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Prices code and its impact on accounting functions in organizations.

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PRICES CODE & ITS IMPACT ON ACCOUNTING FUNCTIONS IN ORGANIZATIONS

submitted by

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Abstract

The literature on pricing has hardly used the concepts of organization theory to emphasise the indigenous factors that seem to influence the mechanics of pricing decisions. It is this missing theme to which this thesis attempts to draw attention by arguing that pricing decisions are influenced by organizational sub-units' power which is not constant over time. This was made possible by examining the impact of the Price Commission, which was in operation in the U.K. between 1973 - 79, on companies pricing decision making processes.

The concept of competition as defined in economic theory has been investigated and a new meaning has been developed based on the notion that the decision maker's own perception of competition, not just market structures, is an important determining factor in pricing decisions.

Consideration has also been given to the adaptability of companies' information systems to the requirements of the Price Commission and the effect which this extra work had on the provision of other accounting information.

to the memory of my father, and to my mother whose affection is above price and beyond any price control;

and to my wife Iglal whose indispensable loving and patience made so many things possible, of which this thesis is the least.

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Such knowledge as I have of the intricacies of the organizational aspects of accounting must be accredited to the tolerant and persevering supervision of Professor Cyril Tomkins. It is in this spirit of sincere gratitude that I would like to acknowledge his many stimulating comments, ingenious suggestions, and perceptive criticism.

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My sincere thanks are also due to Miss Diana Stoddart, Assistant Librarian at the University of Bath, who as ever was exceedingly helpful and efficient.

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Chapter One

Introduction

> "One only stands to understand an issue, any issue, when he has witnessed the strongest possible debate take place about that issue" (Mitroff, 1971:647).

Pricing is most certainly one of these issues as Aubrey Silberston may have recognized in his comprehensive and rigorous survey of the subject. He acknowledges that:

> "The determination of prices has played a central part in economic theory for a hundred years or more,......yet it has been, and remains, a subject of considerable controversy" (Silberston, 1970:511-12).

However, that such an issue should still be problematic can be attributed paradoxically to the degree of scrutiny which it has received. As the social sciences have splintered into discrete disciplines with subtle differences in their canon of logic, then so too has the analysis of pricing been pursued from a variety of intellectual standpoints.

In economics, there has been benign acceptance of marginal analysis as the dominant method for examining pricing decisions within the spectrum of market forces. The accounting literature, on the other hand, has merely concentrated on the costing techniques that are claimed to be used in fixing prices. As for the behaviouralists, they seem to have set to themselves the task of vehemently challenging the profit maximization goal which, economists generally assert, affects pricing decisions.

This thesis, however, attempts to walk a line between what has been argued by the above disciplines. In particular, it addresses itself to bridging the lacuna in the literature on pricing by allocating more weight to some of the changing organizational pressures that are hypothesized to influence pricing decisions. As such this thesis is more concerned with improving our understanding of pricing processes rather than specific price levels established. Following a grounded theory approach to the generation of hypotheses, this research project availed itself of the superb opportunity provided by the advent and abolition of the Price Commission in the U.K. to argue that pricing decisions are influenced by organizational subunits' influence which does not necessarily remain constant over time. This would suggest that disputes over the absolute dominance of accounting pricing procedures over micro-economics or vice versa are simplistic. The tools used may change in dominance over time as organizational subunit influence changes.

Furthermore, misgivings regarding the concept of competition as depicted by economic theory are brought to light. The alternative idea that is being propogated stresses the decision maker's perception of what constitutes competition and how this is affected by the interaction process that takes place between the firm and the market.

In addition, the extent to which it was necessary to modify company information systems to comply with the Price Commission will be examined and whether that has had negative repercussions upon the provision of other accounting information.

The following material is presented in eleven chapters. Chapter 2 draws from economics, accounting, and some behavioural and managerial theories to provide a brief review of the literature on pricing. The chapter also includes a short description of the two prices codes and what has been suggested regarding their impact on companies' pricing decisions.

Chapter 3 sets out to demonstrate how the organizational changes that took place in terms of sub-units power and information processing overload were identified as the salient issues that were most affected by the introduction of the Price Commission and which had an impact on pricing decisions. This is followed by a summary of the literature on these issues, and then the development of broad hypotheses which guided the further empirical work.

In chapter 4, the case of Hekmats Limited is presented.[1]

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1. A large U.K. based company which has been given this pseudonym.

Its aim is to give an overview of the pricing decision making process in the company during the pre - Price Commission, the two prices codes, and the post - Price Commission phases.

In chapter 5, the case study is analysed and more specific hypotheses are generated as well as a framework to be used in analysing the data collected for testing these hypotheses.

Chapter 6 discusses the methodology which is implemented in testing the hypotheses developed from the case study. It also offers a new meaning to the concept of competition based on the decision maker's perception.

Chapter 7 seeks to demonstrate the empirical support received from the data elicited regarding the developed notion of competition. This is then compared with the classification suggested by concentration ratios.

Chapters 8, 9, 10, and 11 offer a qualitative analysis of the interview data for the four phases of our study and the extent to which each of the hypotheses are supported in each of the aforementioned phases of the Prices Codes.

Chapter 12 considers the conclusions that can be drawn from this piece of work and the implications it has for further research.

Chapter Two

Pricing and Prices Code Literature

This chapter purports to scan the major theoretical basis of pricing decisions that are put forward in the economics, accounting and behavioural literature, as well as to present outline details of the prices codes that were introduced in the U.K. and the discussions which their implementation have evoked.

2.1 The theoretical basis of pricing decisions

The basic economic techniques for pricing under different market structures revolve around the same principle. Neo-classical economic analysis assumes that the firm's objective is to maximise profits. Given this objective, and that the firm knows its demand curve, the economic approach determines a price at which marginal revenue equals marginal cost. This basic notion of equating marginal revenue with marginal cost to determine price is common under all industry structures.

It is argued that under conditions of perfect competition firms will continue to produce until their marginal cost equals price. In this situation the firm is a 'price taker' and it can only determine its output. In the long run, price is equal to the average cost of production at the scale of output where long-run average costs is at its minimum. Under such conditions firms earn only 'normal' profits and this is mainly due to competition.

Under conditions of imperfect competition the demand curve is not horizontal; unlike perfect competition the firm is a 'price maker'. It maximises profits by choosing that combination of price and output at which marginal revenue equals marginal cost. The monopolist or monopolistically competitive firm can determine either price or output, but not both. It depends on the market conditions whether firms in the long run may earn more than normal profits. In conditions of monopoly with effective barriers to market entry there will be no tendency for supernormal profits to be competed away, but where there are many firms in an industry, supernormal profits may be eliminated altogether.

Regarding pricing and output decisions, economic theory assumes that market considerations dominate the internal structure of the firm. In addition, it assumes that the firm's goal is profit maximisation and that the firm's demand curve is known. Cyert and March (1963) as well as the empirical findings of Hall and Hitch (1939) and Hague (1971) have thrown grave doubts on the goal assumption. As for the demand assumption it could be easily appreciated how difficult and possibly expensive task it would be to predict a firm's demand. Indeed, it has been argued that "the labour and skilled guess-work needed for making detailed demand studies for a wide range of items would generally be prohibitive" (Baxter and Oxenfeldt 1961:84).

The accounting models that are most often used for pricing are

(a) absorption costing,

(b) direct costing, and

(c) rate of return.

With the absorption costing method, the practice is to calculate the full cost per unit and then add a mark-up of profit to arrive at the price. With the direct costing method, the practice is to calculate the variable cost per unit and then add a mark-up which serves as contribution to both fixed costs and profit. Hence, the term contribution margin is often used. With the rate of return approach, the practice is to add to the full cost per unit a percentage mark-up which is arrived at by multiplying the rate of capital turnover by the planned rate of return on capital employed.

The main difference between the first two techniques centres around the allocation of fixed costs. Supporters of the former hold the view that it is important to allocate all fixed costs to individual products while those who support the later argue that since it is not possible to allocate fixed costs accurately to individual products, it is pointless to try to do so. Instead, one should first decide what total contribution to fixed costs and profit is required from the whole firm. One can then look at the contribution going into that total from each individual product. One of the strong criticisms that is usually cited against the absorption costing method is that it does not take into consideration the demand situation in setting the price. Another major problem is that it fails to reflect competition.[1] However, in order to exploit the advantages of the direct costing approach, it is necessary to have a reasonably accurate estimate of the demand situation. If such an estimate is available and this approach is pursued, it may be possible to arrive at a price that will approach a maximum profit position (Moore and Jeadicke 1976).

The rate of return approach may be considered as a refined variant of absorption costing. It assumes that the capital employed, particularly cash, accounts receivable, and inventories, varies in direct proportion with sales. The NAA Research No 35 (1959:44) states that

> "a possible objection to the above method is that a change in selling price, by itself, would have no direct effect on the investment in inventory since the later is stated at cost. The objection can be avoided by introducing inventory as a ratio to factory cost rather than as a ratio to selling price".

Recent developments have challenged the following behavioural assumptions:

1 that the firm has a single objective which is profit maximisation;

2 that it omits any real notion of uncertainty;

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1 The imperfections of absorption costing are cited throughout the literature. See Khalla 1964, Dean 1951, and Baxter and Oxenfeldt (1961)

3 that it takes decisions on various different fronts simultaneously rather than sequentially, and;

4 that the influence of the firm's decision making of its organization form and structure and information system may be ignored.[1]

It should be appreciated that these assumptions when taken into consideration will in general lead to a different price-output decision being taken. These managerial and behavioural theories tend to differentiate between the conventional entrepreneur as the decision-maker in the firm and the situation now so frequent in practice, i.e. the separation of ownership and control in the large corporation.

The managerial theories emphasise the role of the manager and his motivations. Because it is assumed that the manager is motivated by considerations other than maximising the profits of his firm, the decisions taken are likely to be different in many situations from those to be expected from more conventional theory.

Williamson's (1963) model treats the firm as a maximiser but of utility rather than profits. He argues that managers will operate the firm so as to maximise their own utility function rather than to maximise profits

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1 For a general review of price behaviour of firms see Silberston 1970

which maximise the utility of owner-shareholders. This is represented as a function of staff, managerial emoluments and discretionary spending of investment, defined as the differences between reported profits and the minimum profits required by shareholders. The price output decision rules of his model are of the same form as for a profit maximising objective, i.e. equating marginal revenue with marginal cost.

Baumol (1967) argues that oligopolistic firms aim to maximise their sales revenue in the long run, subject to a minimum profits level. The justifications he offers for pursuing such a goal are: the separation of ownership from management characteristic of the modern firm which gives discretion to the managers to pursue goals which maximise their own utility and deviate from profit maximisation which is the desirable goal of owners. He asserts that, in his experience, managers always emphasise sales rather than profits and that the prestige of the manager is associated with his firm's sales. Baumol's model assumes a known downward-sloping demand curve, from which total revenue is presumably derived. Further, in his model profits will be sacrificed for the sake of greater sales which implies adopting price-output policy at which its marginal revenue is less than its marginal cost.[1]

According to Marris (1963), the goal of the firm is

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1 See Koutsoyiannis (1977) for more comments on Baumol's model

the maximisation of the balanced rate of growth of the firm, that is, the maximisation of the rate of growth of demand for the products of the firm and of the growth of its capital supply. However, he points out that firms in trying to achieve this goal are confronted with two constraints. The first is that set by the available managerial team and its skills. The other is a financial one which is set by the desire of managers to achieve maximum job security. Regarding price determination, Marris states that it is not his main concern. He implies that the price structure will emerge either after a period of economic warfare or by collussion in the form of trade associations or price leadership. In addition the level of output is not explicitly determined in his model.[1]

The behavioural theories allow the firm to have multiple objectives. Cyert and March (1963) argue that these goals can normally be reduced to five: production, inventory, sales, market share and profits. It is argued that the profit goal is closely linked to pricing and resource allocation decisions. However, in their simplified model, Cyert and March show the key process at work in an oligopolistic firm when decisions regarding price, output, etc. are made. In this model they assume the firm has three goals (production, sales and profit) for which three basic decisions are to be made (output, sales effort and price). At the beginning of each period

1 See Koutsoyiannis op.cit.

the firm's environment reflects its past history; its aspiration level is modified in the light of experience and organisational slack is allowed for. It was found that price was primarily sensitive to factors influencing increases and decreases in the amount of organisational slack, to feasible reductions in expenditure on sales promotion and to changes in profit goals following actual profit performance. It has been argued by Amey and Eggington (1975) that Oxenfeldt (1960) has suggested the extension of this separation of price-output decision to the pricing decision itself, i.e. that the pricing decisions could be made in stages, to be undertaken in a certain prescribed sequence. These stages are:

1 selecting marketing targets
2 choosing a brand image
3 composing a marketing mix
4 selecting a pricing policy
5 determining a pricing strategy and
6 arriving at a specific price.

It seems appropriate now, after we have scanned some of the theoretical analysis of pricing, to have a look at a sample of the empirical studies that have been conducted.

2.2 Empirical Studies of Pricing Behaviour

Research into the question of actual pricing practices appears to indicate that most firms set prices without an explicit analysis of the marginal relationships. The Hall and Hitch (1939) study was a pioneering attempt. They analysed answers to questionnaires from thirty-eight businessmen. Thirty of these respondents used a full cost pricing system all or some of the time with twelve adopting a rigid adherence to this principle. Hall and Hitch combined their full cost pricing model with the kinked demand curve theorem. According to them, each individual businessman faces a demand curve which has a kink at the existing price. This demand curve seems to him very elastic with respect to price increase, because he is afraid that, if he raised his price, his immediate rivals would try to deprive him of some of his customers by not following suit. Conversely, the demand curve seems to the businessman to be rigid with respect to a price reduction, because he feels that, if he were to lower his price, his rivals would at once do the same so as not to lose their own customers. Consequently, marginal revenue is discontinuous below the kink in the demand curve. As mentioned above, this price is not determined on the basis of equality between marginal revenue and cost but according to the full cost principal.

Hall and Hitch's findings threw grave doubts on what had appeared to be previously received doctorine. Apparently, the emphasis that many firms give to costs as the pricing base has been widely confirmed in other studies, for instance, Pearce (1956), Hague (1971), and Skinner (1970), all of which relate to pricing in Britain.

In attempting to explain why cost-plus methods are often used, Wilkes and Harrison (1975) suggest the following:

> "First, it looks straight forward and uncomplicated to administer since data can be generated internally, are familiar and therefore allow management to quickly identify inconsistencies and data requirements can be incorporated into the normal recording systems of the relevant departments. Second, it will not only invite price stability in the product market (if competitions have similar structures of cost and a similar markup philosophy) but will consequently also invite stability of production and employment. Finally, it has the value of appearing to be equitable socially, creating an image of the company and themselves as aiming to make a 'fair' rate of return on investments."

Another major study of pricing in private industry was that carried out by the Brookings Institution in the U.S.A. and published in 1958 by Kaplan, Dirlam and Lanzillotti (1958). The main strands of the evidence are reproduced in an article by Lanzillotti (1957). The study was based on a series of interviews with the top management of a representative group of large-scale enterprises engaged in primary production, manufacturing and distribution. In analysing company pricing policy the authors distinguished five broad patterns of corporate pricing policy. These were pricing to achieve a target return on investment, stabilisation of price and margin, pricing to maintain or improve market position, pricing to meet or follow competition, and pricing related to product differentiation i.e. different policies for different products. The general conclusions of this study were

(a) that large corporations generally have a fairly well defined pricing goals related to a long-range profit horizon,

(b) management usually seek a simultaneous decision with respect to price, cost and product characteristics,

(c) pricing formulas are handy devices for checking the internal consistency of the separate decisions against a general company objective.

In his sample of 110 "excellently managed companies" as listed by the American Institute of Management, Early (1956) claimed that the majority followed pricing, marketing and new product policies that were essentially marginalist. According to Early, marginalist behaviour implied such techniques as marginal accounting. This, as practiced by well-managed, multi-product companies, included such things as segmentation of costs and revenues--by market area, division, plant, etc..--and segmentation in organisational structure, each sector being profit-making entity. It also embraced marginal techniques of planning and decision, policy making being associated with a short-dated time horizon and a lively sense of impending innovation and obsolescence. Early reported a widespread distrust of full-cost principles among these firms, and the pursuit of marginalist policies in both the long and the short term. "Marginalism-on-the-wing" is how Early referred to their general attitude.

The above empirical works are not the only ones to have been published. However, it should be appreciated that there is a paucity of published work of an empirical kind in pricing.

It is one hypothesis of this research that where the literature on pricing has gradually become more sophisticated in developing away from its original micro-economic theory perspective to take on board first, accounting practices and then some rather simple behavioural and organisational goals, our knowledge of decision making in organisations has been extended well beyond that mentioned in the above review of pricing. Our advances in understanding organisational theory concepts, especially the recognition that decisions are often negotiated and influenced by sub-unit power, have not yet been recognised in literature on pricing decisions. It is suggested that while prices will be influenced by external market forces the <u>mechanism</u> by which prices are settled will be determined by organisational sub-unit influence which will not necessarily be constant over time or determined solely by economic market structures as measured by economists. Both economics and accounting studies may play a part in explaining price levels but they do little to explain the process by which prices are determined and this is the focus of this study.

The advent and abolition of the Price Commission provides a superb opportunity to study such matters. The next section reviews the basic provisions of the Price Codes and the research relating to it to date. It will also be seen that no study has been made of the way the Codes affected organisational power and so this project has another unique dimension.

2.3 Background about the Price Commission

2.3.1. The 1973 - 77 Price Code

As a result of the increasing rate of inflation, the U.K. government introduced in 1973 what was known as the Counter-Inflation Act which was administered by the Price Commission. The major purpose of what was produced by the Price Commission and known as the Price Code[1] - a large body of rules applicable to virtually all enterprises - had been

1 to limit the extent to which prices may be increased on account of increased costs, and to secure price reductions as a result of reduced costs
2 to reinforce the control of prices by a control on profit margins while safeguarding investments: and

1 See the Counter-Inflation Act 1973

3 to reinforce the effects of competition and to secure its benefit in the general level of prices.[1]

Prices could only be increased in proportion to increases in certain allowable costs per unit of product. Allowable costs included the main production costs for most enterprises: labour, materials, components, energy, rents and rates, interest and depreciation later on. Part of labour costs were disallowed until 1976 on the grounds that it would induce gains in productivity. The increases in these allowable costs could lead to an increase in price provided that they did not result in the profit margins moving above the firm's reference level. These references levels were the average of the net profit margins in the best two years out of the five years up to 30th April 1973. A firm could have one reference level covering all its activities, up to three reference levels relating to its manufacturing, services or distribution activities, or separate reference levels in certain instances for individual constituent companies within the whole enterprise.

It is to be noted that the above applied only to manufacturers. Distributors were not subject to control in the price of individual products; however, the gross percentage margins on the individual distributors' overall turnovers were monitored. In addition, similar to the net

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1 See the Review of the Price Code: A Consultative Document, London H.M.S.O. 1974, p.13

margin control, a historic level of gross margin was used for each firm to set the maximum allowed. Unlike the net margin control, the gross percentage margin was based on the last single trading year before 30th April 1973. No allowable costs were specified, so there were no productivity deductions. Distributors were also required to adjust prices so as to keep both their current gross and net margins below their relevant reference levels, except where seasonal or other distorting factors were the primary cause.

Any proposed increase in prices had to be notified to the Commission at least 28 days before implementation by firms. Initially only manufacturers and service firms with sales exceeding £50 million and £20 million respectively had to notify price increases. These firms as well as manufacturers and distributors with sales exceeding £5 million and £10 million respectively had to make quarterly reports on their profit margins. Pre-notification of prices did not apply to distributors; they were controlled in terms of their current gross and net profit margins rather than corresponding reference levels. Manufacturers with sales over £1 million and distributors with sales over £250,000 were required to keep records which had to be submitted to the Price Commission on request.

The Code also provided safeguards whereby firms were protected from earning unreasonably low profits as a result of the Code - for instance, it set minimum profit levels and limited the rate at which profits could be reduced. For distributors, the safeguard was related to gross margins instead of allowable costs. The Price Code also permitted either allowable cost increases or profit margins to be modified to provide an adequate return on new investments. Furthermore, the Price Code stated specific conditions for the particular circumstances of various sectors (e.g. banks, finance houses) where the general provisions for industry and trade could not be applied as a whole.

The above had been the main features of the Price Code up to 1976. However, the Price Commission Act 1977 made the Commission into a different body from its predecessor. The cause of change was explained to the House of Commons on 27th April 1977 - by Mr Hattersley, the then Secretary of State for Prices and Consumer Protection:

> "A general price code applied by cost control is unavoidably inflexible. It lays down rigid rules. The rules are inevitably arbitrary and indiscriminate. They attempt to relate a firm's pricing policy to its past performance; a straightjacket from which improving and expanding firms rightly wish to escape."[1]

Thus, the 1977 Act no more applied a rigid system of price control based on allowable costs; however, some features such as the notification and profit margin control (only for one year) were retained.

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1 Quoted from Lofthouse, S., 1976

The new approach pursued was that of flexible and selected interventions where market forces, particularly competition, failed to restrain behaviour which was not in accordance with the policy objective. To achieve this purpose, the Price Commission Act 1977 permitted a newly-constituted Commission to carry out investigations into proposed price increases, prices and margins and to determine their reasonableness according to statutory criteria which are set out in Section 2.[1] This would be conducted "so far as (it) appears to the Commission to be consistent with the making of adequate profits by efficient suppliers of goods and services." (Section 2(1)(a)). In judging adequacy of profits the Commission were to take into consideration the resource allocation effects of prices and profits and allow a premium for risk and innovation. Profits were to be measured in real terms.

Large firms were to continue to give 28 days notification of their intention to increase prices. During that period the Commission had to decide whether it would conduct an investigation which had to be completed in three months. Prices could be frozen during the investigation. If the Commission decided to make an investigation and found the increase not justified, it could recommend that prices be frozen for up to 12 months. Distributors' margins were not frozen during an

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1 See Appendix A

investigation but afterwords the Commission could decide that these were to be reduced. The Secretary of State could instruct the Commission to carry out an examination of prices, costs and margins in a sector of industry or commerce.

