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An Institutional Explanation and Model of the Factors Influencing Room Rate Pricing Decisions in the Irish Hotel Industry

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Introduction

This paper presents an empirically and theoretically informed analysis of hotel pricing, based on case study work carried out at two Irish hotel sites. Taking the view that pricing is a social and organisational practice in a contextual setting (Hodgson, 1998) and that reality is socially constructed, an *interpretivist methodology* was chosen to carry out the research. The research method used *case studies* and in-depth unstructured and semi-structured *interviews* at two hotel sites. Using interviewees from general management, marketing and accounting at the case sites, to strengthen the validity of the evidence, it has asked 'when, where, how, why and by whom' room pricing is done in the way it is, given the macro- and micro-context of the hotel sites. Therefore, this interpretivist research has built explanation from the specifics of each case, going beyond mere descriptions of pricing practices, as in previous survey work.

To educe this explanation, institutional theories which are processual, namely Old Institutional Economics (OIE) and New Institutional Sociology

Source: *Irish Journal of Management,* 28(1) (2007): 127–145.

(NIS), were chosen and justified as being compatible with the assumptions of the interpretivist methodology and suitable for elucidating the findings. These theories comprise the theoretical framework with which to view the case findings. The insights of these latter theories and previous institutionally inspired research on pricing and continual 'cycling' carried out between theory and data (Ryan et al., 1992) provided a clarifying original five-level model (see section on the model), which explains the reality found in the case sites.

Literature Review and Methodology

Accounting Literature and Room Rate Decision-Making

Several authors outline *rational models* of decision-making (e.g. Drury (2006) and Arnold (1973)): this classical decision-making model is an economic model, based on the assumption of rational behaviour in choosing from known alternatives to maximise objectives. Robbins (1988) terms this the *optimising model* of decision-making. It implies that the decision-maker can be fully objective and logical, knowing all options and having full information to rank all alternatives in preferential order, enabling the selection of the alternative that rates highest. According to Daft and Marcic (2001: 183) this model represents 'an ideal, a fanciful notion about decision making unattainable in the real world.'

In reality, as Bennett (1991: 195) observes, 'limiting factors must always be taken into account in decision-making procedures'. These factors include elements of *uncertainty* arising from the lack of complete information about alternatives and their results, *time* and *cost* constraints, and *cognitive limitations* in dealing with complex problems (Champoux, 1996). The administrative model of decision-making, which focuses on organisational rather than economic factors that affect decisions, describes how managers actually make decisions in situations that involve uncertainty and ambiguity. It is based on the work of Herbert Simon who proposed the two instrumental concepts of *satisficing* and *bounded rationality* (Daft and Marcic, 2001).

Due to various limitations, as outlined above, decision-makers often are not in a position to consider all possible alternatives and so may have to select one that is good enough to attain the goal. This process is known as satisficing behaviour, emphasising the search for a satisfactory rather than an optimal solution. The approach accommodates the uncertainty imposed by the environment of the decision. In addition, it takes into account that individuals have only limited cognitive ability, making them unable to consider all conceivable aspects of a complicated decision or all the relevant data. Given these constraints, 'individuals operate within the confines of bounded rationality' (Robbins, 1988: 78).

Another aspect of the administrative model of decision-making involves the use of intuition which, Robbins (1988: 82) reports, 'has recently come out of the closet and into some respectability'. It refers to the quick apprehension of a situation, using past experience rather than conscious planning or thought (Agor, 1986). This approach is not irrational as it is based on years of hands-on experience and it enables managers to identify solutions quickly. Robbins (1988) identifies eight conditions when intuitive decision-making is most likely to be used. These include the existence of a high level of uncertainty, lack of predictability, limited 'facts' or data, having a range of plausible alternatives and time limitations. Many of these conditions are very familiar to hotel managers.

To conclude, the reality for managers, particularly in the hotel industry, is that uncertainty is a feature of the decision-making landscape. The administrative model, which takes this factor into account, together with time and cognitive constraints, seems to reflect the reality of the room rate pricing decision more accurately than the classical rational model.

