

## Mindful pricing: transforming organizations through value-based pricing

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We address the following paradox: most scholars consider value-based pricing as superior to cost- and competition-based approaches in industrial markets – yet, few firms use it. Semi-structured interviews with 44 managers of small to medium size US industrial firms revealed key characteristics that are common to the firms who successfully implement value-based pricing: the ability to face deep transformational change, the role of champions as transformational leaders, the creation and diffusion of organizational mindfulness, the building of organizational confidence to fuel the transformation, and the design of center-led and specialized teams of experts supporting the firm's pricing process. Our data demonstrate that value-based pricing is not simply adopted but internalized through a long and purposeful process supported by a mindful, experiential, and transformative learning environment.

**Keywords:** industrial pricing; pricing orientation; value-based pricing; collective mindfulness; organizational learning

### 1. Introduction

Of three main approaches to pricing in industrial markets – cost-based, competition-based, and value-based – the latter is considered superior by most marketing scholars (Hinterhuber, 2004; Nagle & Holden, 2002) and pricing practitioners (Dolan & Simon, 1996; Forbis & Mehta, 1981). Yet, paradoxically, few industrial firms have adopted it. A meta-analysis of pricing approach surveys between 1983 and 2006 reveals an average adoption rate of just 17% (Hinterhuber, 2008b). Cost-based and competition-based approaches still play a dominant role in industrial pricing practice (Ingenbleek, Debruyne, Frambach, & Verhallen, 2001).

Historically, pricing has received little attention from practitioners and marketing scholars (Hinterhuber, 2008b; Malhotra, 1996; Noble & Gruca, 1999). A recent review of 53 empirical pricing studies (Ingenbleek, 2007) concluded that pricing literature is highly descriptive, fragmented and a-theoretical. The literature is silent about both the consequences of alternative pricing orientations on overall company performance (Cressman, 1999; Ingenbleek, 2007) and how organizational and behavioral characteristics of industrial firms may affect adoption of pricing orientation (Ingenbleek, 2007). To address this gap, we designed a qualitative, theory generating study based on semi-structured interviews with managers in small and medium US industrial firms. Our results reveal

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strong differences in the level of mindfulness demonstrated by top leaders who succeeded in adopting value-based pricing. Mindful leaders sense and integrate turbulence from the external environment, pay attention to pricing practices by investing in front line employee's capabilities, create a sense of resilience and courage in organization members, and design an organization where specialized pricing expertise leads to superior pricing decisions. 'Mindful', value-based pricing is a transformational initiative.

## **2. Methods**

### **2.1 Methodological approach**

We designed a qualitative field study using a grounded theory approach to get a better understanding of how managers experience value-based pricing decisions. Grounded theory is an explorative, iterative, and cumulative way of building theory (Glaser & Strauss, 1977). The main features of this approach include the constant comparison of data and use of theoretical sampling (Corbin & Strauss, 2008). As the constant comparison of data yielded insights about our phenomena of interest, we modified our protocol to provoke broader comparative and deeper personal narratives regarding pricing experiences, and expanded the sample population to reflect the three pricing orientations in industrial markets.

### **2.2 Sample**

Our sample consisted of 44 managers in 15 small and medium US industrial firms in three industries: building materials; transportation products; and resins & plastics products. Seven firms were small as defined by the Small Business Administration 2007 size standards by industry ([www.sba.com/size](http://www.sba.com/size)) as having 50 to 380 employees; and eight were medium-sized with 900 to 2200 employees. Six firms (providing 18 interviews) adopted cost-based pricing, five (resulting in 14 interviews) used competition-based pricing, and four (yielding 12 interviews) relied on value-based pricing. Respondents included 15 CEOs or top executives, 18 sales and marketing managers with full or partial responsibility for pricing, and 11 finance and accounting managers with decision-making authority. The firms were geographically diverse as interviews were conducted in 10 US states.

