

Professional Pricing Society Executive Summary of Results:



How is organizational change accomplished with regards to the pricing function? In most companies, the pricing function receives limited attention, and pricing literature has been mostly silent about how critical organizational change is to the transformation of pricing orientation, how change capacity may affect pricing processes and how firms move along the journey towards pricing excellence. In order to bridge this gap and shed light on the factors that positively affect organization-

wide change for the pricing discipline, the Professional Pricing Society conducted an independent research study analyzing what pricers believe to be the most effective levers for change capacity. The results are presented here. For more information on this study, contact PPS President Kevin Mitchell at kevin@pricingsociety.com.

In most companies, the pricing function receives limited attention. Data from the Professional Pricing Society, the world's largest organization dedicated to pricing, noted that fewer than 5% of Fortune 500 companies have a full-time function exclusively dedicated to pricing management (Mitchell 2011). Because pricing is considered as a complex and sometimes political function (Lancioni, Schau et al. 2005), firms are sometimes reluctant to embark on a long journey towards pricing excellence and managers "throw in the towel" (Dolan and Simon 1996). Faced with uncertainty and complexity, managers often ignore an important aspect of the transformational journey: the management of change which is required to modify firm's DNA (Forbis and Mehta 1981) and pricing orientation over time (Liozu, Boland et al. June 2011) and for the long run.

Historically, pricing has received little attention from either practitioners or marketing scholars (Malhotra 1996, Noble and Gruca 1999, Hinterhuber 2004, Hinterhuber 2008). Pricing literature is silent about how critical organizational change is to the transformation of pricing orientation and how change capacity may affect pricing processes and how firms move along the journey towards pricing excellence (Liozu, Boland et al. June 2011).

To address this phenomenological gap, we propose a quantitative inquiry involving an online survey with pricing and marketing managers in firms who belong to Professional Pricing Society. We hope to understand the behaviors and practices that contribute to or hinder the development of change management strategies and the development of change capacity across the organization. We hope to shed light on the organizational and behavioral characteristics that influence the process of change and transformation towards pricing excellence and superior performance.

Theoretical Foundation

We present below some of the key concepts we used for our research project.

Organizational Change Capacity (OCC)

Moilanen (2005:71) defined OCC as "a consciously managed

organization with 'learning' as a vital component in its values, visions and goals, as well as its everyday operations and assessment." Judge and Douglas (2009:635), building on Hatum and Pettigrew (2004), proposed a combination of organizational and managerial capabilities allows "an enterprise to adapt more quickly and effectively than its competition to changing situations."

Organizational Ambidexterity

Organizations need to be able to find the right balance between adapting to environmental turbulences by embracing change and managing the day-to-day and short term operations (Birkinshaw and Gibson 2004). This challenge of change and stability is even more relevant when firms embark on a process of deep and continued change (Meyer and Stensaker 2006). Organizational change theory has been mostly preoccupied with the implementation of change as isolated events thus emphasizing organizational readiness to change. Meyer and Stensaker (2006: 228) propose that, to build capacity to change, "organizations need to balance between the need to implement changes, the need to maintain daily operations, and the need to implement changes in the future." This combination of change requirements is sometimes referred as ambidexterity.

Championing Behaviors

Top management plays a key role in defining and promoting corporate-wide priorities and new strategic programs but also in identifying, allocating and deploying strategic resources to support these programs (Chandler 1973:4). Executive experience, overall personality, and risk aversion behaviors help determine the course and rate of structural adaptation (Chandler 1973:283, Jaworski and Kohli 1993). Most times, however, executives fall short of championing deep organizational change activities by merely getting involved to make sure the process of change stays alive. Too many of them abdicate their responsibility and try to delegate the leadership of change (Nadler 1997).

Performance Management Systems

Champions also play a pivotal role establishing proper performance management context supporting the broader change

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mandate. High performance management context shape the individual and collective behaviors that, over time, enable adaptability and alignment (Birkinshaw and Gibson 2004).