Accounting Literature: Contingent Factors at the Micro- (Hotel Site) Level

Of the four determinants of business orientation in the Kotas (1975) model, cost structure and variability of product demand have the most powerful influence. The more fixed costs in the structure and the higher the grade, the more market orientation is required. Brander-Brown and Harris (1998), however, found that the business orientation model must be refined to take account of the context of the hotel product (i.e. the sales mix) before finally determining business orientation. Due to the high fixed-cost nature of hotels, the overriding concern is to maximise revenue and manage the mix of business; cost control is a secondary consideration (Harris, 1992). Other studies such as those of Croston in Harris (1995) revealed profit in hotels to be derived from many interconnecting factors, such as operating efficiency, marketing, service delivery and product specification. The 'service gap' is an important contributor to profitability, in that if the service expectations of the guest are exceeded or equalled, premium pricing can be introduced.

High property costs in hotels and high amounts of unallocated overhead costs make *cost traceability* (Fitzgerald et al., 1991) to, say, the individual guest or to market segments, as cost objects, difficult. This is further compounded by guests being involved in the service process and so having the choice to consume different mixes of service, as each guest wishes. Profitability of different customer groups is therefore hard to measure, in an industry where cost traceability is minimal and customer profitability analysis (CPA) is rarely used, with managers preferring to use intuition in estimating the profitability of customer segments (Noone, 1997; Krahmal and Harris, 2006).

Harris (1992) outlines a model for building a room rate price, based on the inclusion in package prices of a required overall return for the year, called the budgeted yield (BY) using a formula called the Hubbart formula. Pricing is *time dependent in the hotel industry*: seasonal rack rates and seasonal room rates have to be set and published well in advance of the season in the various guides. This guiding parameter of BY is set in advance of the season and is called the 'primary pricing decision', because it computes the budgeted average daily rate (ADR) per occupied room required, if the hotel is to recover costs and produce the required return on capital employed. For further information, consult Harris (1992: 101–102). In practice, hoteliers realise that a delicate trade-off between rate and occupancy exists, so they view the BY as a mid-point, and price above the BY (up to the rack rate) to attract the corporate market and below (down to the variable cost of the room sale, i.e. the floor price) to attract tours and other more price-sensitive guest segments.

This is the technique of yield management (YM), a marketing strategy to manage demand by segmenting it and exploiting price sensitivities per market segment (Lovelock, 1996). In the final analysis, even if Hubbart-inspired cost-plus calculations are used to compute the BY, room pricing is market determined; little use is made of cost information for pricing rooms, in common with the conclusions of Fitzgerald et al. (1991) for service shops and mass services.

Mid-week and weekend break packages exploit the contribution margin approach to pricing (involving discounting), and these constituted secondary pricing decisions regarding use of spare capacity in the low season or in lull periods in the week (Harris, 1992). Collier and Gregory (1995) noted cross-subsidisation and bundling of services, for example in the free use of a leisure centre for guests on full or half-board terms and bargain breaks.

Marketing and Pricing Literature Review: Contingent Factors

Marketing recognises that success depends primarily upon identifying changing customer needs and developing products and services that match these better than the efforts of competitors (Wilson, 1999). Hotels therefore need a marketing function (and a marketing plan and budget), since guests only stay at a hotel 'as a means to an end' and marketing needs to knows these 'ends'. Marketing strategies are key in managing demand, for example market segmentation and YM techniques. The maintenance of a customer database (especially in large hotels where personal contact with guests is limited) is helpful in understanding customer needs and in managing demand. As Lovelock (1992: 158) notes, 'when a customer transaction is recorded separately . . . then the understanding of demand is greatly simplified'.