The impact of the Price Code on the firm's prices and profits in curbing inflation is a controversial topic. Many argue that the interest of a nation may well be served if prices are left to find their own level, i.e. through the market demand and suppliers' normal responses; yet, others hold that the introduction of certain price controls can be justified in terms of their aims, achievements and costs in serving the nation's interest.[1] As the Price Code 1977 marked a different colour of rules and procedures, it seems appropriate to look separately at its impact on prices and profits, and those up until 1976.

Regarding the effect on prices of the 1973-1977 Code, there are those (Skinner 1976) who seem to imply that the Price Commission has encouraged rather than restrained prices increase. In the absence of the Price Code, the fear of competition may have hindered any contemplated increase in prices. Also the reluctance of competitors to respond to inflation might have delayed price reviews and kept prices down. The possibility of pricing one's firm out of the market might have reduced the level of increase

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1 J Mitchell, 1978, implies the same view.

proposed. Indeed, a few firms reported that the Price Code had actually speeded up price increases. This was due to the havoc caused by statutory notification coupled with the uncertainty involved in the future effect of the rules, which meant that firms applied for increases whenever cost or profit made it legitimate (J. Mitchell 1978). Indeed, according to the Price Commission "the former Price Code tended to encourage many companies to apply for price increases at regular three-month intervals" (Price Commission Quarterly Report, Aug-Oct 1977).

Contrary to this view are the findings of the survey reported by Evely 1976).[1] The results from this survey indicate that the market conditions are the dominant factors governing prices rather than the controls of the Price Code. This, however, does not necessarily mean that the Price Code did not limit the ability of companies to pursue a high price policy. Indeed, the requirement for manufacturing and service industries to relate price increases solely to increases in those that are 'allowable' under the Code did set an upper limit for price increases. Nevertheless, the optimal might have been below the limit allowed under the Price Code. Firms also had to carefully examine their cost figures and pricing decisions were given more weight and taken at higher levels. Further, Prest (1976) suggests that an indirect effect of the Price Code is the multiplication of

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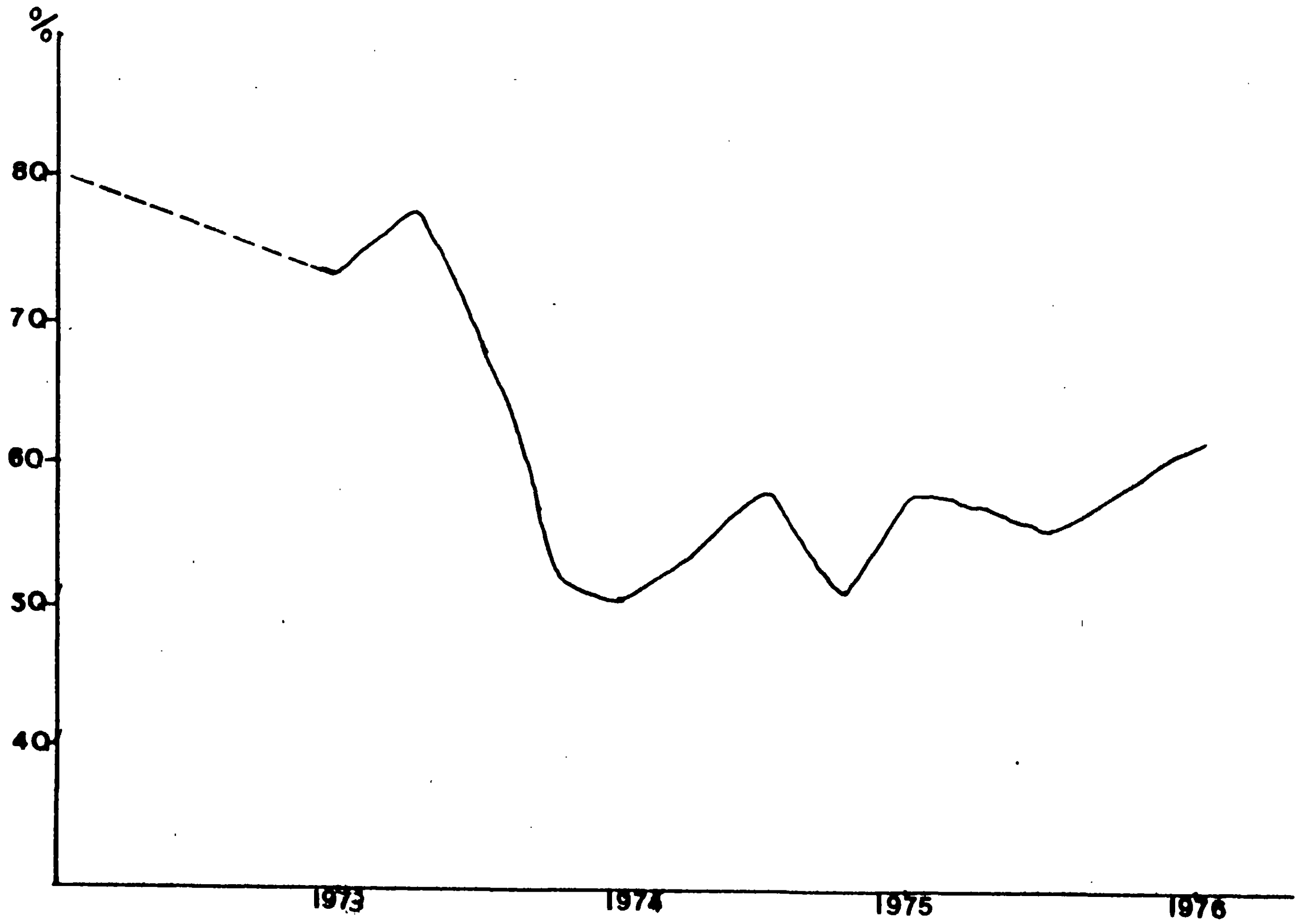
1 Evely's findings are discussed in Chapter 9.

uncertainities where firms are unsure that they would be allowed to reap the commercial benefits of some risky activity, and thus may be daunted from undertaking risky ventures. It is therefore possible, from what has been said, to realize the difficulties involved in appraising the effect of the Price Code on increases in prices. Though it is apparent that there is no clear cut conclusion regarding what has taken place, yet an insight of the repercussions was possible, albeit briefly.

Regarding the effect of the 1973-77 Price Code on the firms' profits, it seems that it had led to a decrease in the profit margins of most companies. According to the Price Commission the reference levels were far above the profit margins when the Price Code was first introduced in 1973 and as a result profit margins were in the range of 70%-80% of reference levels in 1974. Thus, the Price Commission in its Six Quarterly Report (1974) asserted that no serious erosion of profits had taken place throughout the period of control. However, soon after that profit margins fell to just above 50% where they remained until the autumn of 1975 (see figure 2.1.)

The Seventh Quarterly Report (1974) showed a significant reduction of profit margin of manufacturing and service industries as a percentage of reference levels. Such a decline in profit margins was explained by the Price Commission as being attributed mainly to the increases in labour costs which took place during that period and

Figure 2.1. Net profit margins as a percentage of reference levels 1973-1976



and which was only partially absorbed in higher prices. This seems obvious, especially when costs are increasing rapidly and there is a time lag between notifying the Price Commission, obtaining his permission to increase prices, and reaping the fruits of higher selling prices. In addition, during that time production has started to fall and thus it was rather difficult to maintain profit margins.

These reasons could be valid on the assumption that the market was actually ready to absorb the increase had it been secured. According to Evely (1976) the market conditions had a big share in depressing profits far below reference levels. Therefore, it seems unlikely that prices could have been raised to maintain profit margins even if the price control allowed. Such a situation led many firms to experience liquidity problems whereby they had to reduce their output and employment so as to cut back their real investments in working capital. Research and development as well as stock holding had to be reduced too (J Sizer 1976). In 1976 profit margins started to improve when the industry contrived to accommodate the effect of the increase in the labour costs. This was supported by the increase in production and the safeguards provided by the Price Code.

Some of the repercussions of the effect of the Price Code on prices and profits are that many firms might have found it profitable to divert their resources to areas uncovered by the Code especially exports, where prices had increased more than domestic prices. Investments in U.K. too became less attractive to foreign parent companies (Evely 1976).

From the above, it can be seen that during the period 1973-76 the Price Code appears to have had a significant effect on the reductions of profits earned by companies even though the market conditions had contributed a lot to the same. It is worth mentioning that in a survey conducted by the Accountancy Age in 1973, eleven out of 27 quoted public companies may have broken the profit margin rules set out in the Government's Pay and Price Code (Accountancy Age, 1973).

2.3.2. The 1977 - 79 Price Code

As said earlier, the 1977 legislation abolished the 'cost control' element of the Price Code and to compensate introduced a more far reaching investigatory system. It is not surprising to realize that the Government justified such a change by saying that "they (cost control rules) have come to be regarded by some firms as an entitlement to price increases, and in some cases they can adversely affect efficiency and employment."[1]

The Notification and Information Order required manufacturing and service enterprises with annual turnover

1 See Consultative Document: A New Price Policy, 22nd February 1977, p.5

greater than £12 and £9 million respectively to notify the Commission in advance of any increase in their prices. An immediate effect of the 1977 Price Code had been the sharp reduction in the amount of price increases notified to the Price Commission. This was also coupled with a similar decrease in the number of notifications for price increases. The later effect could be an incorrect indicator of shifts in the behaviour of firms since some firms may apply for more than one notification for a single price increase (one may be for increase in price and the other based on investment relief), or have the full increase once rather than in a number of times. However, the decrease in the amount notified should give a guide to the changes of prices (see Table 2.1.)

The Price Commission Index which was derived from the notifications of price increases, was broadly a reflection of price movements under the influence of changes in costs and domestic market conditions. The Index followed a downward trend which implied a decrease in the amount of price increase. During 1978 it stabilised at an annual rate of about 4 to 7 per cent. However, it started to increase in early 1979 (see Figure 2.2) and according to the Financial Times (1979:1)

> "the main reason for the rise ... appears to be the continued increase in oil prices after the disruption to supplies from Iran."

Nonetheless, it could be said that the 1977 Price Code has had a marked effect in confining firms' price increases.

In any investigation or examination, the criteria set in Section 2 of the Act was the framework used in judging whether proposed price increases, or the level of prices or margins, were in accordance with the policy objective of

> "restraining prices of goods and charges for services so far as that appears to the Commission to be consistent with the making of adequate profits by efficient suppliers of goods and services".

(Section 2(1)(a)). Unlike the previous price control where the rules of the game were to a large extent specific and known to firms, the 1977 Price Code criteria seem to be very subjective. It required "an exercise in judgement where conflicting assessments between one criterion and another have to be weighted and reconciled" (Price Commission Quarterly Report, Aug-Oct 1977). Such a dim vista appears to have increased the uncertainty faced by firms. One therefore wonders if the ambiguity embodied in the 1977 price control contributed to the low level of notification mentioned above.

In selecting candidates for investigation, the Commission was mainly interested in sectors where competition and efficiency were limited. This is because it was believed that the lack of full competition might lead "to inefficiency in the use of resources to exploitation of market strength against the consumer or to an unreasonable level of profit" (Price Commission Quarterly Report Feb-April 1978). It was up to the

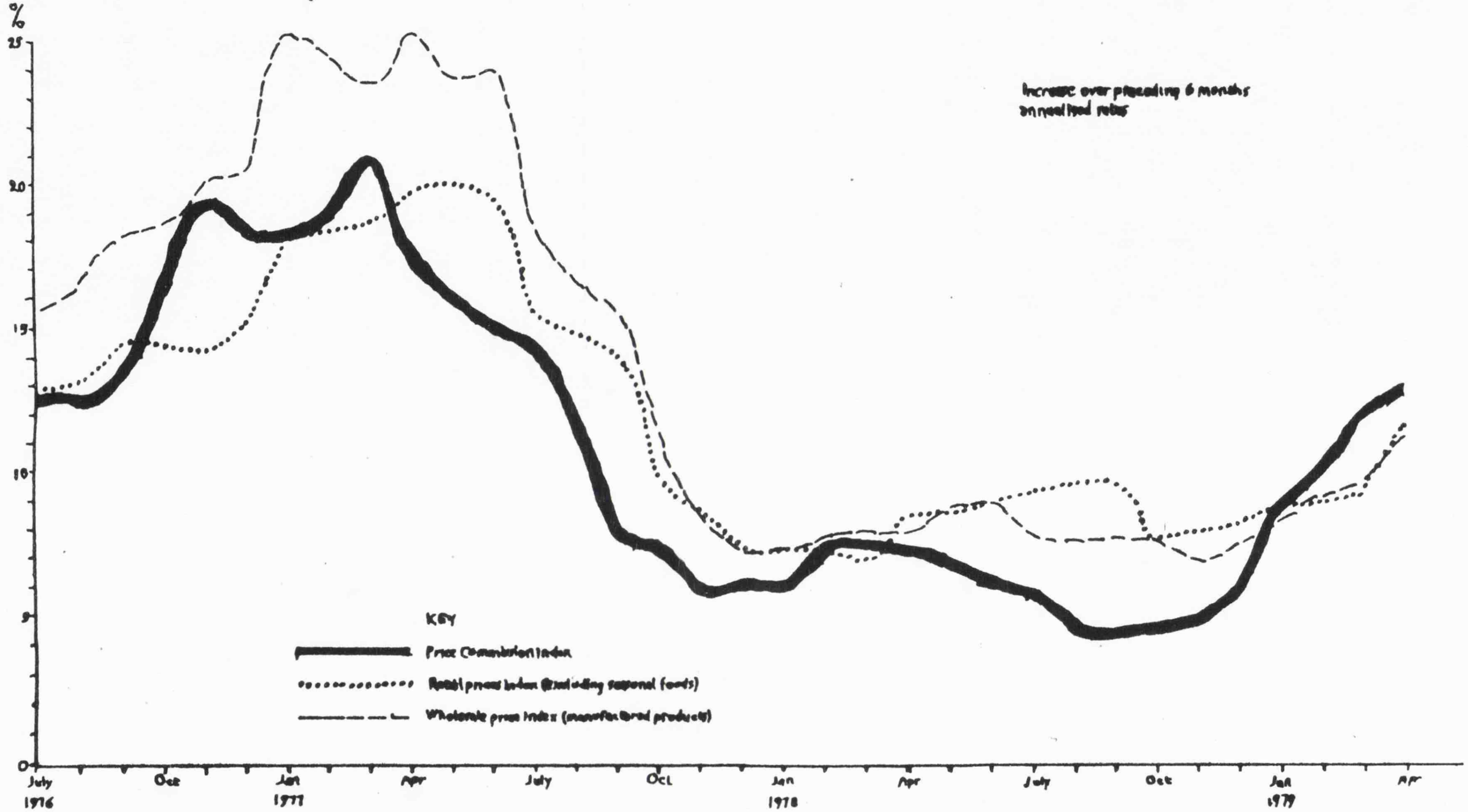
Table 2.1: Notifications received

	1974-76	1977 Jan-July	1977 Aug-Oct	1977-78 Nov-Jan	1978 Feb-Apr	1978 May-July	1978 Aug-Oct	1978-79 Nov-Jan	1979 Feb-Apr
Numbers	720	578	215	315	302	307	286	348	426
Annual turnover (£m)	10,679	14,320	5,192	8,276	8,689	7,243	5,905	12,671	12,640
Amount of price increase notified (£m)*	827	735	271	440	415	319	282	721	793
Percentage price increase notified	7.7	5.1	5.2	5.3	4.8	4.4	4.8	5.7	6.3

* Annual rate

Source: Price Commission Report for the Period Feb. - April 1979., H.M.S.O., 1979.

Figure 2.2 Changes in the Price Commission Index, Retail Prices Index and Wholesale Price Index



Source: Price Commission Report for the period Feb. - April 1979, H.M.S.O., 1979.

discretion of the Commission whether to make a detailed assessment or not; however, the criteria used in making such a decision were also subjective in the sense that firms did not know whether they would be subject to an investigation or not. By the time the Price Commission was abolished 44 companies had been investigated.

For the firm an immediate effect of a decision to investigate was to freeze the price concerned. The Commission had only 6-7 weeks in which to identify and collect data. During that period firms could apply for interim price increases and the Commission might be obliged to agree under the safeguard provisions. These required the Commission to allow interim increases to the extent necessary to permit a certain minimum margin of profit on the products or services concerned. According to the Price Commission the Safeguard Regulations have had two general effects. First, the Commission was committed "to calculate an entitlement to a price increase against a set of mechanistic rules independent of the criteria". Second, "they have influenced the options open to us (the Commission) both in making a decision to investigate and in the conduct of an investigation and the framing of recommendations" (Price Commission Quarterly Report, Feb-April 1978).

In evaluating the impact of the Price Commission on profitability, it has been argued by the Confederation of British Industry (1979:14) that the Price Commission adversely affected profitability in at least seven ways:

1 Through the freeze on prices during investigation.
2 Through restrictions imposed after investigations.
3 Through the restraining effect these restrictions had on competitors' prices, which was particularly relevant since the Commission tended to focus on market leaders.
4 Through 'horsetrading' with companies which were prepared to agree to reduce the size of proposed price increases to avoid investigation.
5 Through the general deterrent effect that the Commission had on companies wanting to raise prices.
6 Through the administrative costs which the Commission inquiries imposed on companies, in particular the opportunity cost of diverting senior management away from their proper function. Individual companies reckoned the total here at tens of thousands of pounds.
7 Through the adverse effect on investment caused by the existence of the Commission and the policy it administered which led to lower profitability in the medium term.

It is with these details in mind that attention can now be turned towards organisation theory concepts and the impact of the Price Codes in the organisation. This will be the theme of the next chapter.

Chapter Three

Organizational Affects of Price Control

3.1 Identification of Organizational affects of price control

The pricing literature which was reviewed in the previous chapter seems to have pursued a logico-deductive theory approach to scientific inquiry which is to construct theories in almost absolute isolation from events in the world and, on the basis of that theory, deduce hypotheses for testing against real-world data. The theory then stands or falls until it is refuted by tests against such facts. In discussing such an approach to research, Blumer (1978:34) correctly argues that:

> "It is no wonder that the broad arena of research inquiry in the social and psychological sciences has the character of a grand display and clash of social philosophies. Instead of going to the empirical social world in the first and last instances, resort is made instead to a priori theoretical schemes, to sets of unverified concepts, and to canonized protocols of research procedure. These come to be the governing agents in dealing with the empirical social world, forcing research to serve their character and bending the empirical world to their premises."

Hence, the alternative approach to scientific research which this thesis purports to adopt gives weight to the process by which a theory is developed and verified. This type of research is coined by Glaser and Strauss (1967) in their well known work, <u>The discovery of grounded theory-strategies for qualitative research</u>. They argue that:

> "In contrasting grounded theory with logico-deductive theory and discussing and assessing their relative merits in ability to fit and work (predict, explain, and be relevant), we have taken the position that the adequacy of a theory for sociology (and it is argued here for accounting) today cannot be divorced from the process by which it is generated. Thus one canon for judging the usefulness of a theory is how it was generated--and we suggest that it is likely to be a better theory to the degree that it has been inductively developed from social research.... Generating a theory from data means that most hypotheses and concepts not only come from the data, but are systematically worked out in relation to the data during the course of the research. Generating a theory involves a process of research". Glaser and Strauss (1967:5-6; italices in the original).

Furthermore, Blumer (1978:35) describes what it means to ground theory in the empirical world.

> "I repeat once more that what is needed is to gain empirical validation of premises, the problems, the data, their lines of connection, concepts, and the interpretation involved in the act of scientific inquiry. The road to such empirical validation...lies in the examination of the empirical social world. It is not to be achieved by forming and elaborating catchy theories, by devising ingenius models, by seeking to emulate the advanced procedures of the physical sciences, by adopting the newest mathematical and statistical schemes, by coining new concepts, by developing more precise quantitative techniques, or by insisting on adherence to the canons of research design. Such preoccupations, without prejudice to their merit in other respects are just not headed in the direction that is called for here. What is needed is a return to the empirical social world (Blumer, 1978:35).

For Blumer, a return to the empirical social world involves the inductive process of naturalistic inquiry.

> "The empirical social world consists of on-going group like and one has to get close to this life to know what is going on in it.
>
> The metaphor that I like is that of lifting the veils that obscure or hide what is going on. The task of scientific study is to lift the veils that cover the area of group life that one proposes to study. The veils are not lifted by substituting, in whatever degree, preformed images for first-hand knowledge. The veils are lifted by getting close to the area and by digging deep in it through careful study. Schemes of methodology that do not encourage or allow this betray the cardinal principle of respecting the nature of one's empirical world...(The) merit of naturalistic study is that it respects and stays close to the empirical domain (Blumer, 1978:38,43)."

Following the above line of argument, Buckley et.al (1976:22) seems to have appreciated the modicum of such an approach to scientific research in the accounting literature and have remarked that

> "There are abundant opportunities for inductive research in accounting, and the paucity to date can only be explained by an unawareness of the need or potential for this type of research (Buckley et.al., 1976:22)."

Therefore, based on what is adumbrated above, it is believed that if an unstructured interview is conducted with officials in one of the companies that was subject to the rules of the Price Commission, a genuine portrayal may be obtained of the salient changes that were engendered by the introduction of the Price Commission and which had an impact on pricing decisions. This stance is very similar to the phenomenological approach to interviewing which

> "is used when the researcher has no presuppositions about what of importance may be learned by talking to people in the program. The phenomenological interviewer wants to maintain maximum flexibility to be able to pursue information in whatever direction appears to be appropriate, depending on the information that emerges from observing a particular setting or from talking to one or more individuals in that setting. Most of the questions will flow from the immediate context....No predetermined set of questions is possible under such circumstances, because the evaluator does not know beforehand what is going to happen and what it will be important to ask questions about (Patton, 1980:198-9).

Accordingly, an unstructured interview was carried out with the finance director and management accountant of Hekmats Limited, one of Britain's leading companies in its field of production and which has expressed its willingness to help in this research. The information elicited during that interview revealed that the power over pricing decisions shifted from the marketing department to the accounting function with the introduction of the Price Commission. The interviewee also spelt out the difficulties which the company had undergone regarding its information processing system because of the extra information which was required by the Price Commission. In particular, the previous finance director stopped the product costing system to enable the accounting staff to generate the information demanded by the Commission.

