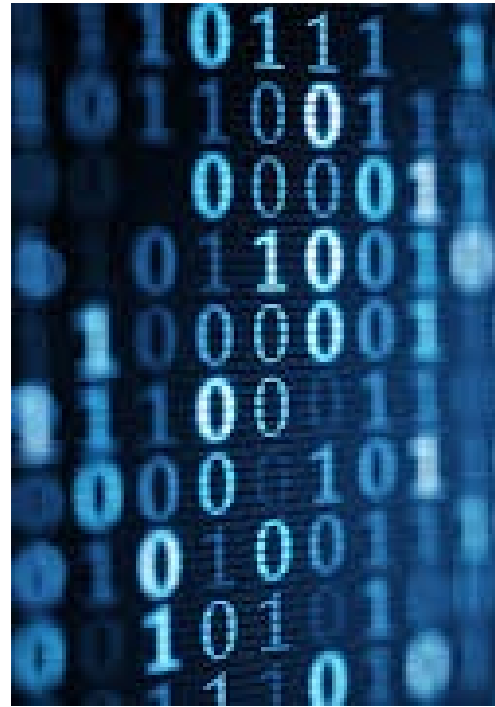


Mobilizing the Temporary Organization: The Governance Roles of Selection and Pricing



Temporary Organizations or Projects

Temporary organizations (also called “projects”)....

- Have a specific start and end date
- Are made up of interdependent actors
- Assembled for the purpose of performing a particular task
- Common in B2B settings

Examples:

- Major technological development (e.g., aircraft)
- Construction
- Media and advertising campaigns
- New product development



The Conundrum of TOs

ADVANTAGES

Temporary organizations bring a diversely skilled set of suppliers together, in a manner which would be unattainable for a single firm.

CHALLENGES

- Need to manage numerous independent specialists under time constraints.
 - In developing the Boeing 787 Dreamliner, Boeing found that poor coordination led to a need to reinspect 900 planes.
- Unlike long-term relationships, TOs typically don't benefit from hierarchical structures, rules, or specific norms

STRATEGIES

Monitoring and coordination problems arise to assure inputs from independent specialists are up to standard. These can be addressed by careful deployment of pricing and selection.

- Pricing: Whether the suppliers are paid based on 1) variable pricing, or 2) fixed pricing.
- Selection: Selection of suppliers based on 1) their ability, or 2) the price they charge

How to Reduce TOs' Cost Overruns?

- The previous problems of coordination and monitoring are typically reflected in significant, **cost overruns**: the deviation between the project's actual and contracted cost.
 - Beyond financial costs, overruns can lead to reputational, legal, and relational costs
- Simply relying on **price fixing** or **selecting suppliers** based on price is unlikely to reduce cost overruns. Why?
 - TOs are too variable to use one strategy consistently. Some require little monitoring and coordination while others require ongoing communication and constant monitoring
- This study demonstrates that when pricing and selection are matched (e.g. **variable pricing** and **selection on ability** for projects that are large and hence require significant coordination and monitoring) cost overruns are minimized (but not altogether avoided).

Key Research Insights

- There is no universally/absolutely best choice of selection criteria and pricing formats. Instead, any choice of selection and pricing can be good provided it is aligned with the respective attributes of the TO.
- The benefits from getting selection right outweigh those that result from getting pricing right, suggesting that selection should be, relatively speaking, a higher strategic priority for a firm.
- The study shows that it's not necessarily the pricing *level* that matters in creating buyer value, but the specific pricing *format* used. This suggests that the same price *level* can actually produce entirely different buyer outcomes.