Marketeers recognise that product, customer service and price together determine 'value' to the customer. Demand is sensitive not only to price, but to changes in the other two variables. This means that managing demand is about managing value and knowing the customer's motivation to buy. The marketing literature reveals three models of pricing: those of Lovelock (1996), Kotas (1975, 1999) and Dodds (2000). Due to space limitations, only a very brief overview of one of the models proposed (that of Dodds) is presented. Dodds (2000) uses a composite price–quality–value model, believing that product, customer service and price together determine 'value' for the consumer. A change in one can affect customers' perceptions of the other, so all three need to be considered simultaneously in terms of value. Dodds posits that customers have to come to expect a culture of value in the marketplace. An ideal position of value is one of the highest quality and service, at the lowest price, but this allows very little profit margin. Also, it must be taken into account that there are always consumers who are attracted to one value dimension at the expense of accepting less on the other dimensions. Therefore, companies need to focus on one dimension of value and target those segments which value it. The realistic company pursuing value management should match the key competitor on two dimensions and then grab competitive advantage by excelling on the third. In practical terms, this means that it must manage four key drivers of value: price, cost, demand and quality.

To conclude the review of the marketing literature, it can be seen that variations in the three models above imply that pricing varies according to the particular situation and so it is not amenable to one overall set formula. Also, it is clear that the marketeers' conceptualisation of demand is broader and more behavioural than that of the accountants. The next section outlines and justifies the research methodology and choice of case sites.

Justification for Interpretivist Approach, Case Study Method and Use of Key Informants

Due to the ontological assumption made in this research of a *subjective social reality*, a *qualitative methodology* and an *interpretive case study method* allowed the researcher to interact with the research subjects in their real-world context, to establish the when, where, how, why and by whom of room pricing.

The analogy of the development of science, based on the *replication logic* of experimental work, was used by Scapens (1990) in support of the case study technique as a valid means of generating theory. In replication logic, experiments which confirm emergent relationships provide some assurance of the validity of the relationships. Repeated experiments which disconfirm the relationships often provide an opportunity to modify or reject the theory, through further examination of the disconfirming results.

Case studies can be used as a method by which theories are used to explain observations, retaining theories which provide convincing explanations, while modifying or rejecting those which do not fit. Thus theory is developed in an explanatory fashion, with the emphasis on *theoretical generalisation* (rather than statistical generalisation), piecing together evidence from individual cases. The researcher must be sufficiently flexible to allow a two-way interaction between theory and observation. The explan-ation comes from within the case and is not imposed from outside, since the case is the focal point. The particular social system being studied, the relations between it, its sub-systems and the supra-system of which it is part (i.e. its outer context) provide the explanation (Ryan et al., 1992). This type of *pattern explanation* (Kaplan, 1964) helps to understand the social world and directs the researcher into the findings, to identify patterns and then to use theories to explain the observed relations. The use of case studies is also appropriate when the research questions seek to explain why and how something happens (Yin, 1994). Therefore, for these reasons, the case study method was justifiable for the research.

Empirical Work Done and Limitations and Biases

To access the required information for this study, contact was made with a total of ten respondents – four from Case Site 1 (CS1) and six from Case Site 2 (CS2). These included the general manager (GM) from each case site, together with personnel from the marketing and accounting functions. The actual total time spent on the interviews for the empirical work amounted to 70.5 hours, of which 50 hours were spent on the case site interviews/work and 20.5 hours were spent interviewing key informants (KIs).

As it is possible for interviewer bias to occur, feedback of interview summaries was given to all KIs and to the hotel manager at each site. In addition, documentary evidence (e.g. management accounting performance reports, forward books and tour books) was examined. The comments from the KIs also enhanced validity.

At an extreme level, the 'Veranda Model' (Ryan et al., 1992) of conducting research may operate, whereby researchers interview only senior management and other vested interest groups, thus missing out on the day-to-day reality for the vast majority of people in the organisation. This was somewhat ameliorated in the case work in this study by interviewing the marketing manager and the accounting representatives, as well as the general manager.