The information emerging from that interview suggested that the shift of departmental influence over pricing decisions and pressures on information processing were the most significant organizational changes induced by the introduction of the Price Commission. However, although we could establish our hypotheses at that stage of the research, it seemed appropriate, first, to look at the literature on both intra-organizational power and information processing in order to ascertain what insight might be gained from it before pursuing research to consider whether similar circumstances as those created in Hekmats by the introduction of the Price Commission had been experienced elsewhere. This was then followed by the development of broad hypotheses which acted as a framework for further empirical work.

3.2. Organizational affects of price control: The issue of power

3.2.1. The Concept of Power

Research in the social science has rigorously tackled the issue of power in work organization in spite of the pessimistic but succinct remarks of March (1966) which tend to provide a prescient warning of the difficulties that surround the issue. However, one could easily observe, from a review of the literature, that the emphasis has been on vertical - the influence of one person over another - rather than on horizontal or departmental power. Such an unjustified focus of attention has resulted in a modicum of published work and has led Perrow (1970:84), who was among the first to shed light on the neglected issue of horizontal power and its importance, to state:

> "Part of the problem, I suspect, stems from the persistent attempt

> to define power in terms of individuals and as a social-psychological phenomenon. Organizations are viewed as a co-operative systems and power as a 'problem' of inter-personal relations. Even sociological studies tend to measure power by asking about an individual....I am not at all clear about the matter, but I think the term takes on different meanings when the unit, or powerholder is a <u>formal group</u> in an <u>open system</u> with <u>multiple goals</u>, and the system is assumed to reflect a political-domination model of organization rather than only a co-operative model. Some meanings of the term that come from an inter-personal view point are irrelevant in this case; others are magnified. The fact that after a cursory search I can find only a single study that asks survey questions regarding the power of functional groups strikes me as odd. Have we conceptualized power in such a way as to exclude this well-known phenomenon?".

Milburn (1972) shares Perrow's observation in a review of behavioural science contribution to the literature on conflict and power.

The various concepts of power that have been proposed (Cartwright 1959, Dahl 1957, Tannenbum 1968) tend to define power within the context of the vertical superior-subordinate relationship. Power is thus perceived as the ability to control or influence the actions or behaviour of another person. However, following Perrow's remarks one would expect the concept of power to have a different meaning when discussed within the context of sub-units relationship. Salancik and Pfeffer

(1974:453) define horizontal power as "the use of influence among co-acting peers to obtain benefits for themselves". In their strategic-contingency theory, Hickson et.al (1971:217) borrow Emerson's (1963) definition which "takes power as a property of the social relationship, not of the actor."

Although these definitions of power may have served their purpose in the particular relationships studied, it appears that the sort of relationship which the Price Commission may have caused to exist between the concerned subunits require a specific definition of what the concept means.[1]

3.2.2. The Base of Power

A parallel flow in the literature as regards the definition provided for power is the base of power. French and Raven (1968) propose five bases of power. According to them, an individual may have power because of his ability to reward the compliant behaviour of others. He may have power because of his ability to punish the noncompliant behaviour of others. He may have power arising out of fromal position in the organizational hierarchy. He may have power because of some charisma he has. These bases seem to serve well the vertical superior-subordinate relationship.

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1 The definition used in this study is stated in chapter 6 which deals with the research methodology.

With respect to sub-units' base of power, several suggestions have been noted in the literature. Crozier (1964) in his study in a cigarette factory observed that power accrued to maintenance engineers because they were the only group in the factory with the relevant knowledge to deal with the uncertainty hindering the factory's operation. Thus, he argued that the distribution of power across organizational sub-units is determined by "the kind of uncertainty upon which depends the life of the organization" (p.164). Thompson (1967) holds a similar view by arguing that power accrues to those sub-units that are able to cope with critical organizational uncertainties.

Perrow (1970) in his study of 12 industrial firms found that the sales departments were thought to be the powerful departments. This, he explained, might be due to the sales departments' ability to reduce uncertainty in their activities or what March and Simon (1958) call uncertainty absorption. Thus, he argued that "the most critical function tends to have the most power" (p.66). This follows the argument of Cyert and March (1963) which suggests that those groups or sub-units capable of absorbing the organization's uncertainty would have influence in the organization.

According to the strategic-contingency theory put forward by Hickson et.al (1971), power is accrued by organizational sub-units that cope with critical organizational problems. However, they noted that coping with uncertainty itself was not enough to provide power to organizational sub-unit. Rather, it is provided by the ability of sub-units to cope with organizational uncertainty, by the ability of sub-units to cope with substitutability and by the ability of sub-units activities are integrated into the system). The empirical work conducted by Hinings et al (1974) provides support to the strategic-contingency theory.

Salancik and Pfeffer (1974) suggest that the distribution of power within the organization is sensitive to a sub-unit's ability to provide critical and important resources from the environment to the organization. They further propose that this power may be used to influence the criteria used in organizational decision making and to increase the share of internally allocated resources. Their study in an American university buttresses up their argument. Lawrence and Lorch (1967:127) hold the same view that securing important resources from the environment (in their study it was product innovation) affects the distribution of sub-units' power.

Elucidating on the above views, Pfeffer (1977:258) comments that

> "to the extent that resources are a critical contingency for organizations, it could be argued that the focus on a sub-unit's ability to bring in critical resources is equivalent to the sub-unit's capability of coping with a critical organizational contingency. The principal difference, if there is one, concerns the ease of measurement of the concepts. The flow of resources into an organization and responsibility for resource

> flows appear to be more precisely specified than the concept of uncertainty or contingency."

After examining the workflow in an insurance company, Salancik and Pfeffer (1977) realized that all other departments in the organization depended on the services provided by the coding department. This dependence created a source of power for the manager of the coding department. However, top management were not aware of this fact since they were not affected by the work of the coding department. This led Salancik and Pfeffer (1977:7) to argue that "the basis for power in an organization derives from the ability of a person or sub-unit to take or not take action that are desired by others".

In his study of the introduction of computer systems into an organization, Pettigrew (1973) demonstrates how one of the consequences of such innovative decisions can be a redistribution of scarece resource, such as power and status, within the organization. Pettigrew's work emphasises the political aspects of decision-making and the extent to which the internal political environment is itself a major source of uncertainty when an important innovation is introduced.

In discussing the importance of informational systems as a means for influencing the distribution of intraorganizational power, Bariff and Galbraith (1978:15) believe that

> "sources of intraorganizational power are generally represented by formal authority and influences associated with the capability of an individual's or group's comparative advantage for providing information, materials or other services to support other individual's or group's tasks".

Waterhouse and Tiessen (1977:10) developed an organizational model in which they suggest that the nature of organizational control is dependent on the type of organizational structure which, in turn, is contingent on certain contextual variables namely technology and environment. Based on this model and elaborating on the works of Crozier (1964), Thompson (1967), and Hickson et al (1971), they argue that

> "the distribution of power within an organization is contingent on the context of the organizational sub-unit to the extent that environmental uncertainties or non-routine technologies form the bases from which individuals may realize power".

It is now necessary to examine whether the above sources of power that are identified in the literature do suggest how the Price Commission may have had an impact on sub-units' power.

When the price control was established companies had to endure the painstaking task of pre-notifying reporting price increases and justifying these increases according to the formula of the 1973-1977 Price Code and, later on, the criteria laid down by the 1977-79 Price Code. The responsibility of furnishing the Price Commission with the required information was incumbent on the accounting department since the information was mainly cost in nature. This seems to be absolutely true with the cost allowance formula of the 1973-77 Act and to a large extent with the criteria introduced in the 1977 Act (Section 2(2)(a) which relates to recovery of cost incurred).

The importance of the role of cost in pricing decisions in a period of inflation should well be appreciated. This importance stems mainly from the fact that changes in costs should be accounted for in pricing decisions. Hazledine (1979:19) elaborates on this issue by remarking that

> "a firm may expect to be able to raise its price after its costs have risen without losing sales, because its customers find reasonable such an excuse (and may take it as a signal that prices of alternatives are also likely to rise), but risk losing a significant proportion of its market to rival sellers (some possibly new entrants) should it attempt the same price increase with no justifying cost changes".

The requirements demanded by the Price Commission, especially the 1973-77 Price Code, appear to have augmented the significance of this role and supported the belief that all prices would tend to ensue from changes in costs and as such, prices, to a large extent, would follow the trend of cost. Such a situation seems to have led to a considerable "input from the financial as opposed to the marketing side of management" regarding pricing decisions as Evely pointed out (1976:58). Skinner (1976:106), too, opines that the Price Commission (1973-77) allowed the accountant to exercise more influence on price and to make the running. However, although the 1977-79 Price Code used a different criteria in approving increases in prices, the pattern to increase prices in order to recover increases in costs, among other factors, seems to have followed the 1973-77 Price Code. Indeed, 31 out of 44 companies investigated cited Section 2(2)(a) of the criteria which refers to recovery of cost incurred. Yet, since the required information was not mainly within the scope of what the accountants could provide, it is expected that the accountants exercised less influence on pricing decisions than they would have done during the 1973-77 Price Code.

It, therefore, appears from the above that the accounting department possessed most of the necessary information to cater for the onerous demands of the 1973-77 Price Code. It also appears that having most of the relevant information to increase prices during that period enabled the accounting department to influence the pricing decisions,[1] and as a consequence be more influential in generating external resources for the business and coping with environmental uncertainty in the form of being able to substantiate price increases. Because the information required by the 1977-79 Price Code was not to a large extent possessed by the accounting

1 See Wilensky (1967) and Pettigrew (1972) for information as a source of power.

department only, one expects that it's influence on pricing decisions was less than during the 1973-77 Price Code. On the other hand, the fact that the accounting department may have developed an expertise in dealing with the work of the 1973-77 Price Code, may have enabled it to continue handling the requirements of the 1977-79 Price Code and thereby influence pricing decisions.

It could therefore be broadly hypothesized that: <u>The relative distribution of sub-units' power to influence decisions is contingent upon requirements enforced on the organization by environmental factors, and the relative abilities of sub-units to help satisfy those requirements</u>. Power in this context may be broadly defined as the ability of sub-units to influence decisions.

The above hypothesis is based on the argument that before the price control was established the pricing decision was principally a marketing decision. However, after the introduction of the price control in 1973, which is here perceived as an environmental factor, the domination of the marketing department seems to have lost ground. This was mainly because the Price Commission required different recipes for increases in prices and whose ingredients were mainly supplied by the accounting department. Thus, it seems plausible to argue that the different requirements of the Price Commission and the ability of the accounting department to help satisfy those requirements had led to a relative shift of power in pricing decision making from the marketing to the accounting department. The hypothesis also implies that after the abolition of the Price Commission, the power to influence pricing decisions should have shifted back from the accounting to the marketing department if the degree of market competition had not shifted markedly in the meantime.

It has been demonstrated that the literature seems to have ignored the impact environmental factors may have on the distribution of horizontal power. This section has attempted to draw attention to this issue by arguing that the various requirements of the Price Commission and the abilities of sub-units to help satisfy those requirements, have led to relative distribution of sub-units' power to influence decisions.

3.3 The issue of designing accounting information systems

The literature is replete with suggestions regarding the design of information systems to support organizational decision making. Accounting has its share in these suggestions since the accounting information system is intended to support organizational decision making. The Amercian Accounting Association (1974:79) opines the same by defining an internal accounting information system as "that portion of the total information system which is concerned with collecting, processing, storing and retrieving...data for the purpose of providing information to decision makers within the organization".

The design of information systems to support decision making could be seen as depending upon a number of variables. There are those who argue that attention should be given to satisfy the users perceived information needs (Cyert and March 1963, Tricker 1967, Child 1972, King and Cleland 1975). This view is based on the assertion that if information systems are to facilitate decision making then it should cater for the information which the user requires in making that decision.[1] However, the problem with this approach is how a user's information needs are to be assessed. A difficulty with this task may be due to the fact that the decision maker sometimes not knowing what he needs but what is available.

The design of information systems is also claimed to depend upon the decision making process (Simon et al 1954, Caplan 1966, Ijiri, Jaedicke & Knight 1966, Dopuch, Birnberg & Demski 1967, Radford 1974). In supporting this view, Davidson & Trueblook (1961:20) state:

> "Accounting for decision making involves designing systems that provide relevant information at each stage of the decision making process; problem formulation, enumeration of alternatives, and choice among alternatives."

Along a similar vein, Hopwood (1976:122) argues that:

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1 Ackoff (1968) questions the assumptions that (a) the manager needs the information he wants and (b) if a manager has the information he needs, his decision making will improve.

> "If the basic purpose is to be taken seriously and accounting systems are to be seen as essential parts of a wider information and decision process within organisations, it is necessary to considerably expand our perspectives for viewing and appraising their design and operation. It is necessary to have a detailed appreciation of the whole decision process".

The value of information is another factor that has been given consideration in designing information systems. Two approaches can be identified with respect to information value measurement (King & Epstein 1976). One approach focuses on changes in expectation about decision-related events. This approach attempts to assess changes in expectations about the outcome of an observable phenomenon based on a message which is received concerning the outcome. The main ideas of this approach stem from the work of Shannon and Weaver (1949). Others, mostly those concerned with accounting information, have taken up the concept and applied it in value-oriented domains (Lev, 1968, 1969, Lee and Bedford 1969).

The second approach to information value measurement focuses on changes in behaviour as reflected in decision situations. The advocate of this approach argue that "information has value only if it leads to the selection of a qualitatively different alternative than would have otherwise been selected" (King & Epstein 1976:173). On attempting to apply this approach to accounting, Feltham 1968, 1972 and Demski 1969, 1970, emphasise the ultimate payoff derived from the information as well as the way the decision maker will utilize the information.

The above are some of the factors which have been taken into consideration by researchers when making suggestions regarding the design of information systems to support organizational decision making. These could be loosely called "internal" factors or classified under the managerial activities of management control and operational control as proposed by Anthony (1965).

The literature on strategic planning has also tackled the issue of designing information systems to support the strategic activities of planning and policy making. There are those who argue that there is need for a general schema for generating information for the different levels of managerial activities (strategic planning, management control and operational control) because there is no reason to assume that information needs of strategic decisions are homogeneous across all levels of decision making (Zani 1970, Gordon, Larcker & Tuggle 1978).

However, whether information systems could support strategic decisions seems to be an issue of controversy. Wrapp (1967) sees hardly any point in trying to design information systems to support strategic decisions. This, he argues, is because strategic problems are unique. A counter view is held by others such as King & Cleland (1974, 1977) and Radford (1978) who have proposed general designs of strategic planning information systems and how they could help organizations in their strategic decisions.

As strategic decisions inherently involve external considerations, it appears that the bulk of the emphasis in the literature has been on how effectively and efficiently can information systems generate environmental information.

Recently, however, a number of writers have propogated the belief that:

> "in designing accounting systems for today's complex enterprises, better progress will be made if the previous technical and process understandings run in parallel with an awareness of the factors which both necessitate and constrain the control of the enterprises as a whole. Accordingly, it requires an analysis and assessment of these organisational and environmental factors which influence the design and effectiveness of accounting systems"

(Hopwood, 1976:190; italices in the original).

In attempting to consider organizational factors, there are those who hold the opinion that information systems are typically associated with different kinds of organizational structure (Wilensky 1967). Unfortunately, it appears that, apart from the early study of Simon et al (1954) and the works of Galbraith (1972, 1973) and Waterhouse and Tiessen (1977), little has been done on the effect of organizational structure on the design of information systems.

Only relatively recently have accounting academics considered in any depth the way environmental factors need to be taken into consideration in designing accounting information systems. It could be observed from the above that the accounting literature has traditionally concerned itself with a "more parochial view" regarding what should be taken into consideration in designing accounting information systems for decision making. One wonders whether such a "narrow" view could not lead to dysfunctional decision making especially when organizations cannot neglect what is going on in an environment which might directly affect their performance as well as their survival. Pfeffer and Salancik (1978:78) made the remark that:

> "organizations learn to attend to new sectors of their environments when these sectors begin to demand certain performance of the organization. Those that do not develop new, appropriate information systems are less likely to survive. Either through adaptation or selection a similar result will emerge - as environments change, organizational information processing and attentional mechanisms will change".

The 1973-77 Price Code imposed certain informational requirements on organizations seeking increases in the prices of their products. Organizations had to make quarterly reports on their profit margins to the Price Commission and to notify as well as justify any price increases which they intended to implement. Even the

1977-79 Price Code, which used a different criteria, required the same information with the exception that the periodic reports on profit margins continued for one year. It appears that such perturbing demands must have had certain impact on the organizations and especially their accounting information systems. Indeed, if we accept the view that accounting information systems are designed to generate internal as well as external information to support organizational decision making, we will find that the informational requirements laid down by the Price Commission had put accounting information systems into a new perspective.

This different perspective is clear from the fact that the emphasis is on information requirements rather than information uses. The above brief review has demonstrated that the main focus has been on "internal" factors like the value of information, the user perceived information needs, decision making process etc. On the other hand, the strategic planning literature has concentrated on how information systems should be designed to cater for the information needed for the strategic managerial activities, mainly the collection and utilization of external information. Hence, whilst practitioners may have implicitly considered environmental demands when assessing their information needs, it seems that the accounting literature has tended almost to ignore these demands when discussing the design of accounting information systems. However, the works of Khandwalla

(1972), Lowe and McInned (1971), Amigoni (1978), and Gordon and Miller (1976) can be considered as sanguine attempts towards filling this gap.

It should not be surprising to find organizations which shun from considering the requirements of environmental factors or even eschew giving them their right perspective, in designing their information systems, to make dysfunctional decisions. For example the enormous amount of information required by the Price Commission could lead to information processing overload if the accounting information system had not been moulded to cater for this demand. Information overload has been defined by Rosen & Schneck (1967:12) as "the amount of information input which is greater than that which the organization or its decision makers can adequately handle". However, in our case it is information processing overload. Miller (1960:697) has identified some of the possible dysfunctional repercussions that might result from information overload. These are:

(a) Omission, failing to process some of the information,

(b) Error, processing information incorrectly,

(c) Queuing, delaying during periods of peak load in hoping of catching during lulls,

(d) Filtering, neglecting to process certain types of information according to some shceme of priorities,

(e) Approximation, or cutting categories of discrimination,

(f) Employing multiple channels, using parrallel channels; as in decentralization,

(g) Escaping from the task.

Similar problems may arise if the process system itself is overloaded. Hence, if the processing system has inadequate spare capacity or adaptability to supply new information needed to satisfy people external to the organization, the information produced for decision making may be squeezed and, as a result, dysfunctional decisions may occur.

It could therefore by broadly hypothesized that:

1 The design of accounting information systems for decision making is influenced by requirements enforced by environmental factors and so the Price Codes should have induced changes in the information systems.

2 Accounting information systems will lead to dysfunctional decision making if they cannot cater for requirements of external agencies which have power to demand such information.

The first hypothesis is justified on the following grounds. During the life of the Price Commission it was mandatory upon organizations that fall within certain categories to notify as well as justify any contemplated increases in the prices of their products. In addition, organizations had to send regularly reports on their profit margins. The responsibility of furnishing the Price Commission with the required information was incumbent on the accounting department since the information required by the 1973-77 and to some extent by the 1977-79 Price Codes was mainly cost in nature. Accordingly, the accounting information system had to provide all the relevant information required whenever any pricing decision was sought. However, if these environmental requirements were to be fulfilled, then they should have been considered in the designing of accounting information systems. Thus, it appears that there is a relationship between the design of accounting information systems and the requirements of environmental factors. One can therefore argue that environmental requirements influence the design of accounting information systems.

The second hypothesis reflects the situation where organizations refrain from considering the requirements of environmental factors, or do not give them their right perspective in the design of their accounting information systems. The immense amount of information required by the Price Commission could prove a heavy burden on organizations if their accounting information systems were not designed to provide that type and amount of information. It is therefore possible that, in order to relieve themselves from such an overload, organizations ceased other important information which led to dysfunctional decision making. Thus, it seems plausible to argue that accounting information systems will lead to dysfunctional decisions if they cannot cater for the requirements of environmental factors.

This section has focussed on the limited amount of literature which considers environmental factors in designing accounting information systems. It has also argued that, if these considerations are not catered for properly, then it is expected that accounting information systems would lead to dysfunctional decisions.

3.4 The Need for a Case Study

The three broad hypotheses outlined in the previous section will be considered as a framework for the next stage of our empirical work which will be carried out in order to generate more specific hypotheses. To achieve this objective, it is believed that the case study approach would be most appropriate. It has been claimed by Hagg and Hedlund (1979:135) that

> "accounting researchers appear to have been less interested in using case study approaches to research than researchers in other areas of social science inquiry",

and that

> "one reason for this state of affairs might be that accounting

> researchers have not seriously
> considered the potential that
> case approaches can offer".

Such a depressing reflection of the state of the art in the accounting literature seems not to be justified if the existing use of this approach in other social sciences is made apparent. For example, Ray (1976:63) argues:

1 that the research case, property conceived and used, can be an effective means of:

   - accurately observing things and events
   - providing intimate and habitual familiarity with things
   - providing diagnoses of situations which lead to concept and generalisation;

2 that, in fact, a very limited number of research cases based on individual situations often constitute the factual evidence on which the general theories of our current corpus of knowledge are based;

3 that the significant contribution of research case studies to the development of management studies in the past and its potential application in the future should be explicitly recognised in models of teaching and research strategy.

Focusing on the field of job satisfaction, Locke (1976:1339) believes that in addition to its other advantages,

> "case studies can be very valuable
> as a source of hypotheses about the
> psycho-dynamics of job satisfaction.
> Such hypotheses might never emerge
> from a questionnaire study because
> the relevant questions would not
> have been asked".

Furthermore,

> "case studies give one a much fuller and more integrated picture of the whole individual than is possible in largescale studies using pencil and paper measure".