Research Design

To test our hypotheses, we designed a cross-sectional self-administered survey to measure the latent variables associated with our conceptual model. Professional Pricing Society supported our research by 1) providing access to their database of active members, 2) distributing the survey electronically, and 3) conducting follow ups to non-respondents. Characteristics of the respondents are provided in Figure 1 below.

The survey was administered to the PPS membership base in an electronic manner. A link was included in an email sent by PPS marketing team. Following the initial email, two reminders were sent by PPS to encourage participation. Over 1500 responses were collected. After removing all partial and incomplete responses, 939 survey responses were deemed acceptable to perform statistical analysis.

Figure 1: Sample Characteristics

Nature	Count	%	Function	Count	%
B2B	761	81%	General Management	100	11%
B2C	143	15%	Marketing & Sales	148	16%
Not Sure	35	4%	Pricing and RM	631	67%
			Others	60	6%
Firm Size	Count	%	Corporate Pricing Team	Count	%
Less than 1000	215	23%	Yes	677	72%
1,001 to 10,000	294	31%	No	243	26%
Over 10,000	425	45%	Not Sure	19	2%
Not sure	5	1%			

Findings

Change and Pricing

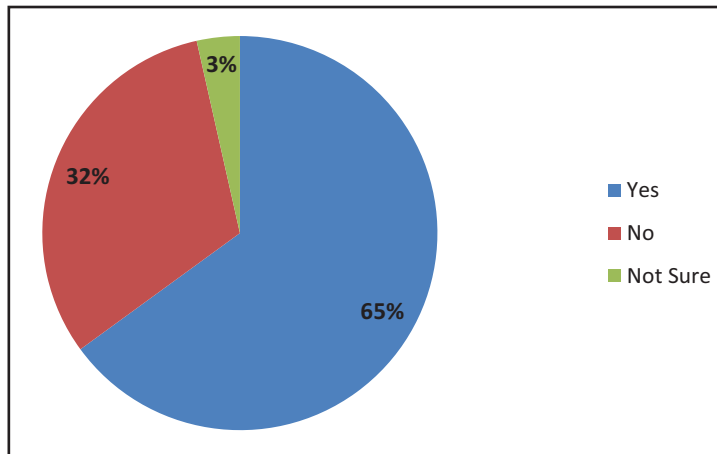
Our results indicate that a vast majority of pricing professionals have already attended a dedicated and formal program relating to change management as shown in Figure 2.

These change management programs were designed, prepared and conducted at various locations as shown in Figure 3. Out of 610 pricing and business professionals who attended such a program, 42% did so internally in their firm and 21% at a University or College.

Descriptive Statistics by Construct

Our survey was conducted with the purpose of performing structural equation modeling and of designing a causal model that would explain relative firm performance. The results of the structural equation modeling work are currently under review with top academic journals and might get published in the near

Figure 2: Have you Attended Formal Change Management Training? (n=939)



future. In this section, our focus is to provide readers with descriptive statistics on what the 939 pricing and business professionals considered important and relevant in pricing. We will divide this section by key survey construct.

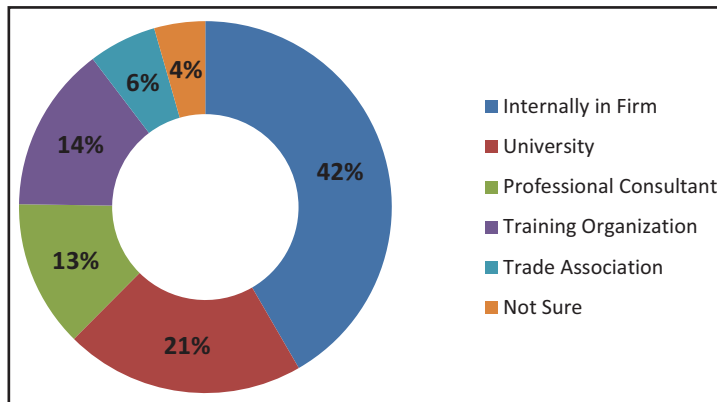
Organizational Change Capacity

A thirty-two item scale developed by Judge and Douglas (2009) was used to assess organizational change capacity. Each item was measured using a seven-point Likert scale anchored at the extremes by 'strongly agree' and 'strongly disagree'. This measurement scale consisted of eight critical dimensions of change each having 4 specific

items to be rated as show in Figure 4.