Case Sites, Interviewees and Key Informants

Each respondent is identified by the case site and a letter of the alphabet. For example, the general manager (GM) of the Anna Livia Complex is referred to as CS1/A, while his counterpart in The Elms is CS2/A. The GM (CS1/A) was based full-time at the complex, reporting to the Director of Accommodation of the Europa Travel Group. He had no formal qualifications, but had thirty years experience, having trained on-the-job in different roles in hotels. The GM of 'The Elms' (CS2/A) was the fifth generation of his own family to be involved in the hotel business and had many years of experience as a hotel manager both in the United States and in Ireland. He married one of the daughters of the owners of The Poplars Group. He had a degree in Hotel Management from a top Dublin third level institute and a marketing qualification and had undertaken some part-time training courses in the hotel training agency.

KIs were used because a single pilot site would not capture the heterogeneity within the industry, and the literature had insufficient information on the evolution of professional training and other norms within the industry. Therefore, salient quotes from the KIs were incorporated into the literature review (using KI/A, KI/B, etc. designations) where appropriate, with the balance of the KI comments referring to empirical matters, so being included in the findings.

The KIs used were:

A. *Chief Executive of the Irish Hotels Federation*
B. *Manager in Regional Training Services in CERT*
C. *An Academic*, the Acting Head of one of the major third-level institute's School of Hotel, Tourism and Catering Management
D. *A Special Advisor to the Minister*, Department of Trade, Tourism and Sport, former chairman of Bord Fáilte and inventor of the seaside resorts tax relief
E. *Conference Handler*
F. *Tour Operator*
G. *A Chartered Accountant*, partner in 'XYZ Ltd' which does audit and consultancy work for hotels

In this research, two polar opposite case sites were chosen which exhibited striking differences in business mix, grade, ownership, capital structure and market segments served:

Main Case Site 1: 'The Anna Livia Complex' (CS1) is owned by a consortium of financiers and builders who built it to avail of tax incentives.

These developers/owners have leased the property to the third-level institute in whose grounds the complex is located. The land is owned by the institute and the buildings will also be owned, once the lessor company makes the transfer of the residences to the institute at the end of their tax life. From October to May it acts as student accommodation, but from June to September 'Europa Travel Group'[1] have an annual renewable contract with the third-level institute to rent out the facility commercially each year, under which terms it pays to them a negotiated guaranteed rent from the profits of the commercial letting activity. Based in south Dublin, it is a village-style complex of self-catering apartments containing 1,200 bedrooms and catering for bulk business. The complex is then sold in the short summer season as budget (but not hostel) accommodation, aimed at the youth market.

Main Case Site 2: 'The Elms Hotel'(CS2) is a family-owned hotel in the west, part of the 'Poplars' Hotel Group, an indigenous chain of five family-run hotels in the west of Ireland. CS2 was located in a popular scenic part of the rural, maritime west of Ireland, accessible by train and hosting a thriving community of artists. The GM bought 'The Elms Hotel' in 1995, with the help of his father-in-law (founder of the Poplars Group). Having received EU grant aid for the construction of new bedrooms and the refurbishment of existing ones, extension of the restaurant, construction of a new lobby, kitchen and banqueting room, it is a three-star hotel with 111 bedrooms. After the change in ownership, the new owners shed the accountant, some administration staff and the hotel laundry (due to high labour costs). Since then, revenues have trebled and the number of full-time staff has increased from fifteen to thirty-five.

Outline of the Model

The main finding from the research was the derivation of an original model of room rate pricing which is divided into five levels (Mattimoe, 2002), an overview of which is presented below (see Table 1). The factors from the literatures and the KI interviews comprise *macro* environmental characteristics (related to the tourism industry and the hotel sector) as well as *micro* organisational characteristics (related to the specifics of the hotel site itself). The institutional explanation connects these micro- and macro-levels in Level 5, as well as conceptualising in Level 1 how the managers deal with uncertainty, so contributing to knowledge. Using the *pattern model of explanation* as outlined in this paper, the findings for each case site were digested and then a cross-case comparison allowed the similarities and

Table 1: The five-level model of room rate pricing

Level	*Pricing*
1.	Room rate decision: time-bound, interdependent, uncertain
2.	Routines used to deal with complexity of room rate
3.	Institutionalisation of routines
4.	Macro-level environmental influences
5.	Overall interaction of macro- and micro-factors

differences between the case sites to be distinguished. On further analysis, it was possible to extract *systemic routines* that appeared to be customary in the industry as a whole as well as to extract *specific routines*, particular to the specifics of each case site. These form part of Level 2 of the model.