### **2.3 Data collection**

The primary method of data collection was semi-structured in person interviews conducted over a three-month period from April to June 2010. We focused on managers' experiences in making pricing decisions and participating in their firm's pricing process. We asked open-ended questions to elicit rich and specific narratives and used probes when needed to clarify and amplify responses. The overall goal was to elicit experience-based practitioner perspectives on the organizational factors that influenced the firm's strategic pricing decisions.

### **2.4 Data analysis**

Consistent with a grounded theory approach, data analysis commenced simultaneously with data collection. Three stages of rigorous coding then ensued which resulted in 40 categories yielding seven major themes and capturing 781 total 'codable moments'.

### 3. Findings

#### 3.1 Finding 1: Implementation of value-based pricing requires an organizational champion at the top management level

The role of top executives in firms using cost-based pricing (CBP) and competition-based pricing (COBP) was reported to be limited to approval of unusual pricing deviations, input on large contract negotiations, and clarification of uncertain and ambiguous pricing opportunities and the conduct of general business reviews. Top management in these firms was described by managers as involved only in day-to-day and tactical pricing. All of the executives in firms using value-based pricing (VBP), in contrast, were actively engaged in championing its implementation (see Figure 1).

	<b>Leadership emphasis</b>
VB4 – SM	‘They (top executives) end up being sponsors of the projects and understand full well what the issues are and why a project is required. The project is periodically reviewed by the leadership people ... they look at our results ... they understand why our results are what they are, and then they look at our strategy recommendations and approach.’
VB3 – SM	‘The fact that top management was behind (VBP implementation) – and that was probably the critical piece that made it successful – that top management was willing to go through the pain of making this change because not everybody was on board ... Again, I go back to the top management buy-in.’
	<b>Executive commitment</b>
VB4 – EL	‘(We) really did stand behind (VBP strategy) ... It is a commitment we are not going to change next year ... In the last 10 we’ve been pretty consistent in terms of our (pricing) strategy. Very consistent.’
VB3 – EL	‘We believe in long-term (and) sustainable management based on a well-defined (VBP) strategy, which needs to be executed over a large group of people. There’s nothing else to be said.’
COB5 – SM	‘... executive commitment to the (service and value model) initiative (has) ... made it the No. 1 strategic initiative for (Company) ... and from that stemmed everything else.’
	<b>Driving force</b>
VB3 – SM	‘What made (VBP) work was definitely the fact that top management helped sell it, helped, honestly, push it along as well. And over time, it’s proven that they were correct. But without the top management, it wouldn’t have happened.’
COB4 – EL	‘I’m a very big driver (of value strategies). I’m the biggest pain.’

Figure 1. Evidence of leader’s decisive influence. EL = Executive Leader; SM/SM2 = Sales & Marketing Leader.

Table 1. Stimulus for and duration of change.

Code	Stimulus for change	Value-based pricing orientation	
		Transformational journey	Main value-based pricing methods
VB1	<ul style="list-style-type: none"> <li>• Product launch failures</li> <li>• Issues in unmet needs identification</li> </ul>	5 years	<ul style="list-style-type: none"> <li>• Total cost of ownership</li> <li>• Economic value analysis</li> <li>• Conjoint analysis</li> </ul>
VB2	<ul style="list-style-type: none"> <li>• Technological &amp; materials change</li> <li>• Acquisition of method &amp; skills through M&amp;A</li> </ul>	Ongoing	<ul style="list-style-type: none"> <li>• Value-in-use analysis</li> <li>• Engineering project ROI</li> <li>• Total cost of ownership</li> </ul>
VB3	<ul style="list-style-type: none"> <li>• Lack of Segmentation</li> <li>• Price inconsistency by trade &amp; segment</li> <li>• Unstructured pricing</li> </ul>	4 to 5 years	<ul style="list-style-type: none"> <li>• Total cost of ownership</li> <li>• Customer acceptance test</li> <li>• Conjoint analysis</li> <li>• Economic value analysis</li> </ul>
VB4	<ul style="list-style-type: none"> <li>• Cost plus mentality</li> <li>• Cyclical approach to market factors</li> <li>• Too much focus on asset utilization</li> </ul>	7 years	<ul style="list-style-type: none"> <li>• Conjoint analysis</li> <li>• Economic value analysis</li> <li>• Value-in-use analysis</li> <li>• Sensitivity analysis</li> </ul>

Managers characterized these executives as driving the internalization of VBP throughout the firm and motivating organizational changes required to support it. Sales and marketing managers reported that support and conviction from top leaders was essential to the VBP adoption.