We aggregated the average score for each dimension based on the agreement ratings of respondents on each item. The Capable

Figure 3: Where Was This Training Conducted? (n=610)



Champion of change received the highest rating with an average of 4.99 out of 7. Closely in second position is the dimension of system thinking indicating that change agents and organizational actors need to think in multiple dimensions and consider interdependencies of all change activities. Dimensions related to accountability and trust came in respectively in third and fourth place (see Figure 5).

It is interesting to note that the dimension of innovation culture ranked in 7th place potentially indicating that change can still happen without necessarily having an innovation culture. With capable champions leading the charge, organizations can adapt and change.

Let us now review each dimension of change and their specific item ratings. Not surprisingly, interpersonal skills, will and creativity of change champions were rated the highest by our 939 respondents as shown in Figure 6.

Respondents also report the importance of institutionalizing changes for the long term by strongly addressing the root causes instead of just the symptoms of the need for change. There is a lot of discussion about incentives and reward systems design, our respondents rated this lower than other elements of change systems with a 4.73 out of 7 (see Figure 7).

When asked about accountability, respondents clearly indicated that accepting the responsibility for getting work done was the most important item in the dimension. This responsibility meant to meet deadlines and honor resource commitment as shown in Figure 8.

Trust was also an important dimension of the organizational change capacity dimension. For our survey respondents, trustworthy leaders demonstrate the ability to protect the core while encouraging change. They also show courage in their support for change initiative as shown in Figure 9.

The lack of support from middle management is often reported as a reason for change failure. In our survey, pricing and business professionals indicated that these middle managers need to show commitment to the organization well being and balance change initiative while getting work done. This concept of managing the current business while driving change is closely related to the concept of ambidexterity (see Figure 10).

Change cannot happen in organizations without change followers or organizational actors embracing initiatives and following the vision. These followers need to have the opportunity to voice their concerns about change as shown in Figure 11.

The most important item relating to an innovation culture is the need to have a

Figure 4: 8 Dimensions of Organizational Change Capacity

- (1) *Trustworthy leadership.* The ability of senior executives to earn the trust of the rest of the organization and to show organizational members the way to meet its collective goals (Barney and Hansen, 1994).
- (2) *Trusting followers.* The ability of the non-executive employees to constructively dissent with and/or willingly follow a new path advocated by its senior executives (Kelley, 1992).
- (3) *Capable champions.* The ability of an organization to attract, retain, and empower change leaders to evolve and emerge (Kanter, 1983).
- (4) *Involved mid-management.* The ability of middle managers to effectively link senior executives with the rest of the organization (Floyd and Wooldridge, 1996).
- (5) *Innovative culture.* The ability of the organization to establish norms of innovation and encourage innovative activity (Kotter and Heskett, 1992).
- (6) *Accountable culture.* The ability of the organization to carefully steward resources and successfully meet pre-determined deadlines (Ulrich *et al.*, 1999).
- (7) *Effective communication.* The ability of the organization to communicate vertically, horizontally, and with customers (Oshry, 1996).
- (8) *Systems thinking.* The ability of the organization to focus on root causes and recognize the interdependencies within and outside the organizational boundaries (Kilmann, 1991).

culture that values innovation and change. Other items were considered as less important for change by our 939 respondents as shown in Figure 12.