Explanation of the Model

Beginning at the micro- (hotel site) level, Level 1 (see Table 1) conceptualises the room rate pricing decision, as a *time-bound interdependent* set of sequential decisions made by the hotelier, faced with an uncertain environment. Before the season, certain guiding parameters can be computed and set: the rack rate is discussed, deduced and registered as a ceremonial legal maximum (Meyer and Rowan, 1977); the BY is computed as a mid-point to be achieved overall by the year end; and the floor price is guessed and set as a minimum, so formal routines are used (see Figure 1).

Before the season, the decision context is reasonably certain and the pricing approach is proactive and planned. The final room rate actually charged is *path dependent,* since it must be within the spectrum illustrated in Figure 1 or very exceptionally, rooms can be given to charitable organisations, for free. It is also time dependent, because as costs change or the rack rate changes from year to year, the BY will have to be re-computed.

At the outset of the season, the decision context therefore is *less certain* (than in the case of setting the guiding parameters) because even though some of the demand has been pre-priced and managed, marketing must do the rest to pull in bookings on the packages and activity breaks, etc. Bad weather, unanticipated world events, competition, a poor take-up of rooms by bulk business, as well as mistakes by the hotelier such as poor marketing, can result in a below-budget outcome. Efforts made at setting the three guiding parameters (budgeted yield, rack rate and floor price) and building the BY into packages/activity breaks and then promoting them, means that only the balance of the business needs to be managed. Rules are given to the receptionists as to the extent of discounting from the brochure/activity packages as well as the lowest rate at which they can sell; for example, all enquiries for more than twenty people must be referred to the manager for a quote. Thus, this uncertainty is coped with in a sequential way, using the guiding parameters, pre-pricing the packages, giving rules and then managing the balance on an ad hoc basis. As much as possible, the hotelier retains control over price setting.

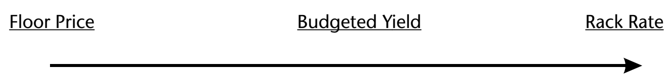

Figure 1: Spectrum of room rate pricing guided by three benchmarks

As the season unfolds, ad hoc business will be sought and will present itself to the hotelier, with sometimes only a few days, hours or even minutes before the quote has to be given. This represents the demand that must be chased. Thus, the pricing approach is *reactive* and the decision context is *unsure*. When trying to give a quote, the hotelier tries to establish the actual yield and the state of occupancy to date, but often has to work this out using slow time-consuming manual calculations, instead of using computerised real-time yield calculations. Many interdependent aspects have to be balanced in the decision: rate versus occupancy; whether the business should be deferred; whether an overall view should be taken on the total revenues; whether a minimum stay and a single supplement should apply, etc. Lacking time and a comprehensive management information system (MIS), the manager often uses intuitive approaches which just satisfice. *Informal routines* apply. When bad weather or other disasters strike, the pricing approach is *reactive*, often intuitive and based on gut, assisted by luck, making the decision context *very uncertain*. This endorses the uncertainty discussed in the decision-making literature in this section and also the recourse to intuition in these circumstances.

The hotelier copes with the overall complexity by means of the routines, which are considered at Level 2. The fact that some of these routines became institutionalised and how they became so embedded required some OIE concepts, which are explained in Level 3 of the model (to be developed in another paper). Level 4 moves to the macro-level, with environmental level forces and policies gleaned from the KIs, affecting the structuring of pricing at the individual hotel level. The process of embodiment of macro norms in the external environment into the hotel site constitutes Level 4 of the explanation, and needs several NIS concepts. Finally, Level 5 (see Figure 2) conceptualises the interaction between the macro- and micro-factors. For example, training norms (macro) and bounded cognition of manager (micro) are interacting and profit route/key success factors (micro) and competition within the industry (macro) are interacting.