In discussing the differences between case study and sample survey strategies in the analysis of organizations, McClintock et al. (1979:612) point out that the goals of qualitative case study are:

> "1. to capture the frame of reference and definition of the situation of a given informant or participant and thus to avoid instrumentation artifacts of standardized measurement procedures,
>
> 2. to permit detailed examination of organizational process,
>
> 3. and to elucidate those factors peculiar to the case that may allow greater understanding of causality."

The above stated studies, in addition to many more (Lupton, 1980, Bennis, 1960; Campbell, 1975), seem to espouse the use of the case study approach when a closer knowledge of what is taking place in an organization is sought, and in grounding the development of research hypotheses. Indeed, this is the spirit of this research and the message that should have been sounded by others concerned with the primary impact of the Price Commission in particular and pricing literature in general. The next section sheds light on the research method that will be pursued in collecting the data for the case study.

3.5 Case study research method

In their classical article, Maccoby and Maccoby (1954:450) express the view that the interview

> "may be employed during the early stages of a study to help identify the relevant dimensions, to suggest hypotheses, and to reveal the natural frames of reference existing in the minds of respondents".

Kerlinger (1977:480), too, believes that interviews

> "can be an exploratory device to help identify variables and relations, to suggest hypotheses, and to guide other phases of the research".

Thus, it appears that the use of interviews would be ideal for our present purpose, especially the semi-structured type, since it provides the researcher with a wide scope of manoeuvring that helps him to probe the issues under study in more depth. The interview guide (see appendix B) that will be used is designed to cater for the eras prior to the introduction of the Price Commission, the first and second prices code, and after the abolition of the Price Commission.

Pettigrew's (1973) model of decision making as a political process will be used as a framework for examining the issue of power in Hekmats Limited. Pettigrew believes that decisions are taken via processes that are functions of properties of the unit or units in which the decision is to be made. He emphasises decision making as a social process and argues that, as part of such processes, power strategies are employed by various interested parties through their demands. Owing to the heterogeneous nature of these demands, which results from differences in specialization, sub-units will attempt to generate support in order to satisfy their demands. It is the involvement of sub-units in such demand - and support - generating processes within the decision making process of the organization that constitutes the political dimension of Pettigrew's theory. He further elaborates (1977:80) how the process of power strategy is formulated. This process, he suggests, "will include debate about which dilemmas should receive organizations' attention <u>and</u> the choice of which alternative courses of action should be adopted to resolve those dilemmas".

Thus, following Pettigrew, it will be attempted to look for shifts in sub-units' power to influence decisions by studying the pricing decision making process before, during and after the life of the Price Commission. It is believed that such a study requires the following:

(a) Identification of who proposed price changes (the bringing of a dilemma into the picture);

(b) the way changes in prices were worked out (the various courses of action suggested); and

(c) who decided and finally approved the price to be charged (the choice of which course of action should be adopted).

However, embodied in the decision making process is the issue of mobilizing power which will enable sub-units to influence the selection of certain course(s) of action. It has been argued that the requirements of the Price Commission, and the relative abilities of sub-units to help satisfy those requirements, will give sub-units the power to influence pricing decisions (the selection of courses of action). Thus, for example, it seems plausible to suggest that unless the requirements of the Price Commission increased the importance of accounting information, the accounting department would not increase its power to influence pricing decisions. It is believed that a comparison of the effect of the different requirements of the Price Commission on the importance of accounting information, non-accounting information and on the inducement of price changes, would give us an indication of possible relative power shifts, to and from the accounting department, with respect to its influence upon pricing decisions.

Bearing in mind the hypothesized changes that should ideally occur in the design of accounting information systems for decision making, as a direct result of the requirements of the Price Commission, we will attempt to trace the response of the company in meeting these requirements. It is assumed that, if changes can be identified in the following factors, it may be possible to find support for the thesis suggesting the influence of the Price Commission's requirements on the design of accounting information systems. These factors are:

(a) changes in the number of employees,

(b) reallocation of some responsibilities between functional groups,

(c) shifts towards data processing and/or computerization,

(d) collection of new basic data, and

(e) changes in the structure of the accounting department.

We shall focus on the capability of the company's accounting information system in order to examine the hypothesis that accounting information systems will lead to dysfunctional decision making if they cannot cater for the requirements of the Price Commission. In particular, we shall be interested in whether the accounting information system managed to maintain the previous management information as well as to satisfy the Price Commission's new requirements, and whether the management had to drop, delay, or filter out any specific aspect of information in order to satisfy these requirements. Evidence will also be sought on the question of whether extra work (carried out as a result of these requirements) ever led to poor management decisions.

It is believed that by covering the above main steps, a representative picture of the primary impact of the Price Commission on Hekmats Limited can be drawn, and thereby more specific and grounded hypotheses can be generated. The company's case is presented in the next chapter.

Chapter Four

HEKMATS LIMITED

4.1 Introduction

Hekmats Limited is a leading British company in the manufacturing of certain edible products for which it is renowned. In addition to its major products, which constitute 90% of its production, it also manufactures a range of speciality products. The whole range of products amount to more than 800. It employs about 6000 employees and its annual net home profits are approximately £8 - 10 millions.

The company has a number of factories spread all over the United Kingdom and its headquarters are based in London. Basically all major decisions, e.g. pricing decisions, are made at the headquarters.

Hekmats Limted is considered to be the biggest of Hekmats International Group of Companies (HIGC) since it was the first in the group to be established and its contribution is more than one third of the group's net total profit. Indeed the trade name Hekmat came to be associated with the products manufactured by Hekmats Limited. The rest of the group deals in activities which are complementary to what Hekmats manufactures and this reflects the wide ranging diversification policy carried out by the group. Trading relations between Hekmats Limited and the rest of HIGC are based on arm's length terms.

The organizational structure of Hekmats Limited is shown in Fig. 4.1. It demonstrates the four different departments of the company and the three regional offices. Each of these departments and regional offices has a director who represents it in the company's board of directors. However, the finance department did not have a director until 1975 and it was not represented until that time on the board. The management accountant, who was in charge of the department, was reporting to the Chief Executive. It is also to be noted that the marketing department was a sales department until 1974.

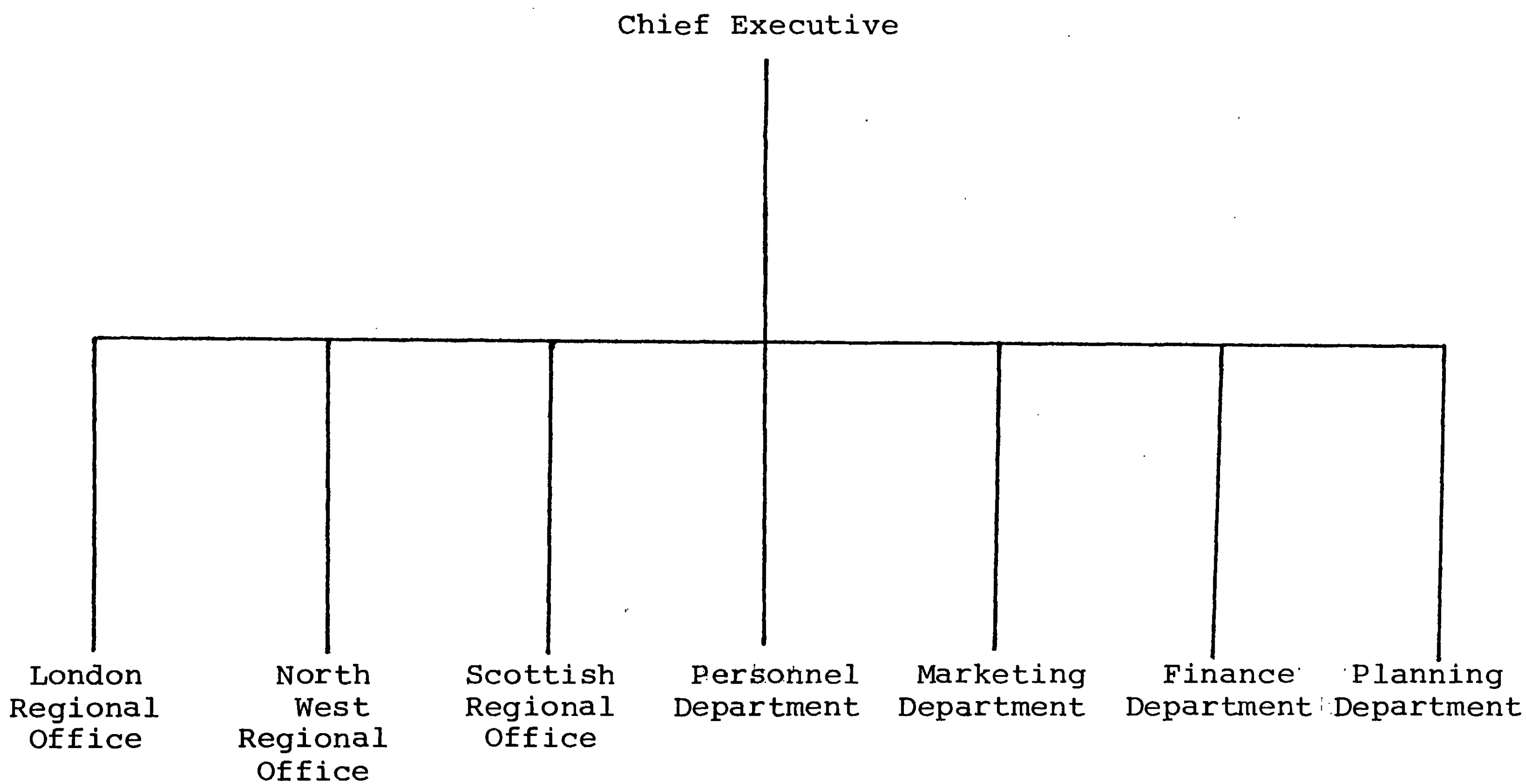
4.2. The Pre-Price Commission Era.

Prior to the introduction of the Price Commission in 1973, Hekmats Limited was also controlled by the government with respect to the prices it charged for its products. This is because it manufactures essential products to the consumer and because there are few companies in the U.K. that are in this industry. There was an undertaking between Hekmats Limited and the government whereby the former cannot increase its prices beyond a certain margin which was negotiated between the two parties.

At that time, Hekmats Limited was a company that was tonnage oriented in the sense that what really mattered was the quantity of tonnage of raw material sold. This seems to be because

> "the company had been brought up to a
> situation where they procured a certain
> tonnage of raw material, converted it
> to final products, sold it into the

Fig. 4.1 Organizational Structure of Hekmats Limited



> market place and the exports were used as a buffer between the home trade requirements and the capacity i.e. they balanced their sales capacity against export".

The finance department would identify that a price increase may be required whenever an increase in basic costs took place, and the increase was carried out by applying the retail price index on basic costs. However, once the government agreed on the suggested price that could be charged, it was then up to the sales department "to decide how and when to implement that increase". The price to be charged would finally be approved by the company's secretary but this was only a matter of formality.

The sales department was the most influential department in the company. According to one of the managers

> "the sales department was the dominant department in the company. It sort of reflected the image of the company because it has been the link between the company and its customers. It was the department that was listened to".

Regarding pricing decisions, although costing information was used as the catalyst for it, the sales department used to give more attention to the competition in the market place. One of the marketing managers commented that "our policy in the marketing department has been for many years to try to fix a price that on the one hand was seen as fair to our customers and on the other hand would increase our market share". However, "the department was hardly interested in product costing or product profitability but in sales per tonnage". In addition, the finance department played more or less the role of a 'service' department in the sense that the costing information it provided to the sales department was concieved as information that was used as an input to a decision that wholly belonged to the sales department. Put another way, the finance department would not push for a price increase but would only acknowledge or inform the sales department of an increase in the basic costs. Such a situation hardly left any room for a corporate debate of differences in pricing philosophies between the sales and finance departments.

4.3. The 1973 - 77 Price Code.

The introduction of the Price Commission in 1973 meant a new era of government control for Hekmats Limited. However, the Price Commission's control was of a different flavour because it subjected price increases to a strict mathematical formula and it demanded an enormous amount of information to be presented to it on quarterly basis. It also meant considerable involvement from the finance department in pricing decisions because the work of the Price Commission was allocated to it since the information required was mainly about costs.

The finance department did hardly any preparation for that new piece of legislation since no company expected it. The immediate response of the department was to assign the work of the Commission to a number of the finance department staff. This included two senior and one junior managers who devoted most of their time establishing the necessary contacts with the Commission as well as checking the accuracy of the required information.

The Commission's work required a certain level of understanding since it required staff with a legalistic attitude to help interpret the rules and others with an expertise in costing because although it was a mechanical process, it was a complex one.

As well as having to have personnel with certain backgrounds, the company had to collect new basic data in order to apply for a price increase and to satisfy the profit margin requirements.[1] This essentially consisted of having

> "much more detail of at date costs which were arrived at by indexing up the reference date cost and we had to tie this up with the books of accounts in order to make sure that they tie in with the net profit margin.[2] The net profit

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1. Net profit margin is defined by the Price Commission as the margin of net profit expressed as a percentage of sales or turnover. See Review of the Price Code: A Consulatative Document, London: H.M.S.O., 1974.

2. At date cost is the calculated cost per unit which may include the increases in raw material prices and other allowable cost increases up to the date of the price increase. This means that changes in the current costs of resources used by the firm can be used to justify price increase. Ibid., p. 16.

> margins were no great problem as we have established a regular profit review system."

However, the presentation of this data resulted in "a diversion of the efforts of the costing area since it has to produce specific costing information in a specific format".

Since the only way by which price increases could be achieved was by proving increases in at date costs against reference level, the finance department took the lead in identifying when a price increase could be required and justified.

> "The principle under the first code was that the company had to apply the same level in pounds per ton increase across all products. This was a function of the first code and therefore the process was simply one of identifying whether the total cost of production had gone up to justify an increase. However, it was rather mechanical after that as to when that increase was applied".

Prices were increased whenever the finance department announced that such increases were needed and could be granted according to the Commission's rule. Furthermore, "the rules of the Code got us into the habit of three monthly applications and cost reviews". This seems to be because the profitability of the company was very low due to a number of environmental factors e.g. the entry of U.K. to E.E.C. which affected the company badly and a rationalization programme which the company was implementing. In addition, the market was always ready to absorb any increase. In fact, "it didn't matter what price the company charged because it didn't reach any price elasticity" and accordingly "it demanded the highest price that it could justify under the Code". This seems to have been due to the fact that there was an international severe shortage in the raw material which was used to produce Hekmats goods. Thus, it appears that the Commission's rules determined when prices could be increased but perhaps only because the market was in a state to accommodate almost all rises in prices and moreover the profitability of the company was "extremely low".

The entitlement for and determination of a price increase according to the Price Commission, has led to a general appreciation in the company of the importance of accounting information in pricing decisions. This was established because it was only accounting information that would identify increases in allowable costs, entitling the company to apply for price increases (in addition to other information required by the Price Commission). Indeed, the use of accounting information in pricing decisions has "regulated price increases on a uniform and more regular basis" and has made "cost increases become price increases every quarter".

As a result of the accounting information becoming of more significance in pricing decision, the role of the finance department has grown from just providing information to the marketing department to include using that information to influence pricing decisions. This shift came about as a consequence of the finance department gaining influence from the requirement of the Price Commission for certain information possessed by the department and which "affected the survival of the company".

The development in the role of the finance department has evolved a pricing philosophy aimed at taking "the utmost of what the Commission allowed". In other words, "the whole emphasis changed from what the market could bear to what we as a company can justify in terms of allowable costing increases". According to the finance department, "the profitability of the company had to come first and that we (finance department) had to attempt to push prices up". Indeed,

> "because of the source of power which the finance department had gained from the Price Commission, it managed to influence the pricing decision and thereby has its views endorsed".

Furthermore, "the role of the finance area became much more sharply defined as embodying overall control over pricing policy" and as a result, once an increase in total cost was established by the finance department and could be granted under the Price Code, "the marketing department would then have to produce a reason why the prices should not be increased rather than why they should be increased".

In 1975 the company decided to establish the post of finance director. Such a move reflected the expansion which the department was experiencing during that period and the increase in its responsibilities. However,

> "it wasn't wholly as a consequence of the Price Commission's work, but also due to the fact that the management information was in a very bad state and that we were merging two companies together at the same time. Nevertheless, the Price Commission's requirements were an important part of the job".

One of the events that took place during the first code and after the appointment of the finance director was the change in the organizational structure of the finance department (see Fig. 4.2).

> "When I (finance director) arrived, I changed a lot of responsibilities in the management accounting function and I devoted the whole time of the then planning co-ordinater to look after the Price Commission's requirements. He was specifically responsible for all our activities with the Commission so that we had proper control...and there was another person to check the work before it was sent to the Commission in order to have a double check".

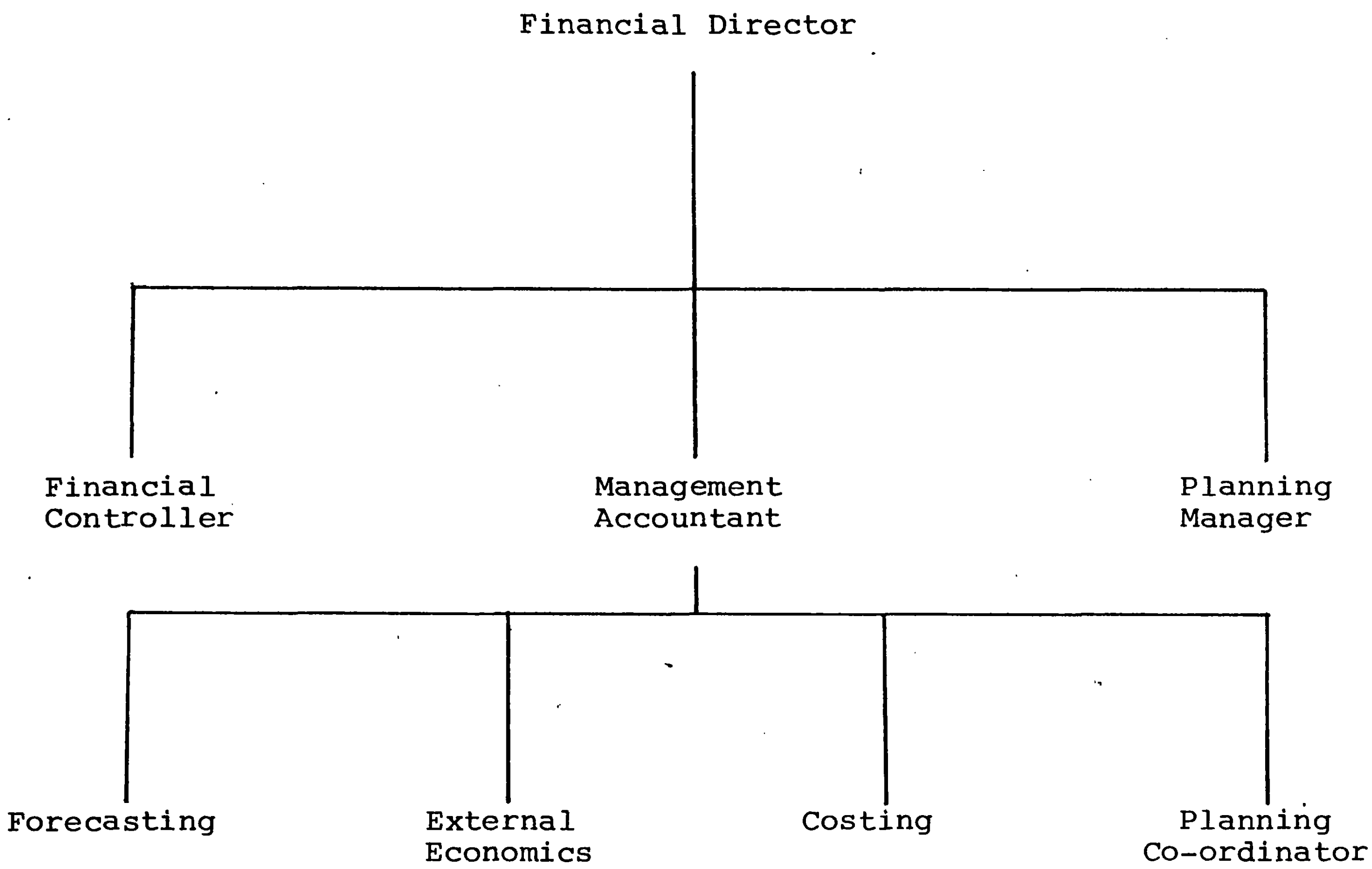
Although this change in the organizational structure of the department "wasn't wholly as a consequence of the Price Commission, its existence was nevertheless born in mind when designing it".

To the finance department the appointment meant that it had somebody who could support its views in the board of directors. It was hardly surprising to learn that the finance director went on using the same source of power to influence pricing decisions as did the then management accountant. This was particularly apparent whenever the two departments took different stances regarding price increase and where the decision would then be submitted to the board. However,

> "the finance director, being the gate-keeper (i.e. the link of communication

Fig. 4.2

Organizational Structure of the Finance Department



> between the company and the Price Commission), was the person who looked after price decisions with the Price Commission, and had at his disposal the information required, was able to offer advice as necessary. He was the prime mover". Furthermore, "what came over at times, but not frequently, was that at the end of the day for reasons of self protection or survival, those who could negotiate an increase out of the market place i.e. those who would persuade the Price Commission to accept a particular position, had to have their views listened to as this meant literally the survival of the company. This certainly didn't use to happen before the introduction of the Price Commission".

Also involved in the pricing decision making process are the company's macro and micro marketing committees. The members of the micro committee are entirely from the marketing department and its function is to lay down the broad lines of the pricing policy to the marketing director who would discuss them further at the macro committee. The macro committee (now called the operational committee and is under the supervision of the chief executive) has evolved quite a lot over the last few years. Originally it was wholly related to what the total sales were going to be, but then its work was focused towards discussing the company's pricing policy before its implementation. It consisted of the marketing director and a number of other managers in the company e.g. the production manager. However, none of the finance department staff was amongst its members.