Respondents in all firms using VBP described its implementation as a long and difficult process triggered by a specific stimulus (as shown in Table 1), purposefully championed by top executives and requiring organizational transformation. As one manager observed:

the biggest barrier was the change itself – (overcoming) the belief that this will not be positive for (the company) and going from complete field control to corporate helping – by giving suggestions on pricing. And it was not easy at all.

### ***3.2 Finding 2: Mindful champions purposefully focus on the development on front line employee capabilities***

All firms using VBP in our sample emphasized the importance of training and designed specific formalized training programs for both existing and newly hired personnel. Only one in six firms using CBP, however, did so despite recognizing the importance of training (Figure 2).

### ***3.3 Finding 3: The internalization of VBP requires a high level of organization-wide confidence to create a sense of resilience and courage***

All firms using VBP reported that confidence of employees in their organization was increased when they strongly believed in the team's ability to implement VBP and if they shared strong beliefs in the firm's products, technologies, and values (see Figure 3). These beliefs gave sales staff greater courage to stand firm to customers' pricing objections and to be, as one respondent stated, 'superman for one second' when facing customers' objections (see Figure 4). CEOs and top executives in these firms seemed to be highly

<b>Firms that conduct specific pricing training</b>	
VB4 – SM2	‘As corporate marketing we’ve launched a number of initiatives which train people at multiple levels. So you have the everyday practitioners ... (trained in) not just pricing but general aspects of marketing. We are doing training for senior leaders. We are also trying to train people who are running important projects ... I am very focused on pricing. I do it as sessions in seminars.’
VB3 – SM	‘Every account manager learns how the pricing is done through the BTS which is three weeks of training when an account manager (or) a sales rep starts. And so that’s been one of the main ways to train the individuals on how to price, what the value is for selling trade templates.’
VB1 – EL	‘Train, train, train, train ... we are just making a contract with a training company in the USA... to really teach them value selling, strategic selling and distribution management ... that’s a program for the next 18 months.’
<b>Firms that do not conduct specific pricing training</b>	
CB3 – SM	‘Not a lot. We are very lean on all of our expenses, and so you won’t see us spend a lot of money on training. It’s expected that I try and convey that to the RVPs, and they convey it to their people. So we just do it by doing it.’
CB3 – EL	‘You know I don’t think we’re going to do formal training on it.’
COB5 – EL	‘No, not so much. We haven’t (done training), not as formal. Now they have training, certainly, that’s specific to their areas, but we’ve not done pricing training or anything like that.’

Figure 2. Differences in the training focus among firms with different pricing orientations. RVPs = Regional Vice Presidents.

VB4 – SM	‘... you have to look (customers) in the eye and say, “Ours (product) costs more. This costs more, and it’s worth it. You should pay more for that.” You have to be pretty confident to do that.’
VB4 – SM2	‘We have to look people in the eye and say, “we deserve to be paid more for our products”. We have to look them in the eye and you have to have confidence ... and say “we got engineers, we got scientists ... and so ours do cost more.”’
COB5 – SM	‘I think the top three factors to (value strategies) success: getting our people to believe in it, No. 1. Getting the customer to see value in it. Those are clearly the two (because) if you don’t have your people in alignment, going after it, and understanding it, and believing in it, they’re not gonna sell it.’

Figure 3. Importance of employee’s beliefs on confidence.