This interaction between the enabling and constraining macro environmental factors and the micro-level processes of room rate decision-making at the hotel site causes *trade-offs* to occur, as the hotelier, faced with the specifics of his or her hotel site, tries to move the average price along the continuum towards the rack rate. The detailed analysis of this level is beyond the scope of this paper.

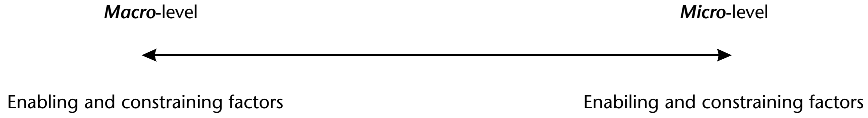

Figure 2: Factors impacting on the room rate decision

Having explained the research methodology and the model, the main findings emerging from the case study research are now presented.

The Findings, the Literature and the Model

This section evaluates and cross-checks the case findings by first comparing them against the accounting and marketing literatures to see what contingent factors affected each case site. Then, the routines in use, the manager's approach and training at the case sites are evaluated against the institutional model.

Contingent Factors from the Accounting and Marketing Literatures and the Case Findings

In brief, the findings show that both case sites understood their key success factors, strategic products, profit determinants and competitive strategies. There was evidence of a full marketing cycle in use at both case sites, with a marketing plan, budget and a strategy. There were differences between each site in terms of location, size, ownership and market positioning, with CS1 offering budget accommodation for a season only, while CS2 provided three-star facilities throughout the year. Most guests came to CS1 for a purposeful stay (to attend conferences or language schools, etc.), whereas in CS2 they came for a leisure break or are business travellers. Reflecting these variations, the approach to business differed at the two locations. As CS1 had extensive accommodation, with over 1000 beds, it focused on bulk business, whereas by contrast, CS2 operated mainly at the level of the individual customer, with some tours and groups being taken. It actively differentiated its product using different activity breaks aimed at different market segments and varied pricing, using both discounting and value-added strategies, as appropriate. At CS1, being affiliated to a third-level college, the profit objective was sometimes mitigated by sporting and altruistic uses of the rooms. By contrast, at CS2 the profit motive was paramount.

Market segmentation was used at both case sites, but was more important at CS2, which competed by differentiating its product into packages, bundling accommodation with food and wine and using cross-subsidisation from non-resident revenues. CS1 had negligible non-rooms revenue, so cross-subsidisation did not apply, nor did price bundling, as there was no food or drink provided by the complex itself.

Now, moving to the model the links between the data and the model can now be demonstrated.

Formal Pricing Routines in Use at the Case Sites – Rack Rates, Budgeted Yield and Yield Management

In agreement with Level 1 of the model, the room price was generally found to be struck on a path between floor price and rack rate, except in CS1, where due to the large number of rooms, a few would occasionally be let free to charitable groups, showing that satisficing may prevail, instead of maximising. At CS2, the manager was found to be pre-pricing packages (inclusive of the BY to a greater or lesser degree as per YM principles) and giving rules to receptionists to handle the business, with the balance of the business being done on an ad hoc basis, using luck, intuition and reactive discounting. CS2/A confirmed that about 60 per cent of the total business could be sold using the pre-priced brochures and activity breaks, but the remaining 40 per cent needed 'a new approach'. Similarly at CS1, the manager tried to block-book conferences and language schools in advance of the season, so that uncertainty was eliminated, with only the balance of the business being left to chance. As far as possible, the hotelier retained control, thus reducing the uncertainty, but never eliminating it, as per Level 1 explanation.

In keeping with Level 2 of the model, informal YM systems (without sophisticated demand forecasting and logging of daily rates) were used at both sites. CS2 was proceeding to install a computerised reservation and YM system, whereas CS1 has a computerised Protel system, but had not activated the YM module on it. The findings on YM and market segmentation in this study also agree with Lee (1994) that mark-up was determined by custom and by competition.