Finally items related to communication of change seem to be less important for our 939 respondents. All sources and destinations of information were rated equally. One can assume that, in today's business world, technology offer adequate communication

Figure 5: Dimensions - Average Score

Dimensions	Average Score
Capable Champions	4.99
Systems Thinking	4.89
Accountable Culture	4.87
Trustworthy Leaders	4.78
Involved Mid-management	4.78
Trustworthy Followers	4.64
Innovation Culture	4.57
Systems Communication	4.33

Figure 6: Dimension - Capable Champions

<i>In this organization, change champion(s)... (Dimension: Capable Champions)</i>	Average
Possess good interpersonal skills	5.11
Have the will and creativity to bring about change	5.04
Are willing and able to challenge the status quo	4.99
Command the respect of the rest of the organization	4.79
<i>Dimension Average</i>	<i>4.98</i>

Figure 7: Dimension - System Thinking

<i>In this organization, change champions recognize.... (Dimension: System Thinking)</i>	Average
The importance of institutionalizing change	5.09
The value of addressing causes rather than symptoms	4.92
The systems implications of change	4.81
The need to realign incentives with desired changes	4.73
<i>Dimension Average</i>	<i>4.89</i>

Figure 8: Dimension - Accountable Culture

<i>In this organization, employees.... (Dimension: Accountable Culture)</i>	Average
Accept responsibility for getting work done	5.24
Meet deadlines and honor resource commitments	5.00
Have clear roles for who has to do what	4.62
Experience consequences for outcomes of their actions	4.61
<i>Dimension Average</i>	4.87

Figure 9: Dimension - Trustworthy Leaders

<i>In this organization, business unit leader(s)... (Dimension: Trustworthy Leaders)</i>	Average
Protect the core value while encouraging change	5.00
Show courage in their support for change initiative	4.88
Consistently articulate a inspiring vision of the future	4.73
Demonstrate humility while fiercely pursuing the vision	4.50
<i>Dimension Average</i>	4.78

Figure 10: Dimension - Involved Mid-management

<i>In this organization, middle manager (s)... (Dimension: Involved Mid-management)</i>	Average
Show commitment to the organization well being	5.24
Balance change initiative while getting work done	4.81
Voice dissent opinions constructively	4.68
Effectively link top executives with frontline employees	4.38
<i>Dimension Average</i>	4.78

Figure 11: Dimension - Innovative Culture

<i>In this organization, our culture... (Dimension: Innovative Culture)</i>	Average
Values innovation & change	4.94
Allows people to take risks and occasionally fail	4.56
Attracts and retains creative people	4.43
Provides resources to experiment with new ideas	4.36
<i>Dimension Average</i>	4.57

Figure 12: Dimension - System Communication

<i>In this organization, information flows.... (Dimension: System Communication)</i>	Average
From customers to the organizational unit	4.46
In a timely fashion	4.32
Effectively between executives and workers	4.27
Across organizational units	4.25
<i>Dimension Average</i>	4.33

Figure 13: Championing Behaviors

Championing Behaviors	Average
Expresses strong conviction about the importance of pricing	5.30
Gets key decision makers involved in the pricing process	5.20
Expresses confidence in what pricing can do	5.19
Gets the right people involved in pricing discussions	5.04
Gets pricing problems into the hands of those who can solve them	5.02
Enthusiastically promotes the pricing function	4.76
Shows tenacity in overcoming obstacles when changes in pricing are needed	4.71
Acts as a champion of pricing	4.66
Knocks down barriers and obstacles to pricing implementations	4.51

levels (see Figure 13).

Behavior of Champion on Pricing

A nine-item scale adapted from Howell and Shea (2005) was used to assess champion behaviors. Each item was measured using a seven-point Likert scale anchored at the extremes by ‘strongly agree’ and ‘strongly disagree.’ The involvement of top management in our respondents’ firms is characterized by (see Figure 14).

As in previous studies which included a championing dimension, champions’ conviction in driving change initiatives is critical to get organizational buy-in and participation in change initiatives. Conviction is also complemented by champions’ confidence in what pricing can do and in what the team can achieve. Champions get decision-makers involved at the right place and at the right time in the pricing process and in pricing decisions.