VB4	‘Constant interaction. Every week ... we give examples of how this worked ... celebrating
– SM2	(Name) as a hero because he implemented that price.’
VB3	‘That gets people courage when you start having a lot of success in areas that they might have
– SM	viewed as, “That’ll never happen.”’
COB5	‘... this was a great little quote: “You only need to be brave for one second, and it’s when the
– EL	guy asks for a discount and you say no. And then you justify it. That takes bravery.” So how do
	you get salespeople in a mindset to justify the price? You don’t have to go in there and be
	Superman for two hours. You have to be Superman for one second.’

Figure 4. Importance of courage and pricing heroes on confidence.

aware of the criticality of developing these internal beliefs and implemented specific programs and activities to boost organizational confidence. Three out of four firms using VBP focused on specific people development activities such as coaching sales staff, designing specific performance management programs, and targeted talent development plans around value orientation. This phenomenon was not observed in firms using CBP and was observed to only a limited extent in firms using COBP.

Firms using VBP also reported that they consistently communicated internal wins as well as market challenges in order to accelerate organizational buy-in and to facilitate internalization of VBP. Our findings (see Figure 5) indicate that success stories in the area of pricing increased organizational confidence and created ‘organizational heroes’ with respect to successful pricing activities.

Finally, three out of four firms using VBP emphasized the criticality of getting teams energized in order to promote its implementation. The CEOs working in these firms engaged in specific activities and behaviors designed to energize teams and to create emotional contagion in their organization.

#### ***3.4 Finding 4: Firms using VBP established a centralized pricing team providing specialized expertise to support pricing decision making***

All firms using VBP created specialized units composed of highly skilled professionals whose mission was to support the pricing decision-making process. These units included,

VB4	‘And you try to get people allied around the success stories that we have. That gets people
– EL	courage when you start having a lot of success ... and it is very contagious’.
VB4	‘So we try to show people examples of “here’s more value”. In these meetings, we’ll have some
– SM2	success stories.’
VB1	‘No. 2 (key success factor to VBP), create success stories and proven track records before you
– EL	implement the process.’

Figure 5. Importance of success stories on confidence.

as illustrated in Figure 6, a packaging engineering group, a dedicated pricing team acting as internal consultants, or a specialized market research team dedicated to the voice of the customer projects. The role of these units was to provide project-related support to managers who made business unit-specific pricing decisions.

In these firms, pricing responsibility was centralized and the department provided pricing support to the entire organization. Knowledge and capabilities were thus concentrated to create the concept of a center of excellence for pricing. Five out of six sales and marketing respondents in firms using VBP indicated that this central pricing function acted as a strong resource to improve managerial pricing management. None of the firms using CBP reported the existence of a centralized pricing function.

#### 4. Grounded theory findings

We draw on three key management constructs to theorize our findings: organizational champions; organizational mindfulness; and organizational efficacy.

##### 4.1 Organizational champions

Almost 50 years ago, Schon's (1963) seminal article on radical military innovation identified the critical role of a champion. A new idea, Schon argued, 'either finds a champion or dies' (p. 85). Chakrabarti (1974) linked the role of champion to the various stages of the collective decision-making process. The champion plays a critical role at all stages, overcoming technical and organizational obstacles by the 'sheer force of his will and energy' (p. 58).

Organizational champions have been defined as charismatic leaders (Nadler & Tushman, 1990), transformational leaders (Bass, 1985, p. 22), and change agents (Nadler & Nadler, 1997, p. 98) and may display a 'constellation of behaviors' (Howell, Shea, & Higgins, 2005) that can be nurtured and learned.

##### 4.2 Organizational mindfulness

Mindfulness, originally characterized by Langer (1989) as a state of alertness that is manifest in active information processing, includes: creating new categories rather than

VB1	'We have dedicated (functional) managers. They don't do anything else, and then just
–	(customer research), and this is observation of the customer. It's videotaping of the
EL	customer. It's understanding what is the unarticulated needs of the customer, and of course,
	also the articulated needs.'
VB4	'In a development group ... there's three people like (name) who are development managers.
–	We've got hundreds of development people in the world ... That's all they do. They don't
EL	sell a thing ... So they're doing the advanced design, advanced development.'
VB2	'We have engineering services, our project managers ... (who) can put together is a cost
–	justification analysis ... The department is called Engineering Services ... they'll bring in all
SM	the formulas/cost justifications from our customers' end.'