Examples of Differences in Informal Routines due to Characteristics of Each Site

As already mentioned, there were marked differences in the products offered by each case site. Pricing at CS2 was more complex than at CS1, because it involved pricing of accommodation (deluxe and standard rooms and conference rooms), in addition to ancillary services such as telephones, videos, food, beverages and leisure facilities. This led to differences in the informal routines in use. For example, unlike the situation at CS1, cross-subsidisation was an established pricing routine at CS2: 'The cover fee on the door to non-residents and the increase in bar sales . . . it's cash in the door, as good as selling a room' (CS2/A). Frequently, entertainment in the bar was provided to guests on weekend packages, with access for non-residents. In fact, bar sales covered the cost of the entertainment and so subsidised the package price. Activity breaks such as set dancing and bridge weekends were heavily subsidised by the admittance to the workshops of non-residents, whose entry fees covered the cost of the band and instructors. Thus, this research provides more instances to support Nagle's (1984) research on segmented pricing and tied pricing.

Site level differences caused variation in the detail of the informal routines at the case sites, because they emanated from the specificities of the case site itself and from the manager's training and cognition. CS1/A had been craft-trained, without formal qualifications, but his counterpart, CS2/A, had a university degree. As expected by Level 5 of the model, the difference in macro level training had an impact on the micro- (i.e. at the case site level) approach to room pricing adopted by the managers, with the more formal approach being evident in CS2.

Both case sites were aware of and supportive of several MIS improvements (instrumental changes in OIE theory) they would like to see (e.g. customer profitability analysis, break-even analysis and real-time computerised yield calculation). To the extent that there were information gaps this may indicate lack of optimality in the managerial routines for pricing and profitability. However, both case sites sufficed with their present information sources, by taking a global view of things, using reasonableness checks on room, occupancy and cash statistics, intrinsic knowledge of the business and the opinion that 'only a limited number of things could go wrong': General Manager – Case Site 1.

In keeping with Level 5 of the model, which suggests that faced with the specifics of the hotel site, the hotelier has to trade off on the rate, the case findings showed that the rack rate was not achieved very often and rooms' revenue might be cross-subsidised with ancillary spending by customers and non-resident revenues.

Discussion and Conclusions

The contribution of the research lies in it being a theory-building study; specifically new theory in the form of a five-level model has been created by adapting OIE and NIS notions to room rate pricing. While agreeing with the work of Bennett (1991), Champoux (1996) and the bounded rationality concept of Simon (1979), it adds to this literature in two ways. Firstly, this paper adds to this literature on decision-making by proposing that case study participants operated in an environment of such high uncertainty that they adopted a number of *coping mechanisms* such as *formal (industry templates)* and *informal routines*. Hoteliers do try to cope with uncertainty and complexity by seeking to gain some control over it, in a sequential way, using the guiding parameters, pre-pricing the packages, giving rules before the season and then managing the balance on an ad hoc basis. As much as possible, the hotelier retains control over price setting, so reducing the extent of uncertainty, but never eliminating it. This is proposed in Level 1 of the institutional explanation. Secondly, this paper *conceptualises* the whole room rate decision leading to the five-level explanatory model as described.

Pricing is contextual, situationally dependent and cannot be subject to rule-based procedures (Dodds, 2000). As far back as 1938, Hamilton (1938: 530) had concluded for President Roosevelt's Cabinet Committee on Price Policy that, 'a touch of the motley rests upon the ways of price making . . . price bears the marks of the process from which it emerges'. This remains true today, based on the case evidence of this paper.

Note

1. The core business of the 'Europa Travel Group' was originally to arrange cheap flights for *outward travel* by Irish students to foreign cities. Gradually, the group became involved in *inward travel* to Ireland through opening foreign travel shops in all the major European cities and selling cheap flights. In 1989, the group spotted the need for budget accommodation in Dublin aimed at the youth/student inward travel market and bought a holiday hostel. Since 1989, it had opened three more holiday hostels in Cork, Galway and Dublin; it acquired a three-star city-centre hotel in Dublin and then negotiated a management contract to manage 'The Anna Livia Complex' in 1991.

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