After the introduction of the Price Commission, the macro committee found that it was indispensable to have the then management accountant as one of its members. The committee's reasons for inviting his membership were apparent and justifiable. It couldn't discuss the company's pricing policy without a member from the finance department which dealt with the Price Commission and possessed the information it required. According to a member of that committee belonging to neither the marketing nor the finance department,

> "the then management accountant didn't hesitate to use his costing information and the Price Commission's rules to pressurise the committee into recommending price increases".

Following his appointment, the finance director took over the then management accountant's place in the macro committee. He also managed to have the new management accountant, whom he recruited, as a member of that committee. They did continue to influence pricing decisions with the power which their predecessor had established. Using their department's information and the rules of the Price Commission, "they didn't confine themselves only to prices and profitability, but started questioning what product should be made and where it should be made". They "even delved into the logistics of why we (the company) were doing things".

The marketing manager further commented that

> "as a consequence of their detailed information and their knowledge of the Commission's rules, they were able to be much more specific in their questions to the marketing department regarding the strategy adopted by it in pricing".

It is not surprising therefore that "their views were listened to attentively.

As mentioned above, the chairman and the name of the macro committee were changed and it now includes all the regional directors. Apparently "the finance department brought some influence to bear upon the decision to modify that committee".

It was the duty of the finance department to cater for the work of the Price Commission since that responsibility was incumbent on it. In order to carry out its obligation, the department devoted the whole time of one of its staff to the Commission's work in addition to the considerable involvement of its senior staff in helping to satisfy these requirements. Furthermore, "the whole of the attention of the economics and planning areas, was turned to implementing and backing up this legislation" and, consequently, "it resulted in a dramatic diversion of resources which must have affected the quality of management decisions". This was particularly true since "most decisions had to be taken centrally and there was no way in which they could have been taken on a decentralized basis".

In attempting to fulfil the Commission's requirements, the finance department had to embark in an enormous amount of information processing work, especially since the Code demanded the collection of new basic information. Apparently the company's accounting information system was not in a state to process the extra information and therefore it had to be adjusted at least in terms of increasing the numbers of employees and/or shifting to data processing and/or computerization.

However, it appears that "the company was very reluctant to take on more people because our profitability was very low". In addition, it seems that the company underestimated the amount of information required by the Commission and therefore was not keen to use computer facilities (although it was already in the pipeline) because it was thought that the way in which the Price Commission required the information to be presented was "both illogical and unhelpful". Later on, however, "many of the more complex reports were obtained by additional programming" and it became apparent that "it would have been impossible to satisfy the Commission's requirements without computer programming".

However, as a consequence of

> "not having the right number of people to cope with the information required by the Price Commission as well as presenting the day-to-day management information",

the then management accountant in 1974 found himself making the inevitable decision of "dropping a feature of (the department's) control system called product costing and profitability" with some severe consequences as described below. It appears that it was only by taking such an action that "the department's staff were made available to satisfy the Commission's work".

The above decision was seen to be unavoidable, because the Commission's requirements were mandatary and therefore had to be done. In addition, the company's accounting information system was not designed to cater for such environmental demands and the department was hesitant to adjust it. Thus, with the available staff, a certain amount of information was prepared whilst others were dropped. However, "in retrospection it would have been better if more people were employed thereby keeping the information" (i.e. the product costing data).

It is worth mentioning that because of dropping the product costing information the marketing director subsequently invested two million pounds in promoting and advertising five products before he found out

> "that on three specific products produced at (factory X) once the products costing exercise had been carried out, as required later on by the Price Commission, I discovered that three important retail products were showing a loss ex (factory X) without taking into account any of the marketing/ sales/distribution and central overheads which obviously the products would have to bear. Two further very important retail products for... showed a loss, not at the (factory X) gates, but when they received their proportion of costs assigned to sales/marketing/distribution and central overheads".

An additional repercussion of such a decision was that

> "in the second code when we needed to justify our price increases, we had no bases on which to calculate it and there was no clue to the profitability of any product".

Since the company wouldn't employ extra people, and as the finance department badly needed more staff to help in satisfying the Commission's work as well as its day-to-day activities, the department found it imperative to transfer a number of employees from the costing function in the regional officies. However, one of the directors who has joined the company recently stated that

> "it is true that our accounting information system was not moulded to cater for such an environmental factor, and even if it was, it still would have needed people with certain qualities to think of the policies and strategies which are needed in dealing with the various government bodies".

Commenting on the decision of dropping the product costing information, a top marketing staff member pointed out that

> "although the finance department stopped producing that vital information, which was one of the factors that consolidated their source of power, they still managed to influence pricing decisions".

This was "because of their new power base which was their ability to persuade the Price Commission of price increases", which could be done without reference to product costs in the first phase of the Price Code.

4.4. The 1977-79 Price Code

In 1977 the Price Commission announced the new criteria by which prices could be increased and it consisted of a very vague set of rules. The finance department continued to watch over the Commission's requirements, this being the responsibility of the management accountant.

As a result of applying for a price increase, the Price Commission decided to investigate Hekmats. The company was required to establish a product costing system. Indeed, the finance department also felt a need for the reinstatment of the system to ascertain the profitability of products in order

> "to charge the highest possible price that (those) products could command and accordingly achieve the company's objective which was to increase its low level of profitability".

Indeed, once that information was established, the finance department was confronted with the situation where the company had to either discontinue producing certain products that were making losses or to increase their prices. However, since the finance department favoured the latter alternative, it was met "with strong resistance from the marketing department" which argued that "the increase would kill our products".

On the other hand, the marketing director admitted that

> "they (finance department) are a bigger nuisance than they ever had been in the past, because now they have better information at their finger tips and therefore it is part of their responsibility to ensure that we are obtaining as much revenue as possible, and also to make sure that we are not selling products at a loss or not covering their overheads. So, where in the past this information wasn't readily available to the finance department, and now that it is, they can ask more questions

> at the marketing committee by saying 'look Mr. Marketing Director would you please explain why you are doing this'. Yes, it is my decision but it is their right to question it and since they have the information, and because of the Price Commission, they are in a much better position to raise questions".

The emphasis on the need for the product costing information reflects the pricing philosopy of the finance deparment during that era and which was to "relate price increases to the cost structure of specific products rather than to increase the prices of all products with a flat rate".

It seems that the department's policy was based on the view that

> "since under the second code the rules didn't constrain the company to apply the same price increase to all products, as was the case under the first code, the department had to attempt to widen the margin between bulk products and package products".

In addition,

> "cost increases directly associated with individual products were identified, and as a result, a very substantial increase in the products that were making losses took place to the point that they are now breaking even or making profits".

However,

> "despite the fact that there was a large element of cost justification in our product pricing, it was very much based on how much the market could bear, from imports, our domestic competitors and the differentials between our products".

Nevertheless,

> "most of that non-accounting information was derived from our finance area".

Although the finance department continued to identify when a price change may be required, the decision would always be referred to the executive committee. This was

> "because in making a price application, one was opening oneself to the possibility of being investigated and the Code didn't say what could take place under the investigation".

However,

> "under the second code it was impossible not to attract the attention of the Price Commission because if the company put in an application it would run the risk of being investigated. In fact, we were investigated as a result of putting in a price application and the decision to put that application was taken primarily by myself (finance director) and was endorsed by the executive committee"

On the other hand, it should be remembered that

> "because the Commission's rules were vague, one perhaps had to listen to the advice of those who were able to understand and interpret them. They (finance department) were able to do that because of the expertise they developed in dealing with the Commission and they did use that knowledge to influence pricing decisions".

As a consequence of putting in a price application, the Price Commission decided to investigate Hekmats Limited. It is believed that the

> "main reason that led the Price

> Commission to investigate our company was a political one which no one could prove. This is probably because in the past when we took over one of the companies that manufactured some of our products, the case was not referred to the Monopoly Commission. This must have upset the department of Consumer Protection and so the government retaliated by deciding to hold the investigation. One other reason is that we were one of the early consumer supplier companies to come forward with an application and in the eyes of the Price Commission it saw us as a major supplier to the market, and therefore we attracted its attention".

A senior staff member remarked that "the fact that the investigation had a political risk involved in it, must have meant that somebody with real power took the decision".

The company decided to develop a strategy to deal with the investigation which the Price Commission was going to conduct. The finance department evolved a strategy and it was endorsed by the executive committee. It also monitored the investigation and a team was entirely devoted to that activity. In addition, the then planning and co-ordination manager was appointed as secretary to the investigation and all the documents which were given to the investigating team were filtered through one central source. Furthermore, "everything was meticulously recorded and that a second person was always present at any of the interviews which took place". It was also felt necessary for the finance director

> "to spend the majority of his time monitoring and considering the questions that were being asked and to try to ensure a compatable answer within all the areas of marketing, production and finance".

The investigating team "looked at all aspects of the company irrespective of whether it had relevance to price or not, and this meant that we had to provide any information that was asked for". It seems that some of the information which was provided to the Price Commission during the investigation was found to be useful for the company's purpose. It proved "the inprofitability of most of our products much to the surprise of the investigating team". Furthermore, it had "the effect of making people in the company more concerned with the profitability of each product or range of products".

The investigation

> "dominated the life of the company for a long time and as a result many planned activities stopped or went very slowly and consequently the company was badly affected".

Hence,

> "the attention of senior management staff was focused on the investigation by helping and advising rather than getting on with their own work".

The company was accorded that increase in price which it had applied for and accordingly " it came out of the investigation with a clean report". Apparently the finance director believed that

> "if the company was not allowed

> to increase its price after the investigation, my job would have been at stake. Yes, if things went wrong it would have been a personal risk, and it would have also opened the finance department to criticism from the marketing department".

However,

> "as a result of our success in the investigation, we (finance director and management accountant) have been seen to have confidence, credibility and determination to do things".

It could therefore be stated that the second code "had a beneficial effect on the department as it provided deliberate and clear motivation and gave the finance area a significant power base".

As with regard to the accounting information system, it is worth noting that

> "the whole system was thrown out at the beginning of 1978 and was replaced by a new information system which met both the needs of Hekmats Limited and the Price Commission".

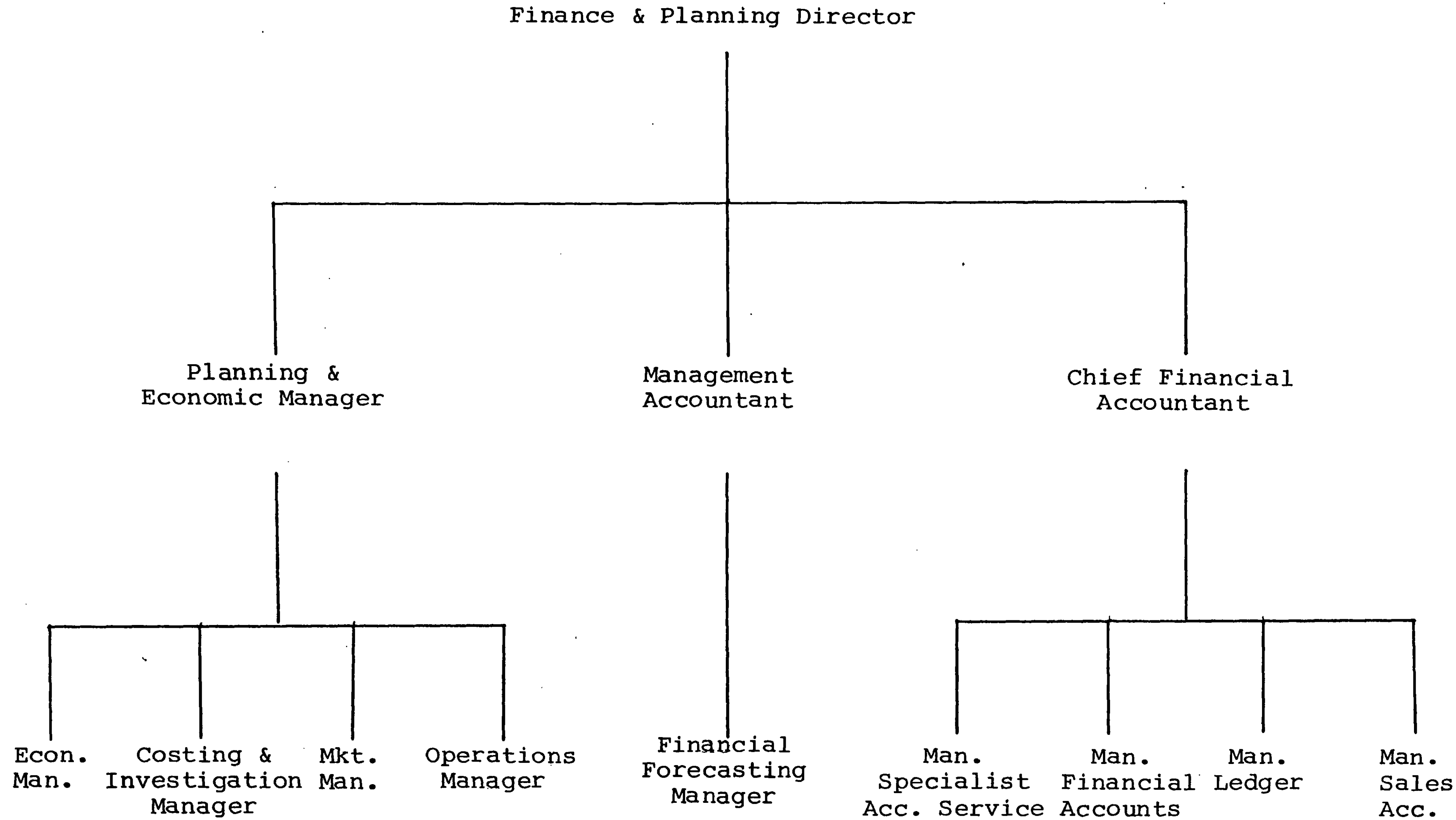
However, "the experience that was gained from the old system was borne in mind when designing the new one as well as the existence of the Price Commission". In that way it is believed that "the system managed to meet the requirements of both the management and the Price Commission for information".

During the second code, there was no transfer of employees to the costing function or to any other function. However, there was a reallocation of responsibilities in the sense that "the economics manager had to spend more time on the Price Commission's work and therefore somebody had to look after his work".

Several months after the investigation, there was another change in the organizational structure of the finance department (see Fig. 4.3). The management accountant headed the new planning and economics function. It is believed that it was he who initiated the idea in a working paper presented to the executive committee. In that new function, the planning and economic manager was to have under his control most of the key managers in the company, namely the economics, costing and investigation, marketing economics, and operations managers. Apparently, the transfer of the marketing economics manager was seen to be a big blow to the marketing department as his role had been that of a buffer against the finance department.

Such a move enabled the finance department to control and evaluate almost all the relevant information for pricing decisions i.e. they already had the costing information but to control the marketing economics manager meant that even the non-accounting information required for pricing decisions was at their finger tips. The organizational repercussions of that change were that "the finance department maintained their supremacy and continued to generate the economic profitability and company policy".

Fig. 4.3 The Organizational Structure of the Finance Department during The 1977-79 Code



4.5 The Post Price Commission Era

In 1979 the Conservative Party assumed power and one of their immediate decisions was to abolish the Price Commission. As one of the managers commented "it became essential to rid industry of the tiger on its back".

After the abolition of the Price Commission, the difference in pricing philosophies between the finance and marketing departments can be envisaged in terms of attitude. While the marketing department is interested in regaining and maximizing volume and is very reluctant to increase prices, the finance department is keen to increase price in order to maintain profitability. However,

> "it is now the market place, more than ever before, that determines the price that can be charged. This is particularly true since our European competitors are becoming very close to our prices and our competitors at home have over the past three years increased their productivity by some 40%".

It is believed that "this has reduced the influence which the finance department used to have over pricing decisions".

On the other hand,

> "the finance department has attempted to continue its system of price review but without the legal background, there has been little success in convincing the marketing department of rises required for cost increases".

This appears to be due to the fact that

> "during the life of the Commission a strict relationship between cost increases and price increases was maintained by the influence of the finance department. However, after the Commission, costings have been prepared on a forecast i.e. more relevant but less trustworthy basis and less frequently and, although we (finance department) have striven to maintain profit margins according to some rules e.g. a set return on capital employed, we have only had limited success because the ultimate decision is being left to a subjective view of the marketing people on how much the market could bear".

Thus, it is hardly surprising to learn that sometime after the Commission was abolished, "the finance department has argued for a price increase but the marketing people blocked it because the market conditions wouldn't bear it". This reflects the influence the marketing department is regaining to the extent that

> "if it says that the company should not increase its prices then it will not. In the past during the Price Commission, the finance department had a big say in pricing decisions".

Price changes are still identified by the finance department by a new process called 'products profits and economics' where each year plans are prepared in advance. The finance department discusses and agrees with the marketing department the likely price changes that may take place during the year. The finance department provides the information regarding the changes in costs and the preditced level of profit or loss for each product. The executive committee approves the price to be charged. However, whereas in the past the finance director used to put forward the proposal, now it is done by the marketing director.

The role of the finance department has also been affected in the sense that

> "the abolition of the Price Commission has strengthened the position of the marketing department in the company as they started to see themselves capable of doing things more independantly from the finance department".

However, it is believed that "they (marketing department) have lost an automatic mechanism by which price changes were encouraged".

Accounting information is now largely used in pricing decisions and "cost analysis have become the order of the day as well as individual product profitability". Indeed, the marketing director commented that

> "now, I would say that the information which is obtained from the finance department on product costing influences considerably our pricing decision. It is a decision which must take into account the information we (the marketing department) receive from the finance department and also the market situation".

This seems to be because "the accountants have built the bridge of information which the marketing department will need in pricing their products". This is "actually taking place even though the balance of power has shifted since the abolition of the Price Commission".

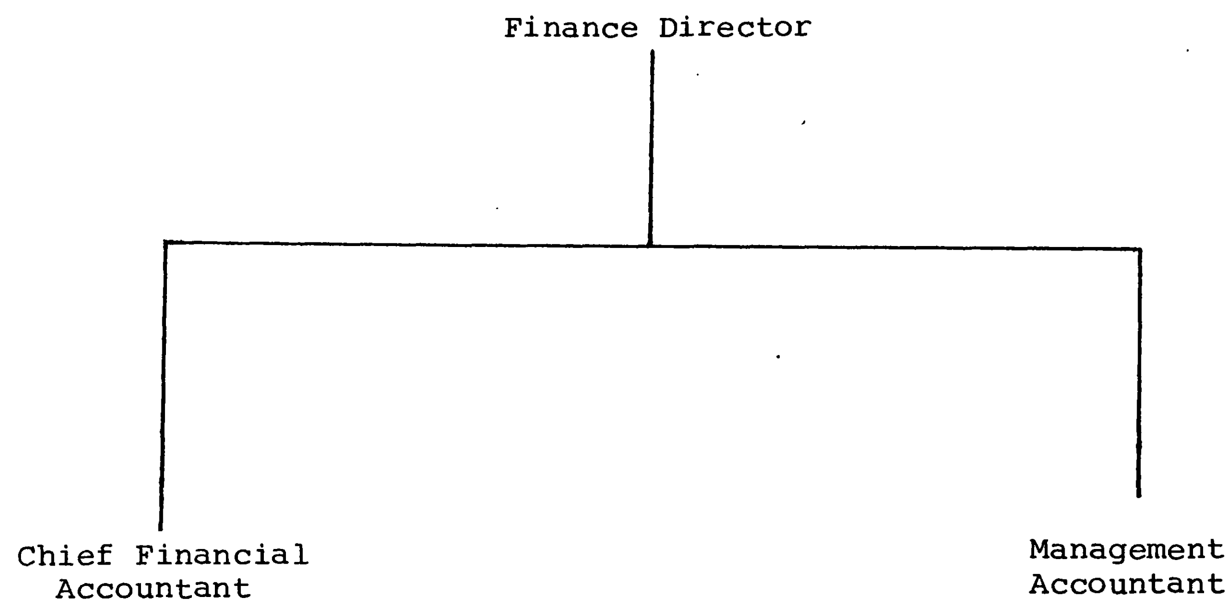
Certain employees at the finance department were released to do other works after the abolition of the Price Commission, and the size of the department was accordingly reduced. The present structure of the finance department (see Fig. 4.4) includes the financial and management accounting functions only because the planning and economics function was developed into a separate department and its manager was appointed as the director of this new department. It is believed that

> "the power he gained from the existence of the Price Commission has greatly helped him to establish his position in the company and his recent appointment is a good example of this".

The above changes in

> "the finance department coincided with the change that took place in the company's structure which was designed to establish a decentralized organization".

Fig. 4.4 The Structure of the Finance Department After The Abolition of the Price Commission



Chapter Five

Case Study Analysis and Development of Research Hypotheses

Having described pricing methods and organizational events at Hekmats in the previous chapter, it is now time to analyse the events, particularly with regard to pricing practices, in order to develop the hypotheses to be tested in this research.

In order to accomplish this, the salient points relating to pre- Price Code, the two separate Price Code phases and the post - Price Code era will be identified in the next section of this chapter. The final section of the chapter then brings the hypotheses together into an an integrated framework to be used as the basis of the further empirical work to be pursued in the remainder of the thesis.

5.1 Case Study Analysis: The Salient Points of Each Phase

5.1.1 Before the Price Commission

During the period prior to the introduction of the Price Commission, the company was controlled by the government with respect to the prices it charged for its products. However, it had a lot of scope as to how to apply the total increase required among its different products. It appears that the criteria by which these increases were implemented, was to a large extent what the market would bear. Although, product costing information was prepared, it seems that it hardly played any significant role in pricing decisions.

The company was also interested in the profitability per tonnage rather than the profitability per product. This might have been because the company didn't find that it required product costing information for its pricing decisions and that it was satisfied with its pricing practices. It is also probable that it was not aware of the usefulness of this information for pricing decisions. Thus, prior to the introduction of the Price Commission, pricing decisions were largely influenced by the competition in the market and accounting information hardly played any significant role in these decisions.

It also appears that during that period, the marketing department was the dominant department in the company because the increase in the company's profitability seems to have depended upon its efforts. This seems to be supported by the emphasis given by the department to increase the company's share of the market while charging their customers a 'fair' price. In addition, the marketing department was the link between the company and its outside world and accordingly it reflected the image of the company.