Figure 6. Evidence of role specialization in firms that use value-based pricing.

relying on categories present in our memory; welcoming new information by being open and attending to changed signals; and welcoming more than one view and being aware of multiple interpretations. Fiol and O'Connor (2003) observed that 'the greater the level of mindfulness of decision makers, the more likely it is they will use decision making mechanisms to expand their search for information' (p. 60). Mindfulness contributes to expanded scanning and to context-relevant interpretation of both internal and external conditions (Levinthal & Rerup, 2006).

Weick, Sutcliffe, and Obstfeld (1999) extended the concept of individual mindfulness (Langer, 1997) to the collective, describing it as the widespread adoption and diffusion of mindfulness by the organization's members. Mindfulness helps organizations to notice more issues, process them with care, and detect and respond to early signs of trouble (Weick & Sutcliffe, 2007). Weick and Sutcliffe (2007) describe five cognitive processes that constitute organizational mindfulness: (1) preoccupation with failure; (2) reluctance to simplify interpretations; (3) sensitivity to operations; (4) commitment to resilience; and (5) deference to expertise. These, they contend, are prevalent among members of high reliability organizations.

### **4.3 Organizational efficacy**

Social cognitive theory (Bandura, 1997) suggests that there are two main perceptions leading to an organization member's motivation to engage in teamwork activities and behaviors. These two perceptions are related to the 'individual's perception of his or her ability to perform generic teamwork behavior (self-efficacy) and perceptions regarding the team's possession of the resources required for completing the task (collective efficacy)' (Tasa, Taggar, & Seijts, 2007, p.19). The growing interdependency of individuals in organizations (Gully, Incalcaterra, Joshi, & Beaubien, 2002) requires greater collective agency (Bandura, 2000) in which people share a belief in their 'collective power' to produce desired results.

Bandura (1997) describes self-efficacy as the capacity of individuals to generate resources and abilities to cope with a control situation. Collective efficacy refers to the perception of teams and other social collections who perceive the capability of a group at the group level (Bohn, 2001). Confidence, an important component of organizational efficacy, is manifest in positive expectations for favorable outcomes and potential results (Hoover & Valenti, 2005). It influences the individual member's willingness to invest money, time, reputation, and emotional energy to shape the overall ability to perform (Kanter, 2006, p. 7).

### **4.4 Championing mindful organizational efficacy**

Our findings reveal that championing mindfulness is a prerequisite for sustained organizational efficacy, and that a sense of efficacy or confidence furthers the transformation sought by the champion. This parallels the findings of other researchers focused on the relationship between charismatic leadership and perceived organizational confidence. Charismatic leaders increase followers' self-worth by strengthening their self-efficacy (Shamir, House, & Arthur, 1993), defined as 'the judgment of one's capability to accomplish a certain level of performance' (Bandura, 1986, p. 351). Charismatic leaders increase 'effort-accomplishment expectancies' by reinforcing collective efficacy. They increase both self- and collective efficacy by expressing positive evaluations (Tasa et al., 2007), showing confidence in people to perform effectively and to meet challenges (Nadler & Tushman, 1990), awakening spirits that 'rouse up the troops' (Hacker & Roberts, 2003), and energizing members of the organization (Nadler & Tushman, 1990; Thompson, 2009, p. 100).



## 5. Discussion

We begin by discussing the deep transformational change required to implement VBP; then examine the connection between organizational mindfulness and industrial pricing from a learning theory perspective; finally we discuss how Weick and Sutcliffe's five cognitive processes apply to the process of transformation towards value-based pricing.

### 5.1 Value-based pricing requires deep transformational change

Marketing and pricing studies recommend VBP as a modern and advanced pricing approach (Cressman, 2010; Hinterhuber, 2008a; Nagle & Holden, 2002). However, the implementation and internalization of VBP requires deep organizational changes that transform the fabric of a firm's life and its identity as well as the identity of its members. This transformation is marked by a slow 'mutation' of what our informants called their 'firm DNA' from cost or competition to customer value. The respondent excerpts in Figure 7 illustrate how cost mentality is engrained in firm DNA while Figure 8 suggests that the transformation process does not happen swiftly.

