Industrial Marketing Management xxx (2012) xxx–xxx

Contents lists available at SciVerse ScienceDirect

Industrial Marketing Management

CEO championing of pricing, pricing capabilities and firm performance in industrial firms

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A R T I C L E I N F O

Article history:
Received 4 January 2012
Received in revised form 6 September 2012
Accepted 11 September 2012
Available online xxxx

Keywords:
CEO
Champions
B2B pricing
Firm performance
Pricing capabilities

A B S T R A C T

CEOs uniquely shape activities within the firm. Among potential activities, pricing is unique: pricing has a direct and substantial effect on firm performance. In what may be the first quantitative study in industrial marketing polling exclusively CEOs globally we examine to which degree CEO championing of pricing influences pricing capabilities and firm performance. Our sample consists of 358 CEOs of industrial firms. Our results suggest that the level of championing of pricing by the CEO positively influences decision-making rationality, pricing capabilities, and collective mindfulness thereby leading to a significantly higher firm performance. This study also documents a relationship between decision making rationality and pricing capabilities (but not firm performance) thus suggesting that intuition in pricing decisions could drive firm performance.

1. Introduction

Pricing is still an under-researched topic in industrial marketing: in a retrospective analysis of the content published in the *Journal of Business-to-Business Marketing* Dant and Lapuka (2008) find that the topic of pricing accounts for less than 5% of all articles published between 1993 and 2006. Similarly, after a comprehensive review of the industrial marketing literature, Reid and Plank (2000:88) conclude: “pricing continues to be an area in need of research”.

In the current study we focus on the activities of one particular individual — the Chief Executive Officer (CEO). The literature highlights the role of organizational champions in bringing about organizational change (Howell & Higgins, 1990). In the current study we examine how championing activities of pricing by the CEO influence pricing capabilities and firm profitability in industrial companies. CEOs are, of course, very particular individuals: within any organization, the “levers of power are uniquely concentrated in the hands of the CEO” (Nadler & Heilpern, 1998:5). As architects of corporate strategy CEOs commit organizations to specific courses of action (Harrison & Pelletier, 1997).

Whereas earlier research suggests that the influence of the CEO on firm outcomes is rather symbolic in nature and thus limited (Pfeffer, 1981), the current literature documents a substantial CEO effect on corporate performance, estimating that between 6% and 29% of the variance in corporate profitability is due to the CEO (Mackey, 2008). The marketing literature indicates that CEO attention positively impacts innovation outcomes (Yadav, Prabhu, & Chandy, 2007). CEOs thus clearly matter. Do CEO activities in pricing matter as well and, if so, through which mechanisms?

In our study we examine how CEO championing of pricing in industrial firms influences pricing capabilities, collective mindfulness and decision making rationality and how these factors influence firm profitability. CEOs themselves “will never set a single price. They can, however, give their managers the ability to win price wars, maintain price leadership and hold a competitive edge in pricing” (Dutta, Bergen, Levy, Ritson, & Zbaracki, 2002:66). CEO activities are magnified throughout the organization thus resulting in a substantial, leveraged, impact of even small activities throughout the organization (Rosen, 1990). Reports by pricing practitioners suggest that the pricing function is increasingly driven by chief executives or other members of the executive management team (Jacobson, 2007). Empirically, the lack of CEO support is an important obstacle in the implementation of value-based pricing strategies (Hinterhuber, 2008).

In our survey, we poll 358 CEOs from companies around the world by making use of the database maintained by the Young Presidents' Organization. To the best of our knowledge this is the first study in industrial marketing making use of this database. To the best of our knowledge this is also one of the very few global studies in industrial marketing polling only CEOs: Auh and Menguc (2007, 2009), for example, poll 260 Australian CEOs and senior executive, Auh and Menguc (2005) poll 242 national (likely US) CEOs, Aragon-Correa, Garcia-Morales, and Cordon-Pozo (2007) use 408 Spanish CEOs, and

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http://dx.doi.org/10.1016/j.indmarman.2012.09.003

Sluyts, Matthyssens, Martens, and Streukens (2011) use 235 Belgian CEOs. Other studies have a large share (60%) of CEOs among respondents, but also use operating managers (Land, Engelen, & Brettel, 2012). Finally, qualitative research with the CEO as main respondent is quite frequent (Keating & McLoughlin, 2010; Zerbini, Golfetto, & Gibbert, 2007).

In other words, quantitative, global surveys with the CEO as respondent are not very frequent in industrial marketing, but potentially very illuminating given the uniqueness of the position of a CEO within any organization.