Thus, it may be possible to hypothesize that <u>prior to the introduction of the Price Commission, the marketing</u>

<u>department derived its power base from its critical function which affected the company's profitability due to the overall price control</u>.

Apparently, prior to the introduction of the Price Commission, there was a relationship between the mechanism by which prices were settled and the power possessed by the marketing department. It seems that the marketing department used its power to influence the selection of the criterion by which prices were increased in order to increase its market share and accordingly increase the company's profitability. Indeed, it is suggested in the case study that it was up to the marketing department to decide how to implement price increases. However, since it gave more attention to the competition in the market, it seems that individual product price increases were to a very large extent influenced by what the market would bear.

Thus, during the era prior to the introduction of the Price Commission, the marketing department also derived power and influence from its more intimate knowledge of the market which was needed to assess the market bearing prices.

<u>5.1.2 The 1973-77 Price Code</u>

The rules established by the Price Commission during the first phase, subjected price increases to the mathematical formula of allowable costs. This appears to have encouraged price increases whenever the formula could be justified. Apparently, in this phase the market was always ready to absorb any increase and the company's profitability was very low; so prices were increased whenever accounting information identified an increase in total cost that could be justified under the Code. This seems to indicate that in increasing prices, emphasis was not only given to what the market would bear but also to increases in costs that could be identified by accounting information. Indeed, increases in prices seem to have followed the trend of cost increases. We could therefore hypothesize that <u>during the first code, the rules of the Price Commission led to much greater use of accounting information in the influencing of pricing decisions</u>.

It is known that the information required by the Price Commission during the first phase was mainly cost in nature. This may have meant that it was only by the use of accounting information that the specifications laid down by the Commission during that period regarding price increases could be satisfied. Hence, it appears that since accounting information was the only information that would identify and enable the justification of price increases, it became more important for pricing decisions. This seems to have been supported by the low level of profitability which the company was attempting to raise by increasing its prices whenever the rules of the Commission permitted. Apparently, the finance department gained a power base since it possessed that information which became important for the survival of the company. Thus, it may be possible to hypothesize that the finance department gained further power because of the accounting information which the Price Commission required during the first phase for price increases.

As a result of the presumed power base which the finance department gained from the information required by the Price Commission during the first phase, it appears that its role grew from just providing accounting information to developing a wider use of that information to influence pricing decisions. While the Price Code made it necessary to use accounting data to justify price increases, there was a growing emphasis on the use of accounting data to decide when to increase prices and a de-emphasis on the market perspective. This seems to have been due partly to the influence the finance department gained in the marketing committee where it used accounting information and the backing of the legislation to push prices up. Furthermore, the appointment of the finance director appears to have enabled the department to influence pricing decisions at the board of directors.

Thus, the effectiveness of the influence of the finance department in increasing prices by the use of accounting information could be indicated by the pattern of price increases during that period. The information in the case study tends to demonstrate that prices were increased almost every quarter i.e. whenever the Commission's rules allowed. This was helped further by the low level of profitability and the ready state of the market to absorb any increase.

We could therefore hypothesize that <u>during the first phase of the Price Commission, the power which the finance department derived from the requirements of the Price Commission, enabled it to use accounting information to influence pricing decisions</u>. However, it is possible that with the decrease in market competitiveness in the first phase of the code (compared to before the code) that there may have been a swing to a cost plus basis of pricing anyway. Hence, a further hypothesis may be formulated: <u>that cost plus methods of pricing became the dominant price fixing mechanisim where markets are not competitive</u>. Moreover, one might additionally hypothesize that <u>accountants become more involved in the pricing decision when markets are imperfect due to their expertise in providing cost data</u>.

<u>5.1.3 The 1977-79 Price Code</u>

The changing of the Price Commission's rules during the second phase meant that it was not only by the use of accounting information that prices could be increased. This may imply that the power gained by the finance department during the period of the first code may have been reduced. However, this did not seem to be the case since the rules of the second code were very vague and required knowledge of the previous code to help interpret them. The finance department, with the expertise it developed in dealing with the first code, appears to have been able to continue to watch over the requirements of the second code.

On the other hand, it seems that in interpreting the rules and putting in a price application, the company was opening itself to the risk of being investigated. However, should an investigation have taken place and the outcome was negative, it may have affected the performance evaluation of the staff of the department initiating the investigation. It therefore appears that, for reasons of self protection, the other departments had to listen to the finance department which was able to interpret the rules and run the risk of subjecting the company to an investigation which could have been a negative one. Thus, it may be possible to hypothesize that during the second code, the finance department derived its power base from the vagueness of the rules and its ability to interpret them as well as being more knowledgeable about the risks involved in subjecting the company to an investigation as a result of applying for a price increase.

During the second code the Price Commission relaxed the strict mathematical formula of allowable costs and so the company was relieved of thinking in terms of total costs. Thus, the finance department seems to have used its power to influence pricing decisions by the product costing information. It also appears that the reinstatement of the product costing system provided the finance department with more detailed information of each product's profitability and, since the information revealed that some products were not making profit, that department used its power to increase the prices of those products whenever the competition in the market allowed. It is important to note that market conditions had become quite competitive again in the second phase of the code.

Thus, it appears that pricing decisions became more product oriented. Indeed, the ability of the finance department to influence pricing decisions by the product costing information, seems to have led to a better appreciation of the value of this information in pricing decisions.

It may therefore be possible to hypothesize that <u>during the second phase of the Price Commission, the power derived by the finance department enabled it to influence pricing decisions by the use of product costing information whenever the market competition allowed</u>.

Both the first and second phases of the Price Commission tend to reveal a relationship between the power which the finance department derived during these two periods and the increase in its responsibilities. The increase in the department's responsibility seems to be implied by a number of events which took place mainly during the first code and continued during the second code. These include the invitation of the then management accountant to join the macro marketing committee and the subsequent membership of the finance director and his then management accountant. The appointment of the finance director is another good example which reflects the additional responsibility which the finance department gained at the level of the board of directors. The monitoring of the investigation is another event. It seems that the responsibility of the department was to make sure that the investigation ended in favour of the company. What is interesting here is that in attempting to achieve this objective, the other departments had to follow the strategy which was administered by the finance department. This appears to imply an indirect form of control by the finance dpeartment over the other departments. Furthermore, the establishment of the planning and economics function and the transfer of the marketing economics group to this function is another indication of the expansion of the finance department in terms of its responsibilities. What is suggested here is that by gaining these responsibilities, the finance department seems to have been able to moblize its power base which is derived during the life of the Price Commission.

5.1.4 The Post-Code Era

After the abolition of the Price Commission, the company was no more subjected to any kind of price control by the government. Therefore, it appears that the market place now played a significant role in pricing decisions. This may be implied by the attention which the company now gives to its European and home competitors when pricing its products.

It also appears that whilst during the period of the Price Commission the price review system would to a large extent influence when prices could be increased, this is now contingent upon the market conditions. In addition, it could also be realized that although product costing information seems to influence pricing decisions, the ultimate outcome appears to be determined by the market conditions. This may be implied by the proposed price increase which was not implemented because the market conditions wouldn't bear it.

Thus, it may be possible to hypothesize that <u>after the abolition of the Price Commission, although product costing information influences pricing decisions, the ultimate decision is determined by the competition in the market place</u>.

The abolition of the Price Commission meant that the finance department lost the legal background from which it derived its power base. This implies that while in the past the marketing department depended upon the finance department in the interpretation of the Commission's rules and in what could or could not be done, it seems that the abolition of the Price Commission has removed this dependancy. Consequently the marketing department started to see itself as capable of coping with pricing decisions more independently since it appears that it is now the market competition that matters with respect to pricing decisions. In other words, the gatekeeper role which the finance department played during the period of the Price Commission, is now played by the marketing department between the company and the market place. Thus, it appears that the marketing department has regained its power base because of its ability to generate information about the market competition which now plays a very significant role in pricing decisions once again.

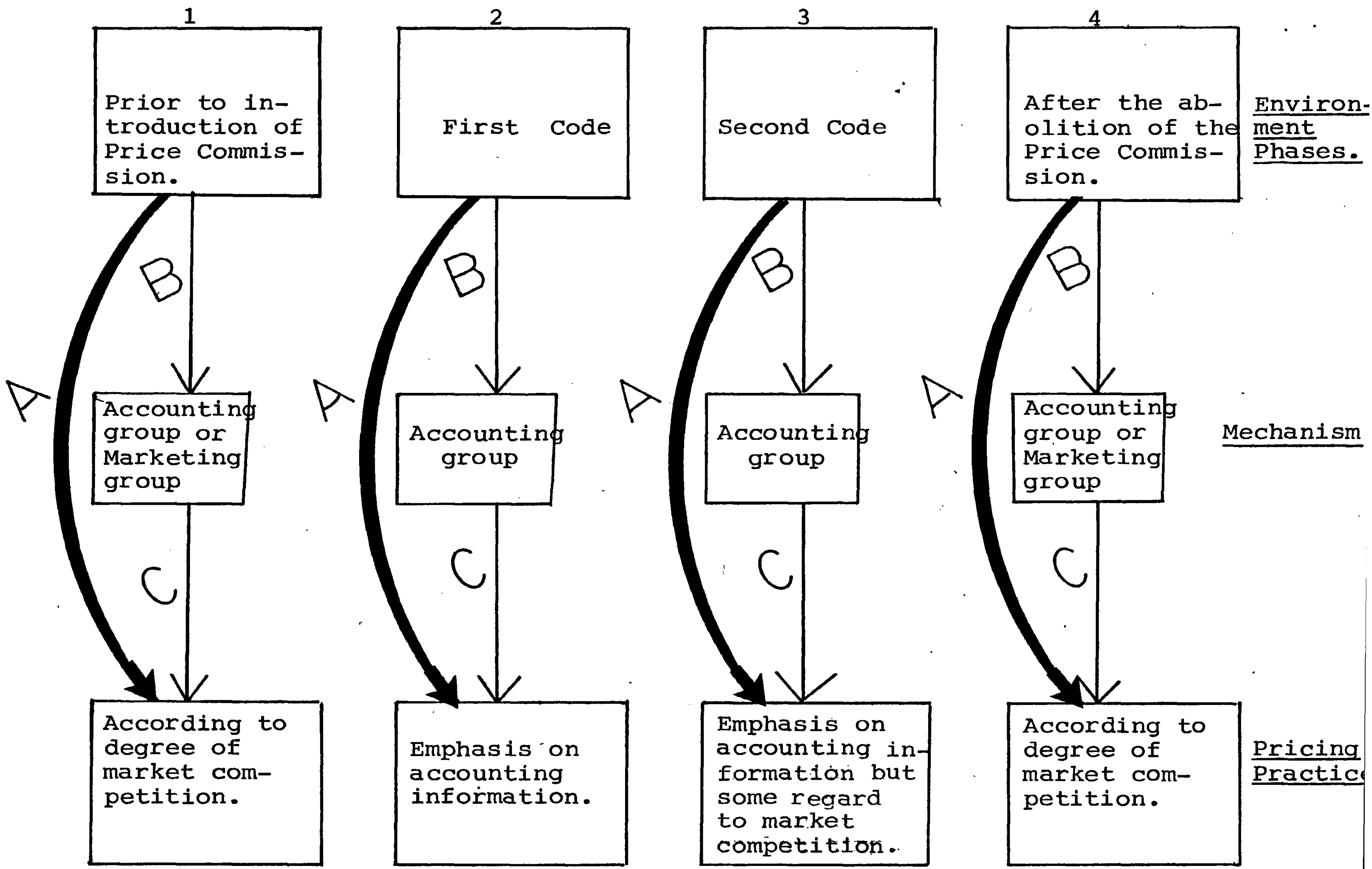
This dominance is suggested by several events. A price increase was proposed by the finance department but blocked by the marketing department which argued that the market conditions wouldn't bear it. Another indication of this shift of emphasis is that since it is now the marketing director who puts forward the proposal for price increases to the executive committee, it appears that the marketing department now influences when and by how much prices should be increased. Therefore, it seems that product costing information is now used in pricing decisions but that the marketing department gives more emphasis to what the market would bear.

5.2 A Framework Of Hypotheses To Be Pursued

Figure 5.1 provides a broad framework showing the different pricing environments erected by the Prices Code, the company department with dominating power in each stage and the main emphasis of the pricing mechanism used in each stage. Looking at all phases together in figure 5.1, it seems that the impact of the environment on pricing practices is achieved through changing the dominance of different departments within the corporation. It appears that phases two and three in Hekmats Ltd. were dominated by the accounting group while the first and fourth phases were dominated by the marketing group. This also has implications for organization theory in general as it suggests that sub-unit's power is not necessarly constant over time but related to environmental pressures.

It can also be seen that in the second and third phases, accounting information was used as a prime influence on pricing decisions when the accounting group was powerful. In the first and fourth phases where the marketing department was more dominant in Hekmats, market competition was used as a more important criterion for price increases. However, we must leave open the possibility that companies in less competitive markets may have had their pricing decisions dominated by accountants.

<u>Figure 5.1 A Framework Showing the Environmental Impact on Pricing Practices Through the Changing Dominance of Departments in Hekmats Limited.</u>



Notes: A shows the impact of the environmental state on the pricing practices, while steps B and C show the <u>way</u> in which the practice was changed through changes in departmental power.

In addition, it should not automatically be assumed that market forces lost their impact on pricing decisions during the Price Code even if accountants became more influential. In the second phase of the Price Code pricing practices in Hekmats Limited were influenced to some extent by the degree of competition in the market place. It appears that when the market was competitive, the pricing practices were influenced by the competition in the market. This seems to be reflected during the periods before the introduction of the Price Commission, the second code and after the abolition of the Price Commission. On the other hand, it also seems that when the market was not competitive, pricing practices were influenced by accounting information This appears to have been reflected during the first code of the Price Commission. This change of competitiveness occuring at the time the Prices Code was introduced makes it impossible to see from Hekmats alone whether it was the change in market conditions or the Prices Code which gave accountants their power.

It would seem more useful, therefore, to elaborate figure 5.1 and this is illustrated for Hekmats in figure 5.2 which explicitly shows the changing degree of market competition. From figure 5.2 it becomes clear that a set of related hypotheses may be derived for testing across a sample of U.K. companies. Fundamentally one wishes to discover whether market competition was the main influence on pricing throughout the four periods of investigation or whether it gave way to the Prices Code

Figure 5.2 An Elaborated Framework of Figure 5.1 Taking Market Competition into Consideration: The Experience of Hekmats Limited

(I)	(II)	(III)	(IV)	
Prior to the introduction of the Price Commission.	First Code	Second Code	After the abolition of the Price Commission.	Environment Phases
Competitive	Not so Competitive	Competitive	Competitive	State of Competition
Marketing Group	Accounting Group	Accounting Group	Marketing Group	Dominant Group
Market Competition	Accounting Information	Accounting Information and Market Competition	Market Competition	Main Influence on Pricing Decisions

influence in phases II and III. Hence, we may specify the following hypotheses:

Hyp. 1

> <u>That prices were fixed predominantly according to what the market would bear in phases (i) and (iv); and by reference to accounting data in phases (ii) and (iii) irrespective of the state of market competition</u>.

Alternative Hyp. 1

> <u>That it is the state of market competition which mainly determines when prices can be increased even under price controlled environments</u>.

However, we are not just interested in the factors influencing pricing but the <u>process</u> by which pricing decisions making are taken. Hence, we may argue that if Hyp.1 holds then

Hyp. 2

> <u>That Non-Accounting/Non-Finance departments dominated pricing decisions in phase (i) and (iv); and Accounting/Finance departments in phase (ii)and (iii) irrespective of market competition.</u>

However, the alternate hypothesis is that even if Hyp. 1 holds there was no change in influence of organizational sub-units over the four phases.

Additionally we shall want to examine those phases where the dominant external factor is the state of market competition and test the hypothesis:

Hyp. 3

> <u>That where market states are less-competitive, accountants become more dominant through the company's greater reliance on accounting data to signal price increases irrespective of whether prices are controlled or not.</u>

Finally, it is possible that pricing policy is dominated by organizational sub-units which do not derive their power from either the state of market competition or the existence of the Prices Code but from some other factors; nevertheless they use that power to improve their own approach to pricing. Hence,

Hyp. 4

<u>That the dominant department will tend to enforce its own pricing practice philosophy on the company irrespective of the state of market competition or the existence of prices control.</u>

However, this hypothesis can only be tested in this research if sub-units' dominance do not change with changes in the state of either market competition and or the existence or otherwise of the Prices Code.

5.3 Additional Hypotheses On Other Matters

Finally there is one other important feature emerging from the case which leads to another key hypothesis. During the first code the company experienced a problem of information process overload. Although the company reallocated the responsibilities of some of its staff to help in satisfying the Price Commission's requirements, it failed to appreciate the need for more manpower or the use of data processing or computerization to carry out the extra information processing work that was needed. Thus, it seems that the company had to utilize its resources in processing the Commission's requirements and, as a result, it had to reduce part of the day-to-day management information; namely the dropping of the product costing system. This appears to imply that the company did not have spare capacity in its processing system to accommodate that extra work nor was the system sufficiently adapted in terms of more employees or processing facilities to meet the requirements of both the management and the Price Commission for information.

The lack of the product costing system appears to have led the marketing director to assume that the two million pounds which were invested in the five products he was promoting were making profit. However, after the system was reinstated, he ascertained that three products were showing a loss before taking into account their share of overhead costs. The other two products showed a loss when they received their proportion of overhead costs. Another repercussion of dropping that information was the difficulty the company encountered during the second code in justifying its price increase. Hence, the decision to drop the product costing system was dysfunctional.

It may therefore be possible to hypothesize that <u>in supplying the information required by the Price Commission during the first code, the inadequate spare capacity and the inadaptability of the processing system led to the squeezing of the information produced for decision making and as a result dysfunctional decisions took place.</u>

In addition, it was noticeable in the second phase of the Price Code that Hekmats reintroduced more detailed product costing data and discovered non-profitable product lines. It is therefore hypothesized <u>that during the second code, companies were encouraged to develop improved product costing schemes than would have otherwise existed and that this led to wider corporate benefits.</u>

The rest of this study is devoted to testing these seven hypotheses as well as to provide a description of general corporate experiences with regard to the Prices Code. It is hoped that insight will be gained which is relevant for discovering:

1 The way to introduce Prices Control (if it has to be introduced).
2 What impact it may have on companies.
3 What style of Code is best.
4 The influence of different professional groups on pricing practices.
5 What influences professional group dominance in companies.
6 Deeper knowledge of the way in which economics and accounting models of pricing interact in real world business conditions.

The next chapter considers what methodology is best for testing these hypotheses. At least at this stage it is clear that a sample of companies must be selected such that one can:

(i) Describe and compare how each company changed practices over four time phases (time series analysis).

(ii) Describe and compare practices of companies facing different degrees of competition over each separate time phase (cross section analysis).

(iii) Describe and compare experiences of companies investigated and not investigated under the Code.

Chapter Six

Research Methodology

6.1. Research Method

This chapter addresses itself to the issue of designing the methodology that will be used in testing the hypotheses developed in the previous chapter. In the case of Hekmats Limited, interviews were used as a means to elicit information so that more specific hypotheses could be developed within the framework of the broader hypotheses already deduced from the literature. However, in this next stage of research, interviewing will be used slightly differently, namely as a tool for testing hypotheses. Kerlinger (1979 p.480) seems to emphasize the dual purposes interviews can serve by stating that "the most important use of interviews should be to study relations and to test hypotheses". Maccoby and Maccoby (1954 p.449) also point out that "using an interview for research purposes implies that the interview is intended to yield some sort of measurement, however rudimentrary, along some dimension or variable". Although the word measurement usually connotes "the assignment of numerals to objects or events according to rules" (Steven 1951 p.1), it is not meant to be the case with respect to this research since a qualitative form of analysis is advocated.[1] Following Patton (1980 p.22),

> "Qualitative measurement has to do with the kinds of data or information that are collected. Qualitative data consist of detailed descriptions of situations, events, people, interactions, and observed behaviors; direct quotations from people about their experiences, attitudes, beliefs, and thoughts; and excerpts or entire passages from documents, correspondence, records, and case histories. The detailed descriptions, direct quotations, and case documentation of qualitative measurement are raw data from the empirical world."

Although interviewing is a time consuming technique for gathering information, the depth that can be achieved by its use may provide information that can hardly be procured by any other tool. This seems to be especially true with respect to the issue of power and its hypothesized effect on pricing decisions because it helps the researcher to build the necessary rapport needed to penetrate the veil of formal position in order to determine, as far as possible, who had the power and for what reasons.[2]

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1 The Administrative Science Quarterly (Vol.24, 1979) and the Sociological Review (Vol.27,1979) devoted these two issues to the discussion of the use of qualitative analysis as an alternative methodology.

2 Of course, a better method would have been the participant observation (Pettigrew,1973), however, its use would have reduced our sample considerably. Moreover, even participant observation often needs to be supplemented by interviews in order to obtain the participants' perceptions of what is happening.

Semi-structured interviews will be employed for this stage of the research for the flexibility they offer. They allow the researcher "to specify exactly a series of main questions which are to be asked to everyone but lists a series of optional subquestions or probes which the interviewer is free to use or omit, depending on the respondent's answers to the main question" (Maccoby & Maccoby 1954 p.454). The advantage of having main questions is that they can be geared towards measuring the research hypotheses. Moreover, since few restrictions are imposed on the responses of the interviewees, it is expected that a considerable degree of reliability can be achieved.

6.2. Question Formulation.

The interview guide (see appendix C) is divided into five sections. Section A deals with the general background of the firm's market structure for the current period. Section B covers the period prior to the introduction of the Price Commission. Section C and D tackle the events of the first and second Codes of the Price Commission and section E reflects the period after the abolition of the Price Commission i.e. the current situation. The ordering of the interview guide in such a sequence allows for some general discussion about the company under section A during which it is hoped to establish rapport with the interviewee before probing details relating to each time phase studies. Then an attempt is made to pursue the changes that may have taken place in a chronological order. It is hoped that the latter will make it easier to distinguish descriptions and compare whether companies changed practices over four time phases.

