques such as crowd-sourcing (Nickell, Rollins and Helmann, 2013).

A specific interest is given to retailing (Favaro, Romberger and Meer, 2009; Sands and Ferrero, 2010). The general advice is that in tough times retailers should focus on people who are not the best customers, a special emphasis should be given to green and sustainable business practices as a way of reducing costs and creating competitive advantage for the post-recession period.

Table 1 Emerging Themes in the Literature on the Marketing Impacts of Recession

Theme	Focus	Reference
General effects of the recession	The effects of the Great Recession on marketing in the United States., field interviews	Rollins et al. (2014)
	Synthesis of academic theories and business experience on managing through an economic recession.	Kitching et al. (2009)
Strategy-performance link	Review of relevant literature and building an integrative framework	Latham & Braun (2011)
	Economic crisis impacts on companies, assessment of the effects of marketing strategies on company performance in such conditions, , survey, Turkey	Köksal & Özgül (2007)
	Propose the construct of proactive marketing	Srinivasan et al. (2005)
	Investigation of strategic reaction of companies to a recession, using the concept of proactive marketing	Mirjavadi (2015).
	The marketing actions that companies performed during the Great Recession, and the resulting effect on firms' performance. a discovery-oriented study	Nickell, Rollins, & Hellman (2013)
	Understanding how the business cycle influences performance and what strategies are effective in such turbulent times , recession 1990-91	Pearce & Michael (1997)
Market orientation/ culture	The role of market orientation and strategic flexibility in helping Thai firms manage the Asian crisis	Grewal & Tansuhaj (2001)
	Culture-specific differences in strategic decision-making and strategic issue analysis, and extensions to the field of strategic crisis adaptation	Sternad (2012)
Marketing spending	Time series analysis of advertising and promotional expenditures on firms' earnings, a differential impact of recession.	Graham & Frankenberger (2011)
	Meta-analysis of extant research on marketing spending during recessions.	O'Malley et al. (2011)
	Firm- and industry-level antecedents of advertising spending during economic contractions	Özturan, et al. (2014)
	Whether firms should spend more on research and development (R&D) and advertising in recessions., large panel of US firms	Srinivasan, Lilien, & Sridhar (2011)
The role of company size/ small businesses	Determine management response to economic recession , contrasting the results by sector and by company size, 1991 recession, survey	Shama (1993).
	Understanding crisis management using case studies from four UK small businesses	Churchill & Lewis (1984)
	Exploring how smaller, start-up firms adjust their strategies in response to economic recession, survey, software firms.	Herbane (2010)
	Small firm responses to a major economic downturn, based on empirical study in the UK and New Zealand.	Latham (2009)

In Table 1 we give a review on the emerging themes in the study of the marketing implications of recession. In the following part however we highlight two research directions that are the most relevant to our study.

2.2 The strategy and performance link in the time of recession

Recessions may have a substantial impact on company performance, however their impact is not the same for every firm. Some companies consider recession as an opportunity to strengthen their business and follow an aggressive marketing approach. Proactive marketing (Srinivasan, Rangaswamy and Lilien, 2005) leads to superior business performance even during the recession. Mirjavadi (2015) relied on the concept of proactive marketing to survey marketing strategy impacts on business performance during the recession in Iran and confirmed the role of proactive marketing in improving market and business performance. Similar results were found in other emerging markets (Köksal and Özgül, 2007). The results of this study showed that companies modifying their strategies in times of crises can improve their performance.

Economic recession, strategy and performance and their relation are still a promising field of study as proposed by Latham and Braun (2011). The authors found in their synthesis that this topic is still out of scope of the leading journals and more efforts should be directed toward the understanding of the impact of global recession and their occurrence in emerging economies.

2.3 Strategic responses by company size

The comparison of small and large firms has been a relevant issue over the past 30 years. Earlier studies (Shama, 1993; Churchill and Lewis, 1984) showed that the impact of recession might be different for small versus large companies, and that despite the fact that smaller companies are more vulnerable, they might find useful ways to cope with difficult times. Current research highlights the importance of understanding the attitudes of owners in relation to crisis management (Herbane, 2011), and draws the attention to their high level of adaptability and flexibility (Smallbone, D. et al, 2012).

3. Research Objectives and Methods

The objective of the research was to analyse the impact of proactive marketing on market performance and the effect of company size on this relationship. We formulated the following hypotheses:

H1: Proactive marketing has a positive effect on marketing performance.

H2: For small firms proactivity will have weaker relation to marketing performance than for larger firms.

The first hypothesis is supported by the studies in the field of proactive marketing (Srinivasan et al., 2005 and Mirjavadi, 2015). The second hypothesis is driven by the finding of previous studies suggesting that the impact of recession would be different for small versus large companies. We also know that smaller firms have more limited internal resources compared with larger firms, a typically narrower base of customers and product lines to spread risk across; and less bargaining power with a variety of external actors, including customers, suppliers and finance providers. (Smallbone et al, 2012). As a result the proactive attitudes may not have a direct and immediate impact on market performance and/or may not be coupled with the most efficient but resource dependent strategies such as aggressive advertising.

We relied on a survey carried out in 2013 in Hungary. The sampling frame was the database of the Hungarian Central Statistical Office. The sampling technique was a stratified one with company size, industry and region as strata. The sample size is 173. We excluded companies below 10 employees from the analysis. Respondents were managers responsible for marketing/sales or the CEO, who answered the questions if the company operates without independent marketing position.

To measure proactive marketing we used a short version of proactive marketing scale developed by Srinivasan, Rangaswamy, and Lilien (2005). The respondents indicated their agreements on a five-point rating scale.