The implementation and internalization process of VBP is a long, tenuous, and sometimes painful journey of change for the organization and its actors. The process requires intense and sustained organizational mobilization to transform established structure, culture, processes, and systems. Marketers, sellers and developers have to change their business mentality and their frames of reference, and embrace new value-related concepts as a new 'way of life' (Forbis & Mehta, 1981). They must also learn a new language in order to carry the value message internally and externally. As a result, people change and become 'organizational heroes' or they leave the organization.

### 5.2 Mindfulness and the learning organization

A key characteristic of high reliability and mindful organizations is their ability to learn (Weick & Sutcliffe, 2007) and to continuously aim to learn from their success and failures. The transformational nature of VBP requires that the organization learn through a process of experiential learning (Kolb, Boyatzis, & Mainemelis, 2001) or through trial-and-error experiments (Pfeffer & Sutton, 2006). Experimentation matters because 'it fuels the discovery and creation of knowledge and thereby leads to the development and improvement of products, processes, systems and organizations' (Thomke, 2003, p. 1). Consistent with experiential learning theory (Kolb, 1984), the learning process related to VBP requires both assimilation and accommodation learning styles. The organization and its members incrementally assimilate knowledge which will 'stick' (Szulanski, 1996) to existing pricing

COB5	'Our DNA is manufacturing ... I'm very used to standard cost ... the very traditional cost plus.
- EL	It just comes from being a manufacturing company ... I think we're dynamic and moving in the service models but we've dragged along this cost plus kinda pricing model.'
COB3	'We really do need to break away from the cost plus mentality and really look at what can we
- EL	really get for this business. I do challenge that, but maybe if the starting point is cost plus, you're never really breaking away from that thinking.'

Figure 7. Evidence of cost-plus mentality in firm's culture or DNA.

VB3	‘We’ve realized that if you adjust a price up or down, you may also have to adjust cost because
– SM	that’s typically what happens. And so since this cost is more based on management accounting, we’ve held it steady throughout the years. So this idea that we have to be more dynamic is very much a culture shift, and to be honest, we’re still going through it.’
VB4	‘I couldn’t say that (it is yet in the DNA). I don’t think it happens overnight. It’s a journey. It’s a
– SM	journey with multiple, multiple small steps, and (we have) been on this journey for a while. A lot of progress was made, but the journey is not complete. We’ve got a ways to go, but there’s a lot of energy behind it.’

Figure 8. Evidence of firm’s DNA transformation to value-based pricing.

knowledge. However, because of the innovative, subjective and sometimes contentious nature of VBP, organizational actors will modify their frames of reference, learning patterns, or schemas (Stein, 1995) to accommodate the integration of unexpected and novel knowledge.

Transformative learning refers to the process of ‘effecting changes in a frame of reference’ or in ‘the structures of assumptions through which we understand our experiences’ (Mezirow, 1997, p. 5). Our findings suggest that in firms using CBP or COBP, frames of reference are very powerful in guiding pricing decisions as they include habits of mind, routines, legacy practices and mentality or mind-sets (Mezirow, 2000) that are deeply engrained in the firm’s culture. Transformative learning refers to the process of transformation of these frames or references, routines, norms, and schemas to make them more inclusive, open, and ‘emotionally capable of change’ (Mezirow, 2000, p. 8). This process of transformation is equivalent to a reformulation of the structure of meanings (Mezirow, 2000) that requires critical reflection and a higher level of mindfulness (Langer, 1997). Mezirow has identified 10 phases of transformation (Mezirow & Welton, 1995, p. 50) that parallel key factors revealed in our data as critical in VBP internalization – experimentation with new roles, acquisition of skills and knowledge, and building confidence in new roles and relationships. Mezirow’s conception of transformative learning touches on two critical elements of a successful transformation to VBP – the enduring nature of change over time and the irreversibility of the transformation (Taylor, 2007). Both are needed to transform the culture from cost to value and to take the organization to a sustained process of transformation putting customer value at the center of the firm’s reason to exist (Slater, 1997).