The questions in section A are meant to generate information regarding the firm's industry, its market share as well as its major competitors and its position in that market structure. Put another way, these questions are supposed to provide an indication of the degree of competition for the major products as perceived by the organization and they will be repeated to the interviewee at the beginning of sections B, C, and D to ascertain whether there had been any changes or not in each phase.

6.2.1 The Concept Of Competition

In discussing the concept of competition, economists seem to appreciate the fact that

> "there is probably no concept in all of economics that is at once more fundamental and pervasive, yet less satisfactorily developed, than the concept of competition

(McNulty 1968, p.639). In the literature of micro economic theory (Scherer 1970) two approaches have been identified with respect to the meaning of the concept of competition. On the one hand, the concept conceived of by Adam Smith and other classical economists, emphasised the conduct of sellers and buyers. In particular "competition was viewed as a price-determining force operating in, but not itself identified as, a market" (McNulty 1968, p.644). However, in modern micro-economic theory, the concept of competition is discussed in relation to the various market structures that are suggested in the literature (Baumol 1972, Koutsoyiannis 1977) namely, pure competition, monopoly, monopolistic competition and oligopoly. This implies that competition (and therefore pricing) is determined according to certain factors (mainly market forces) that are exogenous to the firm, and is not subject to the individual seller's conscious control.

The difference between the two approaches, as clarified by McNulty, is that neoclassical economists view the idea of competition as itself a market structure while their classical peers do not. Hence,

> "that competition has been conceived of in these two quite different ways is of no small importance in explaining the ambiguity and confusion which has surrounded the concept"

(McNulty 1968, p.643). Since the current economics literature has adopted the concept of competition advocated by neoclassical economists, our discussion will be confined to their views alone.

In its analysis, modern economic theory seems to be built on the implicit assumption that the dividing lines between the different market structures can be exactly drawn and are in no way arbitrary. Unfortunately, this does not appear to be the case in practice as reflected by most empirical studies of industrial concentration which seek to identify those industries most likely to be competitive and those most likely to be oligopolistic. For example, Evely and Little (1960), in their famous study into the level of concentration in British manufacturing industry, had to use their own judgement as to the level of concentration that forms the dividing point. They made the initial threefold distinction between industries of high concentration where the largest three firms account for 67 per cent or more of total output or employment; industries of medium concentration where the largest three firms account for between 34 and 66 per cent of output or employment, and industries of low concentration in which the largest three firms account for up to 33 per cent of output or employment (Evely and Little, 1960 p.51).

A further difficulty that may render the borderlines between industries to be rather arbitrary is when attempting to identify an industry in terms of a group of principal products. This is because

> "although it is quite possible that in some cases the outputs of (firms) using, say, the same raw materials may manufacture products which have a high cross-elasticity of demand it is equally likely that the products are far from being close substitutes and therefore strictly speaking do not belong to the same industry. To include in the same industry, for example, all establishments whose main activity is manufacturing rubber products

> would mean that the industry's output may include such diverse items as rubber tyres and tubes, rubber footwear and rubber for furnishings. To limit this difficulty it may be possible to use a finer classification by breaking down rubber tyres and tubes and rubber footwear into separate industries. However, in the case of rubber footwear this only serves to highlight another difficulty. It is quite evident that rubber footwear is a close substitute for footwear made of other materials but this output will have been classified as belonging to another industry"

(Utton, 1970 pp.36-37). Thus, it appears that by concentrating on market structures, economic theory has developed a concept of competition that is built on unrealistic assumptions.

The above argument suggests that micro-economic theory downplays the role of the firm in determining competition since it concentrates merely on the importance of market forces and neglects the decision making realities. Friedman (1953) made the point that since firms are forced to behave as if they are maximizing profit because of competition, the assumptions of profit maximization will lead to correct predictions in equilibruim, regardless of the process by which such equilibrium states are reached.

In reviewing the literature of the sociology of organizations, Aldrich and Pfeffer (1976) have noted the analogy between the relationship of the firm and its market, as depicted by economic theory, and that of the organization and its environment as reflected in organization theory. The advocates of the ecological model (Campbell 1969) and the structural contingency theories who focused on environment (Dill 1958, Lawrence and Lorch 1967, Thompson 1967) argue that the organizational structure depends on the particular environment the organization is facing. Thus, just like the theory of the firm, the above theories of organization assert that the environment selects the best fit or optimal organizations (and implicitly assume that the individual social unit is itself unable to influence the selection process).

Child (1972) was amongst the first to raise the argument that structural contingency models underestimate the significance of choice in the structuring of organizations. In particular, he believes that:

1 organizational decision makers may have opportunities to select the types of environment in which they will operate;
2 the directors of at least large organizations may command sufficient power to influence the conditions prevailing within environments where they are already operating;
3 the argument from the environment has frequently blurred the distinction between characteristics of the environment as such and their perception and evaluation by those within an organization.

Thus, as Wood (1979, p.350) puts it, Child "is arguing theoretically for the inclusion of managerial ideology as an intervening variable between the environment and the organizational design".

Child's emphasis on the decision maker's choice is compatable with the views of Dill (1958), Weick (1969), and Duncan (1972) who treat the organization's environment as the flow of information perceived by its members. From this perspective

> "<u>perception of information</u> is assumed to be an intervening link between the organization's environment and any resulting organizational activities"

(Aldrich and Mindlin, 1976 p.151). Accordingly, the concentration is on

> "the active role played by an organization in selecting structure, rather than the role of the environment in selecting appropriate organizations and organizational responses"

(Aldrich and Pfeffer, 1976 p.92). Furthermore, consistent with their theoretical views, these studies (Dill 1958, Duncan 1972) have attempted to collect their data by means of their respondents' perception of what constituted environment.

Unlike

> "the symbolic interactionist position in sociology, (as advocated by the above theorists) which asserts that the study of interaction should be made from the position of the actor himself, rather than from the a priori assumption that

> decision-makers share a system of culturally established symbols and agreed-upon meanings"

(Aldrich and Mindlin 1976 p.152), micro-economic theory discusses the concept of competition from the market structure perspective although in making pricing decisions it seems that what really matters is the decision maker's perception of what constitutes competition. Piore (1979), in defending qualitative research, gives a good account of why economic theory appears to have ascribed a view of the world very different from that perceived by individuals. He argues that

> "it (economic theory) attributes to the economic actors a prior knowledge about how the world is structured and what the values of the relevant variables in that structure actually are. When one examines the issue, however, it is not at all clear how the actors acquire the knowledge that economists attribute to them; if that knowledge could in fact be abstracted from their own experience and, if not, how their experience would in fact lead them to conceptualize the decision-making problems which they face"

(Piore 1979 p.566). Therefore, in this study, rather than emphasizing the market or industry as our unit of analysis, decision makers' perception of competition will be investigated. Blumer (1966 p.542) calls for a similar attention by stating that

> "since action is forged by the actor out of what he perceives, interprets, and judges, one would have to see the operating situation as the actor sees it, perceive objects' as the actor

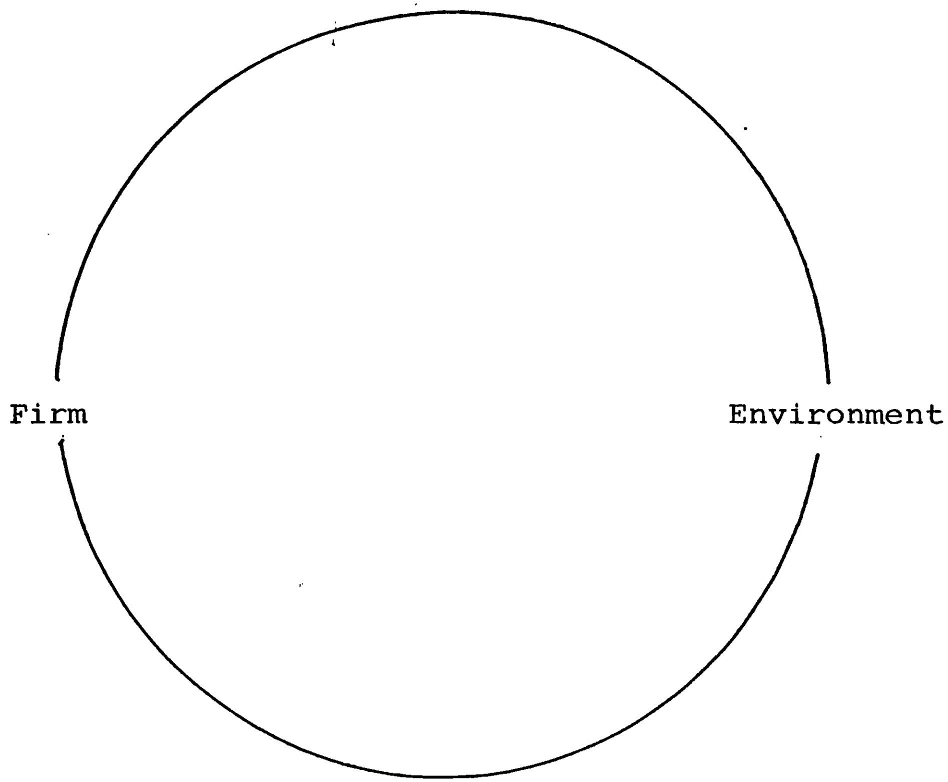
> perceives them, ascertain their meaning in terms of the meaning they have for the actor, and follow the actor's line of conduct as the actor organizes it - in short, one would have to take the role of the actor and see the world from his standpoint"[1].

Thus, by focusing on the decision makers' perception of their environment, it would be possible to appreciate the impact of the interaction process that takes place between the firm and the market, and in which the former affects as well as being affected by the latter, on managers' perception regarding what constitute competition (see fig. 6.1). Hence, according to this framwork, Aldrich and Pfeffer (1976 p.92) would be wrong to state that "if the organization is severly constrained by the environment, as in a very competitive market, then perception is not important"; because it depends on the decision makers' perception to determine what is a very competitive market.

It is on the bases of the above framework that it will be endeavoured to identify the degree of competition in each time phase. This will mainly take the form of what managers' perceive to be the effect on the firm's market share if it attempted an increase in prices and why. A competitive situation would be considered to exist if managers are reported to perceive that an increase in

1 Quoted from Aldrich and Mindlin, 1976 p.152.

Fig. 6.1 The Interaction Process Between the Firm and the Market



prices would lead to a significant reduction in the firm's market share. On the other hand, if they perceive that price increases would not substantially affect their market share then this would be interpreted to mean that the firm is operating in a less competitive market. Furthermore, perception of different degrees of market share reduction and their reasons will be probed. Later on, the information to be elicited on what constitutes competition according to managers' perception will be compared with those identified by the concentration ratios which will be used as a measure of market concentration in selecting our sample and which are often used by economists as surrogates of the state of competition. In that way it will be possible as a side issue in this thesis to give some insight as to what extent economists need to take into account the differences between decision makers' perceptions and structural aspects of competition when discussing their theories.

Pfeffer and Leblebici (1973) attempted to examine the effect of competition on the organizational structure of 38 firms by using a questionnaire filled out by the chief executives. Their measure of competition was dealt with by the question 'What is the extent of competition in your industry? Very high; Moderate; Low; or Very Little Competition.' Although they have realized the importance of perceptual data, their measure of competitiveness was rather vague. Aldrich and Mindlin (1976) correctly argue that there could be several interpretations to the answer of the above question used by Pfeffer and Leblebici. Does it mean the competition faced by the firm in selling its products, competition in general in industry, competition for technological advantage, or competition for the procurement of resources. This vagueness must be avoided in this study.

The establishment of the degree of competition in each of the four phases is necessary since there are two hypotheses developed to reflect the impact of the state of market competition on pricing practices. These are:

Alternative Hyp. 1

> that it is the state of market competition which mainly determines when prices can be increased even under price controlled environment;

Hyp. 3

> that where market states are less competitive, accountants become more dominant through the company's greater reliance on accounting data to signal price increases irrespective of whether prices are controlled or not.

Regarding the period prior to the introduction of the Price Commission, the above hypothesized relationships are dealt with mainly by two questions. Questions 7 and 8 of section B attempt to demonstrate whether price increases were considered or implemented whenever accounting data identified an increase in cost. Positive answers would require knowing the extent to which managers perceived the market was ready to absorb the suggested increase. The subquestions to these main questions cover this aspect of the market. If the firm was operating in a competitive market and prices were increased by reference to accounting data then this would suggest that the state of market competition did not mainly influence pricing practices. Alternatively, a negative answer would tend to support the first hypothesis.

On the other hand, if the firm was experiencing a less competitive market situation and prices were reported to have been increased by reference to accounting data, then the subquestions probing into why that practice was followed, together with the information to be procured on the pricing decision making process, should help in testing the second hypothesis. It is expected that this information would also shed light on the first hypothesis. Needless to say the same questions can also cater for the circumstance where prices were not increased by reference to accounting data in a less competitive market state.

As with respect to the first phase of the Price Commission, the measurement of the above hypotheses will be attempted mainly by questions 11 (which is a duplicate of question 7 above) and 12 of section C. It is believed that question 12 will bring to light if prices were increased whenever the rules of the Price Commission allowed it. Again, if the market state was competitive, a positive answer would imply that the market conditions were not the dominant factors in governing price increases. In addition, this information may favour part of the hypothesis which advocates the view that prices were fixed predominantly by reference to accounting data in phase one of the Price Commission. However, if the information indicates that prices were not increased because the traffic in the market wouldn't bear it even if the Price Commission ratified it, then this can be considered as evidence supporting the control of pricing practices by market conditions.

There is also the possibility that firms were confronting a less competitive market situation and prices were increased whenever the consent of the Price Commission was granted. In this case it is believed that the subquestions of questions 11 and 12, in addition to the information on the pricing decision making process, should help in establishing whether price increases were due to the market conditions or as a result of the impact of the Price Commission's mathematical formula.

Similar questions to those used above are repeated in the sections covering the second code of the Price Commission and the era after its abolition. They are also meant to identify whether the market state experienced by firms during these two periods was the influential factor in determining pricing practices.

It is to be pointed out that the eight main questions concerning the impact of the market state during the four phases should not be considered in isolation from the rest of the questions that deal with the pricing decision making process. This is simply because they constitute part of that decision making process itself. Hence our attempt to describe and compare practices of companies facing different degrees of competition over each separate time phase.

In the previous chapter, three hypotheses were developed to reflect the suggested impact of the Price Code on pricing practices as well as that of the professional background of the dominant departments. These are:

Hyp. 1

> that prices were fixed predominantly according to what the market would bear in phases (I) and (IV) and by reference to accounting data in phases (II) and (III) irrespective of the state of market competition;

Hyp. 2

> that non-accounting/non-finance departments dominated pricing decisions in phase (I) and (IV), and accounting/finance departments in phase (II) and (III) irrespective of market competition;

Hyp. 4

> that the dominant department will tend to enforce its own pricing practice philosophy on the company irrespective of the state of market competition or the existence of price control.

The relationships claimed in the above hypotheses connote that pricing decisions are determined by the dominant department. However, while in the former two hypotheses it is suggested that the dominance of the departments was due to the impact of the Price Code, Hypothesis 4 caters for the possibility that such dominance may have been due to other reasons. The latter situation therefore necessitates the identification of these reasons which, it is believed, will emerge when going over the decision making process described below. Furthermore, in order to establish the validity of Hypothesis 4 in this research, departments' power would have to remain constant and not to vary with changes in the pricing environment. Future research might be able to overcome that limitation if the results of this research indicate that this is a hypothesis worth pursuing furhter than was possible in this work.

For the purpose of this study, the concepts of power and dominance will be used interchangeably and they will be taken to mean the ability of the accounting/non-accounting department to use its own information to influence the decision of price increases. This includes the amount of the increase as well as its time.

The testing of the above hypotheses requires pointing out how the power derived by the concerned departments is to be identified. In chapter three it was advocated that following Pettigrew (1973) horizontal power can best be measured by studying the decision making process. It is therefore suggested that by concentrating on the pricing mechanisms, and how they changed in each of the four phases, sufficient information may be elicited for the measurement of our hypotheses. Accordingly, the questions are designed to cover the main steps in the decision making process starting by how the pressure for a price change arose until the final decision was made. These questions are repeated in each time phase section. However, the sections of the first and second codes include certain questions to cater for their particular events.

Initially, we shall endeavour to ascertain how the pressure for a price change arose. This would give us an indication of the major factors, which may vary in each time phase, that induced the department(s) concerned to consider the need for an increase in price. Then the issue of identifying the department that triggered the need for a price change is tackled. Here we are also interested to know what information was used to point out the claim for a price increase. Moreover, we shall examine how the suggestion for a price change was considered. Pettigrew (1977) calls this the bringing of a dilema into the picture. This includes who considered the change and if there were formal as well as informal meetings held for this purpose.

It is necessary to delineate the above identification and suggestion steps in the decision making process since they generate the information input (usually accounting data) for the processing and implementation steps. Hence, what should be of significance to our hypotheses is the dominant department's pricing view that influenced the use made of the information input in determining the price to be charged. This is examined by the question that considers the possibility of having differences in views between the marketing and accounting departments regarding the suggested increase in price. In the case of each department advocating a separate pricing view, insight may be gained concerning the influence of the dominant department if we come to learn which view was pursued in setting prices and why it was adopted. However, if there was a single view shared by both departments then that view and the department which developed it will be identified and will be considered as an indication of that department's dominance over pricing decisions even if there was a genuine agreement between the two departments.[1] The scanning of the pricing views in each time phase is also supported by the questions that investigate the role played by accounting data in determining the price to be charged as outlined in the above section relating to the impact of the market competition.

In the section designated for the first code of the Price Commission this vista of the department's dominance is broadened further in order to find out whether the Price Commission bolstered up the importance of accounting information for the purpose of pricing decisions. The underlying

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1 This is what Wrong (1968) distinguishes as enacted power. In our case if department B is complying with the expressed views of department A, we can assume that A is exercising power over B. See also Proven et al (1980).

assumption here is that since the information required by the Price Commission was mainly relating to costing, it may have led to an increase in the demand for and importance of accounting information thereby establishing a source of power which the accounting department may have used in influencing pricing decisions.

A comparision of this presumed effect is also sought in the second code of the Price Commission in order to check any changes that may have occured with respect to the dominant department. Embraced in such a process is the studying of the experience of those firms that were investigated. Particularly interesting would be the impact of the risk of being investigated on the firm's pricing policy and the impact of the outcome of the investigation on the power of the concerned departments. Furthermore, if the impact of the investigation had given the department concerned more influence over other decisions and whether that was desirable.

Also included in both phases of the Price Commission is an attempt to detect the changes in the role of the accounting department and its relationship with other departments that may have taken place as a consequence of the claimed increase in the importance of accounting information. This may take the form of additional responsibilities (including more influence over other decisions) and resources which help in mobilizing the power that may have been gained.[1]

Our last step deals with the final stage of the decision making process. It includes specifying the person and department that were responsible for approving the price to be charged. In addition, the possibility of referring the decision to top management will be explored. It is believed that the main steps of the decision making process prescribed above could elicit adequate information for the testing of the hypothesized dominance of the concerned departments over pricing decisions and the claimed practices of fixing prices in each of the four environment time phases.

One of the hypotheses that was also developed suggests that in supplying the information required by the Price Commission during the first code, the inadequate spare capacity and the unadaptability of the processing system led to the squeezing of the information produced for decision making and as a result dysfunctional decisions took place. Here we shall first concentrate on whether the accounting information system managed to provide the previous management information as well as to satisfy the information required by the Price Commission. In the event of both requirements for information were met, it will be

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1 The additional responsibilities may take the form of departments' representation on key and important committies. Salancik & Pfeffer (1974) and Hills and Mahoney (1978) consider this as a measure of power.

attempted to find out whether there was spare capacity that was utilized to accommodate the extra work of the Commission, or the processing system was adapted to these requirements by increasing the number of employees, use of data processing or/and computer facilities, or any other means.

In case the processing system was not capable to fulfil both requirements, consideration shall be given to the possibility that firms may have dropped certain specific aspect of the management information in order to supply the information required by the Price Commission since it was mandatory. This requires the identification of the reasons that may have led to such a decision as well as the sort of information that was affected. Furthermore, the possible consequences of squeezing that information and its importance to the management shall be probed. It is also felt necessary to enquire about the length of the period during which that information was dropped and the efforts which the company had exerted to overcome that problem. It is belived that by pursuing the steps pointed above, we would be able to shed light on the course(s) of action which firms may have followed when their processing systems were confronted with the additional burden of the Price Commission and whether those practices had led to better results i.e. more profits.

It was also hypothesized that during the second code, companies were encouraged to develop improved product costing schemes than would have otherwise existed and that this led to wider corporate benefits. This view reflects the repercussions of the changes that were introduced during the second code and which relazed the increases of prices in terms of total cost thereby giving firms a wider spectrum of freedom in the use of costing information to demonstrate the need to recover costs when applying for a price increase. Accordingly, it seems appropriate to examine the impact which the changes in the code may have had on the use of product costing information when considering price increases. It will then be attempted to point out the improvements that may have been introduced in the product costing system as a result of the above changes. We shall further consider the benefits that may have been gained from these improvements.

6.3 Selection of Industries for Study

The hypothesized impact of the market state on pricing decisions necessitates that in selecting the type of industry attention be given to the market structure in which the firms to be interviewed operate, namely competitive and less competitive markets. We are therefore interested in market concentration. This refers "to concentration within individual markets or industries, in particular the proportion of total industry output produced by the largest three or four firms" (Utton 1970:34) [1].

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1 The literature on the measures of industrial concentration is summerized from Utton, 1970, Industrial Concentration, Penguin.

Although it is perception of competition which is relevant to this study, it cannot be determined in advance and so companies can only be selected on economic measures of competition. After the interviews perception of competition will be compared with economic measures.

One of the most extensively used measures of market concentration in U.K. and U.S.A. is the concentration ratio. It is simply "a ratio of the proportion of total industry output accounted for by the largest three or four firms". It "is derived from the industry concentration curve which is plotted on a graph with horizontal scale marked off from left to right in terms of the largest firms and the vertical scale showing the cumulative percentage of industry output (or other measure of size) produced by the number of firms indicated on the horizontal scale" (Utton 1970 p.43). A steeply rising curve which rapidly approaches the top of the vertical scale indicates a highly concentrated industry in which a small number of firms share between them a large proportion of the industry's output or assets. On the other hand, an industry of low concentration will be indicated by a concentration curve whose slope rises only gently from left to right.