Understanding the link between CEO commitment to and involvement in pricing and the design and performance of an organization allows us to further shed light on a specific type of strategic action – championing of the pricing function – through which CEOs can influence firm performance. Our inquiry contributes to the fields of pricing and industrial marketing by linking CEO championing behaviors to three organizational factors – pricing capabilities, collective mindfulness and decision making rationality – and subsequently to relative firm performance. Most importantly, our data highlight the role of organizational champions and imply that purposeful championing of pricing by CEOs influences organizational design for pricing and firm performance. Our results also underline the role of decision making rationality in building pricing capabilities. Contrary to expectations, we do not find an effect of decision making rationality on firm performance. For future research this potentially suggests that, conversely, intuition in pricing decision could positively affect firm performance.

2. Theoretical background and hypotheses

The development of our theoretical model draws from related streams of literature: industrial pricing, the resource-based view of the firm and from organization theory, particularly the literature on bounded rationality, organizational champions and collective mindfulness. Fig. 1 below describes our hypothesized research model.

2.1. Pricing literature from an organizational perspective

Several studies examine pricing practices from the perspective of organizational decision processes but, among them, only a handful link the bodies of knowledge on pricing and organizational behaviors. Cyert and March (1992), who study pricing behaviors in a retail environment, suggest that, over time, simplifying rules of thumb emerge within the firm. They argue that prices are negotiated between various departments of the firm as a way to reach consensus and achieve negotiated objectives. Finally, they propose that cost-based pricing practices are included among these rules of thumb or routines. Lancioni, Schau, and Smith (2005) research the intraorganizational influence on business-to-business pricing strategies and more specifically the importance of interdepartmental rivalry and conflicting interests on the pricing process. The findings show that resistance to progressive pricing strategies emanates from many groups in firms each of them "having parochial interests and agendas" Lancioni et al. (2005:130). The most dominant resistance and roadblocks are created by the finance department which is ranked as the most difficult to work with in developing a comprehensive pricing policy. Ingenbleek (2007) conducts a literature review of 53 pricing studies drawn from cost-theory, decision making theory and marketing strategy: Ingenbleek proposes a conceptual framework and several directions for future research in the field of value-informed pricing. His review of the literature suggests that information sources represent a key resource to be acquired, developed and deployed within the firm. However, the availability of information does not guarantee success in value-informed pricing — the degree to which information is processed, interpreted, communicated and used can influence the implementation of it. Thus the pricing process within the firm can influence the management of information related to customer value perceptions. Ingenbleek (2007) makes the following critical conclusions with regards to pricing literature: 1) it is highly descriptive and lacks statistical significance; 2) research insights on pricing practices are often not cumulative; and 3) theory about how price decisions are made in firms is limited. We build on the scholarly work of Cyert and March, Lancioni, and Ingenbleek by bridging the fields of pricing and organizational behavior.

2.2. Organizational champions

Leaders can influence both functional management commitment and the adoption of innovative technology and practices in firms (March & Simon, 1958:219). Top management support strongly impacts functional management commitment. This type of top management support is needed for complex initiatives such as total cost of ownership calculations in sourcing (Wouters, Anderson, & Wynstra, 2005) or value-based pricing (Hinterhuber, 2008), which require strong inter-functional cooperation. Hinterhuber (2008), for example, finds that the lack of support from senior management is an important

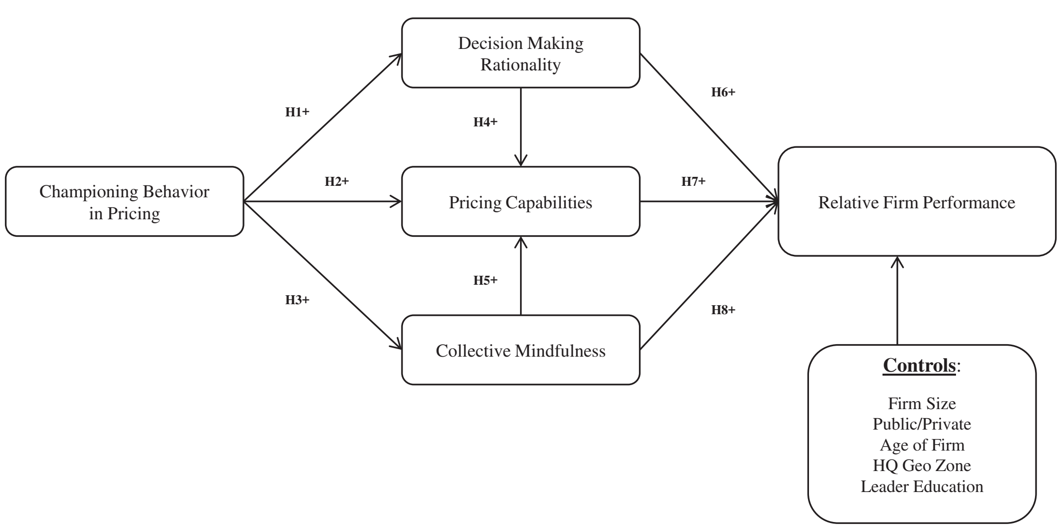

Fig. 1. Hypothesized research model.