Ambidexterity

A six-item scale developed by Birkinshaw & Gibson (2004) was used to assess organizational ambidexterity. Each item was measured using a seven-point Likert scale anchored at the extremes by ‘strongly agree’ and ‘strongly disagree’ (see Figure 15).

Respondents seemed mostly concerned with the issues of lack of alignment when resources are wasted and when employees work on the wrong priorities and on unproductive activities. The issue of conflicting objectives in change initiatives is also rated high. It reinforces the fact that change initiatives in pricing need to be closely aligned with the overall pricing programs and need to fit well in the overall pricing vision.

Performance Management Context

A six-item scale developed by Birkinshaw & Gibson (2004) was used to assess performance management context. Each item was measured using a seven-point Likert scale anchored at the extremes by ‘strongly agree’ and ‘strongly disagree’ (see Figure 16).

Respondents indicated that aggressive goal setting is a critical item for successful change in pricing. Business goals and performance measures are important to run the business and in particular important to change programs. Stretched goals for change performance also seemed to be an important element of the performance

management context.

Linear Regression Analysis

We conducted several linear regression analyses with the intent to identify these variables that might explain pricing power, pricing level and business unit profitability. We chose a backward step-wise regression method for each of the analyses. The backward stepwise regression method allows us to weed out all weak and non-significant items in the regression model.

Our first analysis considered the change drivers which influence business unit profitability. The most significant items among the 32 OCC items were “protect the core while encouraging change”, “provides resources to experiment with new ideas” and “possess good interpersonal skills” for change champions (see Figure 17).

All three items significantly and positively impact business unit profitability with a high degree of confidence. It is interesting to note that two items obtained negative regression weights indicating a negative influence on business unit profitability. The first item was related to the system implication of change and the second to the courage in supporting change initiatives.

When considering the relationship between the 32 OCC items and pricing power in the market, we identified different regression drivers. The item “(a culture) that value innovation and change” was the most significant change driver of pricing power with 100% confidence level. Three other items obtained close regression weights as shown in Figure 18.

One item also obtained a negative regression weight indicating that too much humility in leaders when considering change initiatives might negatively influence pricing power.

Finally a similar analysis between change drivers and absolute pricing levels reveals that the items “consistently articulate an inspiring vision of the future” had the highest positive influence on pricing levels. That reinforces the fact that a clear and well articulated pricing vision is important for the organization and its ability to change (see Figure 19).

We also wanted to investigate the relationship between pricing power and champion-

Figure 14: Dimension - System Communication

<i>In this organization, information flows.... (Dimension: System Communication)</i>	Average
From customers to the organizational unit	4.46
In a timely fashion	4.32
Effectively between executives and workers	4.27
Across organizational units	4.25
<i>Dimension Average</i>	4.33

Figure 15: Dimension - Ambidexterity

Dimension: Ambidexterity	Average
Management systems cause us to waste resources on unproductive activities	4.44
People often end up working at cross-purposes because our management systems give them conflicting objectives	4.37
Management systems work coherently to support the overall objectives of the entire organization	4.23
Management systems encourage people to challenge out-moded traditions/practices/sacred cows	4.00
Management systems are flexible enough to allow us to respond quickly to changes in the marketplace	3.80
Management systems evolve rapidly in response to shifts in our business priorities	3.71

Figure 16: Dimension – Performance Management Context

Dimension: Performance Management Context - Managers in my Organization.....	Average
Set challenging and aggressive goals	5.24
Use business goals and performance measures to run their businesses	5.22
Make a point of stretching their people	5.03
Hold people accountable for their performances	4.84
Issue creative challenges to their people instead of narrowly defining tasks	4.49
Encourage and reward hard work through incentive compensation	4.33

ing behaviors in pricing to identify the key behaviors in pricing champions that would positively or negatively influence pricing power in the market. Our analysis shows that champions can get the right people involved in pricing decisions and that these discussions lead to superior pricing power. Confidence and conviction by pricing champions also positively influence pricing power in the market as shown in Figure 20.