### 5.3 *Five characteristics of mindful organizations*

Organizations engaged in the organizational transformation towards VBP demonstrated an ability to learn from pilot studies, to learn from what did not work and to identify organizational gaps to ensure a transformational success. These organizations refused to simplify interpretations especially in the area of customer value assessment and perception. The adoption of a pricing orientation may be influenced by the degree of analyzability of market information (Daft & Weick, 1984), the degree of information commensurability in the overall price setting process (Anderson, Kumar, & Narus, 2007), and the equivocality of information which affects managers’ abilities to integrate customer information into pricing models (Brownlie & Spender, 1995). The inherent levels of information uncertainty and ambiguity impact the degree of adoption of a pricing orientation and the overall pricing

decision-making process (Duncan, 1972) requiring an organization's focus on dealing with complex problems and on mindful problem solving (Langer, 1997).

Firms engaged in the transformation towards VBP purposefully invested in developing pricing capabilities of their front line personnel. Our data show tremendous investment in pricing training for sales employees in order to equip them with the tools and capabilities to achieve the firm's pricing goals. Sensitivity to operations also entails adjusting pricing programs by taking into account the knowledge of people who actually do the work (Weick & Sutcliffe, 2007).

Commitment to resilience is closely related to the construct of organizational confidence which emerged from our data. Bohn (2001) included resilience in his definition of organizational efficacy and our data are rich in evidence relating to the commitment of executive champions to the development of shared beliefs, courage, and resilience when implementing pricing strategies. The development of organizational confidence is a critical component of our transformational model towards VBP. Finally, firms using VBP deferred pricing decision expertise and influence to center-led pricing teams. Decision-makers in business units rely on the expertise of these specialized centers of excellence to optimize pricing decisions and firm's performance.

We propose that the five characteristics of high reliability organizations proposed by Weick and Sutcliffe (2007) strongly correlate with the organizational transformation toward value-based pricing. Organizational mindfulness and mindful champions play a critical role in the success of this organizational transformation by championing both the transformation to VBP and the sense of organizational efficacy that leads to reinforcing cycles of successful performance, experiential learning, and growing confidence.

## **6. Limitations**

Our findings should be considered in light of several limitations. Our sample included only firms in three industrial sectors – building products, transportation products, and plastics & chemicals. Including other sectors such as IT or pharmaceuticals may have yielded different findings. The principal researcher has significant experience in and knowledge about industrial pricing, especially value-based pricing. However, great effort was made to remain self-reflective about the risk of bias (Corbin & Strauss, 2008) by using open-ended questions to elicit rich, unstructured narratives of respondents' experiences (Maxwell, 2005, p. 22), interpretations, and understandings of pricing events and firm activities.

## **7. Implications for practice and future research**

Our findings have implications for both industrial pricing practice and for future research. CEOs and top executives of industrial firms should adopt a more mindful approach to pricing by adopting championing behaviors, by focusing on front lines during the transformation process, and by designing an organizational structure where pricing expertise can improve the quality of pricing decisions. We provide examples of how top executives have successfully championed the intentional transformation of their firm's pricing orientation once a stimulus for change was detected in the external environment. The role of CEOs in the internationalization of VBP is critical and our work presents specific leaders' characteristics that can facilitate this long and difficult journey.

Our findings also point to the need for more research on industrial pricing preferences and practices. First, the dimensions of the three pricing orientations (cost, competition, and customer value) need to be articulated and empirically validated. Second, while the marketing literature has documented the relationship between market

orientation and firm performance, little has been said about the consequences of pricing orientation as they relate to firm performance. Marketing scholars and practitioners claim the superiority of the value-based pricing orientation but have failed to provide data supporting such claims. Finally, the roles and responsibilities of teams in the internalization of VBP beg inquiry.

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