- We view this downturn as an opportunity to leapfrog over our competitors (PM 1).
- Top managers of our firm view the downturn as an opportunity that will help us achieve our business objectives (PM 2).
- Our marketing plans extensively capitalized on the opportunities that arose because of the downturn (PM 3).

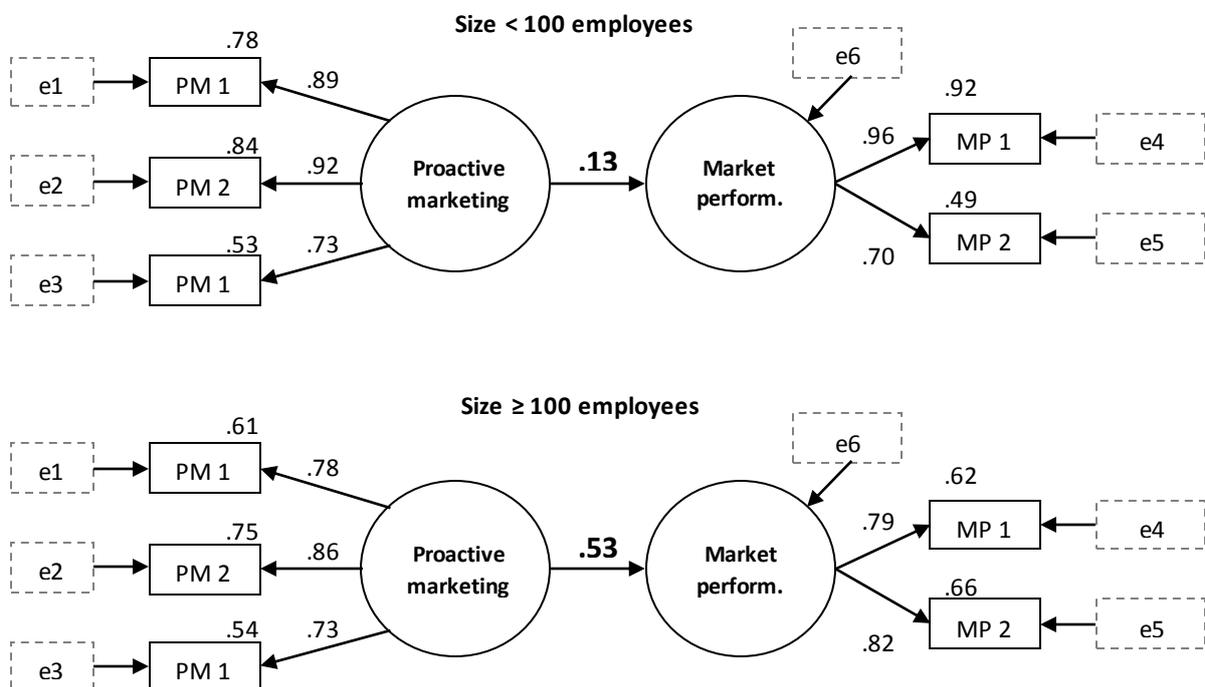
Market performance was measured by sales volume relative to the previous year (MP 1) and to the main competitor (MP 2).

We conducted multi-group analysis in AMOS 22 to determine the effect of company size on the relationship between the two constructs above. For this purpose we divided the sample into two groups, one of companies with less than 100 employees (58%) and another one of companies with equal or more than 100 ones (42%).

4. Results

In frame of our SEM analysis we found that proactive marketing had an effect on market performance. In case of the single group model, where all the companies were investigated as one sample, the standardised regression weight showed significant association between the two constructs ($r=.296, p=.000$). We investigated the same relationship within two segments based on company size, too. The results (Figure 1) show that in case of smaller firms the proactivity is not associated with performance and the relationship proved to be statistically insignificant ($r=.134, p=.213$). However within the group of larger companies we revealed a much stronger effect ($r=.530, p=.000$).

Figure 1 The effect of company size on the relationship between proactive marketing and market performance (standardised estimates of SEM analysis)



To determine if the associations of the two models are significantly different we ran the analysis again with constraint regarding the structural weights that is the regression estimates between constructs of proactive marketing and market performance and observed its effect on the model fit. The literature suggests that instead of investigating χ^2 –test we should focus on the absolute change of fit indices (Milfont and Fischer, 2010). Table 2 shows that the multi-group model still fits the data but the decrease of fit indices are greater than the acceptable cut-off value (.01) and we can draw the conclusion that the effect of proactive marketing is significantly stronger in case of larger companies than in case of the ones with less than 100 employees.

Table 2 Comparison of fit indices of the unconstrained and the constrained model

Fit indices	χ^2	P	RMSEA	NFI	Δ NFI	TLI	Δ TLI
Unconstrained multi-group model	14.03	.172	.037	.974	-	.976	-
Constrained multi-group model	19.88	.047	.052	.963	.011	.953	.024

5. Conclusions

As a conclusion to our study we would like to highlight its relevance to marketing theory. Our contribution is the (partial) replication of the proactive marketing scale (which has triggered only a limited number of studies so far) and its use in a Central Eastern European context. The impact of company size has not yet been investigated in the context of proactive marketing and our results draw the attention to the importance of focusing research efforts in that field.

As a consequence of the results we recommend further research on how larger companies can capitalise on the opportunities crises provide and which resources they should rely on to implement strategies efficiently in turbulent environment. We can find proactive companies of both smaller and larger size but disposable resources can moderate the effect of their efforts.

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