Conclusions

Our research project reveals some important facts about change management with pricing and business professionals:

- A vast majority of respondents have been exposed to formal training in change management either in their firm or at University indicating that change management is recognized as an important skill for pricing and business professionals.
- There are eight dimensions of organizational change capac-

Figure 17: Change Drivers of Business Unit Profitability

Change Drivers of Business Unit Profitability	Regression Weight	Confidence Levels
Protect the core value while encouraging change	0.190	100%
Provides resources to experiment with new ideas	0.120	99%
Possess good interpersonal skills	0.113	95%
Show commitment to the organization well being	0.093	95%
Experience consequences for outcomes of their actions	0.061	90%
The systems implications of change	-0.078	90%
Show courage in their support for change initiative	-0.104	95%
<i>R Square = 0.394 - 939 Respondents</i>		

ity that need to be considered when a firm wants to embark on large-scale pricing initiatives related to pricing. This reinforces the fact that change is multi-dimensional and somewhat complex. Change initiatives related to pricing need to be properly designed to account for all eight dimensions while focusing on the most important change drivers.

- The three most relevant dimensions of organizational change capacity are capable champions, systems thinking and a culture of accountability. All three were rated the highest by our 939 respondents.
- Organizations and their actors need to demonstrate the ability to run the daily operations and change initiatives at the same time. But both sets of activities need to be closely aligned with a proper pricing vision, aligned goals and performance outcomes. The dimension of organizational alignment as part of the change culture seems to be an important one.
- Leaders and change champions need to demonstrate that they can protect the core values and at the same time embrace change initiatives reinforcing our concept of ambidexterity. Change champions need to be capable of leading change, possess good interpersonal skills and show strong conviction, courage and confidence for change.
- We identified the drivers of change that positively and negatively influence pricing power, pricing levels, and business unity profitability. Three change drivers were identified: protect the core value while encouraging change, values innovation and change, and consistently articulate an inspiring vision of the future. These change drivers need to be considered as critical ones to support the change agenda in firms.

This research project uniquely linked pricing and change management. Our findings demonstrate the importance of change management in the pricing function. We aimed at starting a constructive discussion with pricing and business professionals on the topic and we hope these discussions will encourage more people to acquire greater change management skills to help their organization successful embark on their pricing transformation.

We thank all participants who took this unique academic survey related to pricing. We hope to have our work published in top marketing and management journals to promote the field of pricing and

Figure 18: Change Drivers of Pricing Power

Change Drivers of Pricing Power	Regression Weight	Confidence Levels
Values innovation & change	0.172	100%
Provides resources to experiment with new ideas	0.138	99%
Consistently articulate an inspiring vision of the future	0.127	99%
Protect the core value while encouraging change	0.125	99%
Demonstrate humility while fiercely pursuing the vision	-0.109	95%
<i>R Square = 0.427 - 939 Respondents</i>		

Figure 19: Change Drivers of Absolute Price Levels

Change Drivers of Absolute Price Levels	Regression Weight	Confidence Levels
Consistently articulate an inspiring vision of the future	0.167	99%
Protect the core value while encouraging change	0.107	95%
Provides resources to experiment with new ideas	0.101	95%
Allows people to take risks and occasionally fail	-0.092	95%
The systems implications of change	-0.125	99%
<i>R Square = 0.338 - 939 Respondents</i>		

value management. Thanks for the support.

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Figure 20: Drivers of Absolute Pricing Power – Championing Behaviors

Drivers of Pricing Power - Championing Behaviors	Regression Weight	Confidence Levels
Gets the right people involved in pricing discussions	0.189	100%
Expresses confidence in what pricing can do	0.126	95%
Expresses strong conviction about the importance of pricing	0.112	95%
Acts as a champion of pricing	0.097	90%
<i>Rsquare = 0.373 - 939 Respondents</i>		

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