It is worth mentioning that the concentration ratio is simply one point on the concentration curve and accordingly one of the criticisms levelled against it is that the changes that may take place in the concentration curve would not affect the value of the ratio. This means that the ratio would not give a summary measure calculated on the entire size distribution of firms in the industry nor would it even reflect the relative sizes of the largest three firms.

An alternative measure that has often been used in the study of industrial concentration is the measure of inequality which is derived from a Lorenz curve. However, whereas in the concentration curve the horizontal axis depict the cumulative number fo firms in the industry beginning with the largest firm, the Lorenz curve would show the cumulative percentage of firms in the industry from the smallest to the largest. A Lorenz curve demonstrates the concentration of firms by its distance from the diagonal line of equal distribution which connects the points 0,0 and 100,100 in a diagram. The wider the gap between the Lorenz curve and the line of equal distribution, the greater is the concentration of firms in the industry. This area between the Lorenz curve and the line of equal distribution can be measured by the Gini coefficient which also reflects the extent to which firms in the industry are unequal in size. It has been suggested that since the Lorenz curve and the Gini coefficient are both based on the entire distribution on firms, they would indicate changes at any point in the distribution.

One of the criticisms advocated against the Lorenz curve is that since it may be affected by the number of firms in the industry, many of the changes it may show in the size of distribution are irrelevant from the point of view of a study of market structure. The other limitation regarding its use is the lack of data on individual sizes and number of firms in the small and medium categories.

The issue of which concept of concentration is more relevant to the study of market behaviour and for drawing inferences about industry behaviour is a contraversial one. In supporting the concentration ratio it is emphasized that the 'fewness' of sellers in an industry is important for this purpose. As with respect to the inequality measure, although its inappropriateness is appreciated when the number of sellers in an industry is very small, it is argued that the complete structure of an industry cannot be described without knowledge of all firms in the industry. It is further suggested that the inequality measures are preferred when the structure of industries are to be compared over time or between countries.

As far as this thesis is concerned, it is believed that the use of the concentration ratio will be more appropriate for the purpose of identifying the various market structures from which our sample of companies will be selected (however, perception of the degree of competition will be probed more in interviews). The grounds on which the measure of concentration ratio is favoured can be summarized as follows. The inequality measures are preferred when it is desired to describe the complete structure of an industry and when the objective is to compare the structure of an industry over time and between countries. Both these advantages are hardly applicable in our case. Furthermore, the data required for the calculation of the Gini coefficient is rarely available.

In the U.K., the Census of Production is the publication that provides the industrial groupings most commonly used in the compilation of market concentration measures. It classifies industries according to the concept of a group of 'principle products' and it uses the establishment (which is tantamount to a single production unit) as the basic unit for the collection of data. The company, including all of its subsidiaries, is called enterprise or business unit. There are, however, a number of possible limitations that have been put on the use of Census material for measuring concentration in industrial markets.[1]

The ratios calculated from the Annual Census of Production use employment as the size of the enterprise for ranking purposes. However, since we are interested in selecting our sample of companies on the bases of their degree of competitivenes, it is believed that it would be

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1 For a detailed account of these limitations, please see Utton op cit pp.36-40.

more appropriate if our size criterion is based on sales. This sort of data is found in the Statistics of Product Concentration in the U.K. manufacturers. Accordingly, Table 1 in this publication will be used in selecting our sample's concentration ratios because it provides "the sales of the product group by the five largest manufacturing enterprises as a percentage of the total sales of the product group by all contributors" (Business Monitor P1006, 1980).

6.4 Sample of Companies

Owing to the enormous time usually consumed in preparing, conducting, writing and analysing interviews, it is felt that a large number of companies can hardly be interviewed within the time planned for this thesis. It is therefore believed that if a sample of eighteen companies could be interviewed, sufficient information may be elicited for the testing of our hypotheses.

In order to cater for the different market states on pricing practices, our sample will be selected from highly competitive, not highly competitive and less competitive industries. These three categories will be respectively identified by the following ranges of concentration ratios; 0 - 55, 56 - 80, 81 - 100. Each of the three groups will consist of six firms and each category will include three firms that were investigated by the Price Commission so that it would be possible to trace the impact of the second code on the pricing practices of those companies that were investigated as well as those that were not (see Figure 6.2).

It is hoped that in each firm, at least one representative from each of the accounting and marketing departments will be interviewed. He/she will hopefully be a top management employee who is well conversant with the work of the Price Commission.

6.5 The Companies that Participated in the Research

In approaching companies, 70 letters signed by my supervisor were sent, over a period of time, to firms that trade in various manufacturing industries. The sample of companies was selected to represent the three different degrees of competition as well as those companies that were investigated and not investigated. Unfortunately, to get access to eighteen companies, as was the objective, proved not to be possible during the current period of severe recession which the U.K. is experiencing. For example, several companies indicated that they have received cut backs in staffing in the finance function and did not wish to be seen to be devoting time to outside activities not directly related to their task. This was clearly reflected in the tone of the responses that were received. Of course, some companies didn't even bother to reply. In addition, being an overseas student may have put off a lot of companies especially since the topic of discussion is a highly sensitive one like pricing.

Figure 6.2 A Framework For The Sample Selection

	Highly Competitive	Not Highly Competitive	Less Competitive
	0 - 55	56 - 80	81 - 100
Investigated			
Not Investigated			

Nine companies agreed to participate in this research. In three companies interviews were conducted with a representative from each of the accounting and marketing departments; in each of the remaining five companies only one executive was interviewed. Apparently, in the latter case, companies had no more than one official who was familiar with the work of the Price Commission and who had been employed at least since the introduction of the price code. All interviews were tape recorded except in two companies where the interviewees deprecated the idea but allowed notes to be taken verbatim where necessary.

It is to be mentioned at the outset that due to the short time allocated by the companies for the interviews and because of the lengthy interview guide that was used, no adequate information was collected to enable us to discuss the impact of the Price Commission on those companies that were investigated and not investigated in terms of their pricing policies and how they may have changed because of the risk of investigation, as well as the different organizational repercussions which each category may have experienced. This section of the research had to be dropped.

The classification of the companies according to the degree of competition as indicated by concentration ratios is shown in Fig. 6.3. Although the sample consisted of nine companies, eleven major products were considered, as two companies both manufactured two products which came

Fig. 6.3 Classification of companies according to economic measures of competition

High Competitive	Not Highly Competitive	Less Competitive
Concentration Ratios 0 - 55	Concentration Ratios 56 - 80	Concentration Ratios 81 - 100
South Pacific Ltd. Ascot Product R S.R.D. Ltd.	Beta Ltd. Tecno Product Z Ascot Product S	Rank Ltd. Newbridge Ltd. Tecno Product X Blue Nile Ltd. United Ltd.

under different categories of competition. It goes without saying that each major product was considered seperately in the interviews, particularly in section A of the interview guide (see Appendix C) which tackles the market structures.

Chapter Seven

Analysis of Interview Data:

Part I: Companies' Background and Market Competition

This chapter looks at the general background of the companies that participated in the research in terms of their markets structure according to the decision makers' perceptions. The information elicited is then analysed to establish the degree of competition which each firm's decision makers believe to confront. This is then compared with the classification suggested by the economic measures of concentration ratios to highlight the differences and similarities between the two measures.

7.1 General Background of the Companies[1]

7.1.1. The Less Competitive Group:

Rank and Blue Nile. These two companies trade in the same industry and, although each one is known for its own brand, it is believed that the consumer has no great loyalty to the product. The market structure of this industry is an oligopoly in which there are five companies that compete with each other. The industry accounts for a significant proportion of the U.K. consumer expenditure amounting nearly to 4000 million in 1979. Its importance is illustrated by the high weight it commands in the

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1 All the names of companies mentioned in this thesis are pseudonyms.

construction of the Retail Price Index.

Rank is the market leader and has a market share of around 56 per cent and its annual average sales amount to £220 million. Blue Nile has 15 per cent of the market share and they consider themselves as a price follower.

Previously the duty levied by the government on the products of this industry was based on the weight of the material used in manufacturing them so that the bulk of the tax was in relation to the size of the product. Hence, when a company didn't want to increase its prices for one reason or another, it was tempted to reduce the quantity of the raw material in a product and thereby accommodate part of the costs.

However, the new indirect tax proposed by the government engendered a fundamental change to the system of taxing the products of this industry. The new indirect tax structure, which was to be implemented during the second code, considered the costs of various sized of the product as similar i.e. the indirect tax was charged on the end-product. This caused the price differentials to narrow considerably between the range of sizes and consequently the large size products became more attractive in terms of value for money.

Before the implementation of the new indirect tax system, Blue Nile together with Zenith (another company that has a large share of the market), dominated the large size product sector which occupied a very small segment of the total industry market. It was therefore clear to Rank that if it was to maintain its market leadership, it would have to improve its position in the large size product market. Rank contrived to increase its share in the large size product sector by launching new large size products and vigorous promotional campaign.

Regarding the threat of entry of new firms to this industry, it appears that both companies give it very meagre considerations when contemplating their pricing decisions. Rank believes that the heavy financial requirements coupled with the needed high technology of the machines act as a significant barrier to any new entrant. "A case in point is Roget, the recent company that joined the industry and which is still making heavy losses". Rank emphasized that "our present competitors, rather than the new entrants that attract our attention and considerations when we are about to change our prices". Blue Nile shares Rank's view and it is of the opinion that "threat of entry receives marginal consideration when fixing our prices".

Given the current market situation, Rank believes that a 5 per cent increase in the prices of its products "would definitely have a drastic damage on our market shares". It seems that before embarking on such an increase, the company tends to evaluate the extent to which its competitors will wait before they follow as well as their need for the same increase. The fact that the costs incurred by the companies in this industry are very similar, helps Rank "to examine carefully the liklihood of our competitors' cost position and try to be as confident as possible that others would follow". For example, knowing that Roget is still making a loss, "we will attempt to assess the extent to which it would be able to reduce this loss if it abstains to follow us". However, it is interesting to point out that of late Rank has increased the prices of two of its products but was forced to adjust this movement very soon since its competitors, including Blue Nile and Zenith, didn't follow. A 10 per cent increase or more seems to be "just impossible".

According to Blue Nile a 5 per cent increase in prices "would surely affect our market share"; and a 10 per cent "would have a very much effect too". It appears that this company tends to follow either Rank or Zenith depending on whose brand is strong in a particular segment of the market. Although

> "we would be hesitant about increasing our prices in the absence of price increase from one of these two companies, we tend sometimes to increase the price of one or two brands above their corresponding brands for a period of time".

However, "we wouldn"t expect that to be a permanent situation".

Both companies believe that a 5 per cent decrease in prices would affect their share of the market depending on the response of the competitors. However, the stance of Blue Nile seems to differ in the sense that if its competitors follow, it "would lose profits since our market share might increase slightly but not sufficient to offset the impact of the reduction in prices".

Apparentely, the main reason behind the price increases of each of the two companies is to maintain a given profit margin which also reflects other corporate objectives like adequate cash flow and generation of funds for investment.

Newbirdge Ltd. This company is the holding company of 16 trading subsidiaries. It produces about 18 per cent of its industry annual total production capacity and its market share since the mid 60s has been around 14 per cent. The demand for the products of this industry reached its peak in the early 70s and thereafter has been slightly declining.

There are six companies manufacturing and marketing the products of this industry and they are all members of the Independent Association which was established to decide common price and marketing arrangements for all its members. Hence, each member of the Association "will individually specify as the current price for its products the price contained in the current price schedules issued by the Association". Although price competition is absent in this industry, it is believed that

> "the overall price of the
> product under the common
> pricing agreement is kept
> down to a level substantially
> lower than it would have
> been under condition of free
> market forces".

As a result of such a situation the two major factors that tended to affect companies' share of the market are: 1) the quality of the product and 2) the standard of delivery service.

In order to execute its duties, the Association keeps costs and profits of the industry under regular review and for this purpose receives from each company quarterly data on costs of manufacturing, production, etc. When the members believe that a price increase should be considered, they supply the Association with extra information regarding their expected cost increases and investment outlays for one year ahead. On the bases of this information the Association arrives at a delivered price to be charged by averaging the costs of all the companies in the industry and which include the costs of transport since customers are not allowed to collect the product.

It appears that when attempting to increase their prices, this company, as well as the other companies in the industry, do not heed any threat of entry of outside firms since it is believed that any new entrant would have to charge a price considerably in excess of the common price if that company was to earn an equal return on capital as the members of the Association. However, imports of similar products seem to constitute some threat to the home manufacturers particularly since "there is a considerable surplus in capacity in (product) manufacturing in most of Europe and which can be sold in the U.K. at very competitive prices". But this is only relevant to that segment of the market, about 15 per cent, in which this product is sold in small portable quantities as the big customers are interested in considerable quantities delivered in bulks to their own works.

Apparently, since there is hardly any other material that can actually substitute the products of this industry, and due to its importance as a basic ingredient to other industries, it is not surprising to learn that a 5 or 10 per cent increase in prices "would have no effect upon the demand for (product)". On the other hand, it seems that a decrease of 5 per cent or more

> "would not be attempted because it would not lead to an increase in the over-all demand; certainly not to the extent that would make up the losing of the 5 per cent or more revenue".

Therefore, one can easily claim that "this is a clear monopoly situation".

Tecno Ltd, Product X.

This company is a wholly-owned subsidiary of the multinational company Tecno International. It is one of the early founded companies in its industry and by acquiring other companies in the 30s, it managed to become the leader in the manufacturing of its products. Tecno's annual average sales of branded products amount to 130 millions which represent about 12 per cent of the world-wide business of Tecno International. Tecno believes that its "share of the market (for product X) is a little bit over 50 per cent and we would see ourself as a price setter". There are three major companies in this industry and a few very small companies that supply the needs of the rest of the market. The major manufacturers devote substantial R & D resources to developing new formulations to meet the changes in materials and types of their products. This appears to fit with Tecno's strategy which aims at developing a quality product and then establish a brand image for it, through advertising and other means, in the hope of securing a sizable share of the market with a reasonable profit.

It seems that

> "at the moment considerable attention is given to the threat of entry to the (product) industry, particularly as penetration is expected from the oil companies. We are aware of the recent movements that have taken place; for example, Howard International has set up an international (product) division and in the past few years it bought two companies, one quite large in Belguim and a small one which is well equipped but bankrupt."

However,

> "in the Price Commission report we tried to get across to all those who are contemplating to enter this industry, the message that the concept of an entry barrier is not what they can put up in capital. Rather, it is the return on capital they can get against us. So, we see the barriers being more about our competitors advantage than the size of what they put down".

In addition, a different type of threat that has recently started to grow in this market is the emergance of the own brand products of major retailers.

The market of this product is divided into two substantially different sectors. Tecno believes that in the growing sector it is dominant and on the other sector it is at parity with its competitors. Accordingly, it seems that in both sectors an increase in prices by 5 per cent "would immediately cause us to lose quite heavily". However, a decrease of 5 or 10 per cent in the growing sector where it is dominant

> "would not increase our market share significantly and we would not make a lot of money. Indeed, our competitors would almost certainly follow us in that situation".

Apparently, the company's pricing strategy in this market is "to pick up those sectors that are growing and operate in them at very low margings of profit deliberately", and in this situation "we put market growth above share growth". On the other hand, the same decrease in the sector where it is at parity with its competitors and its margins of profit are higher, "would increase our market share substantially and our profitability".

In changing prices in this market, the company appears to be attempting "to maximize our market share in the growth market" which it considers a very important long term priority that would lead to "maximizing our profits".

United Ltd.

This company is one of the major two companies in this industry that produce similar range of products throughout the whole of the U.K. The other major competitor is slightly bigger than United and its share of the market is something like 40 per cent while that of United is around 30 per cent. The remaining share of the market

> "is covered by a very great number of much smaller companies who also have considerable ranges, but they are very regional and don't attempt to deal on a national bases".

Accordingly, it was claimed that

> "since there are some of these manufacturers in all sorts of different regions, and who may have quite a lot of advantages over us, together with our major competitor, we really got quite a lot of competition in each part".

Both major companies in this industry are looked upon as a price setters. It is believed that

> "on one occasion we would go up in prices first and our major competitor might follow a month later. On another occasion, they may go up first and we would tend to follow a month later".

This seems to be due to the fact that both companies are largely dealing with the same ingredients, in the same geographical area i.e. throughout the U.K., and they are highly subject to the same cost constraints. Therefore,

> "there is no huge amount of advantage that one may obtain over the other, and, since our cost profiles are similar to each other, it is hardly surprising that our pricing intensions are fairly similar because our costs of manufacturing are not hugely different".

United believes that although it may look as though there is a big profit margin in this industry, it is a very risky business as it greatly depends on the weather for its seasonal huge sales. The company seems to rest assured that "there would be no new entrant who would come and compete with (the major two companies) on a national level i.e. throughout the U.K.". However, "new entrants are always expected to come in and progress regionally". The main reason behind the barrier to entry on national terms appears to be the thousands of equipments which both major companies between them had to provide to the retail shops for the purpose of restoring the products since they perish very soon.

> "If we didn't provide them we would have been out of business".

Accordingly, it seems that such a heavy investment

> "would not make any new entrant compete on that particular level".

The market of this industry is divided into two sectors; the in-hand and the take home. The latter is mainly found in the supermarkets and is purchased in a way that gives the customer the benefit to buy in quantity. As for the in-hand product,

> "the price competitiveness is not all that severe because it is very much an impulse like i.e. when it is wanted the customer can get it from the shops and therefore the price you pay is for your convenience".

However, it appears that the take-home product, which occupies about 80% of the production, "is very much a price sensitive business". Therfore, a 5 per cent increase in the in-hand product "would not affect our share of the market too much"; and a 10 per cent increase "would probably have a significant effect". Since the take-home product is a very competitive business, a 5 per cent increase "would have a very severe effect on our share of the market"; a 10 per cent "would be even more". A 5 per cent reduction in the prices of the in-hand product "would have an insignificant effect on our market share and so would a 10 per cent". However, the same reductions in the take home products "would definitely have a boost in our market share of the market".

In pursuing its pricing policies, United seems to be aiming at "maximizing our profitability.

7.1.2 The Not Highly Competitive Group:

Beta Ltd.

Following a series of acquisitions during the 60s, Beta is considered the largest manufacturer in its industry, making over 90 branded products. It has a number of divisions which for management accounting and control purposes are treated as profit centres. Each division has recently been formed into separate non-trading subsidiary. The total U.K. market for this industry

> "has been static in tonnage terms over the last twelve years which meant that an individual supplier could only increase sales volume by increasing share market".

There are no more than 12 companies in this industry and Beta is regarded as "the market leader since we have about 40 per cent share of the market". It also "produces 13 of the top 20 (products) sold in this industry and which constitute about two thirds of the total (product) sales". Beta also manufactures own label products for retailers whose share of the market has grown considerably over the last ten years.

It is admitted that "entry into this industry is possible and Brown Ltd is a case in point", and accordingly it tends to "give attention to the thread of firms that may want to enter this industry". Although the recent entrant has launched a successful product which has gained about 4 per cent share of the market, this has been limited to certain sectors of the market. Apparently, the static nature of this market has acted as a significant barrier to new entrants, in addition to high degree of consumer loyality to the well established brands.

Beta believes that if it increases its prices by 5 per cent, "we would certainly lose part of our market share"; and a 10 per cent increase "would have a damaging effect". A reduction of 5 per cent "would make our products very attractive if compared with our competitors prices and consequently we would increase our market share considerably". A 10 per cent reduction "would allow us to gain a greater share of the market".

In carrying on its pricing changes, Beta believes that "our objective is to maximize our profitability over the long run".

Tecno Product Z.

It seems that this market has hardly grown in recent years. The number of competitors in this market "is quite considerable but there are only five major manufacturers". Tecno's share "is about 20 per cent and that of Bristol Contek (the market leader) is about 33 per cent". Although Tecno is not the market leader, "we have been reducing prices in real terms in this market", and "we have been one of the companies which has been making for lower prices". Another company has "expanded its share by pricing more at a lower level and the market leader was forced to reduce its prices in real terms". Apparently, "in this market most manufacturers can lead the prices down".

Tecno seems to be "well aware that entry into this industry is relatively easy at the bottom, but is not a problem to us". However,

> "the entry of a major company like Candy (which operates in a similar industry) is an important thing for us because if it succeeds then that would be a substantial blow to all the major competitors".

Tecno also appears to be "interested in the developments that take place among the major competitors" as well as "the growth of the retailers' own brand products which tend to have been increasing". It is "carefully wasting such movements in the industry".

An increase of 5 or 10 per cent in prices "would very much affect our market share". Equally, "we would make some gains" if it reduced prices by 5 per cent and "substantial gains" if prices were reduced by 10 per cent.

Unlike its objectives in the market of product X, Tecno, doesn't seem to be "keen to maximize our profits in this market". This appears to be due to the fact that "this market is not growing", and in addition, it is "satisfied with the present profit contribution we are getting out of it". Moreover, Tecno holds the view that "we do not wish this market to be extremely profitable even if we have our share of that profit because that would give the market leader the muscles of war". Thus, "we see one of the roles of our brands is to keep some control over the profits in this market".

Ascot Product S.

Ascot is the U.K. subsidiary of Simson Ltd., a multinational company which is well known for its products. It is considered as one of the few companies in the world that has pioneered this industry. There are "about 60 companies in the U.K. that manufacture similar products to ours, but obviously our product is the dominant one". In addition, "we have a very high share of the market, approximately 70 per cent". It also seems that Ascot "sets the pattern for the rest of the market", and because of its well established brand, it "charges a price premium well over the other brands".

Ascot believes that "entry in this industry is very easy". Indeed,

> "own label products have recently managed to enter the market but they represent a very small proportion of the (product) market at the moment. Perhaps their entry is a potential threat, not one that seems to have materialized though because of the strong brand of our product".

This market is divided into two segments, the home market and the on-trade. The latter "is not very much affected by price changes" but in the former, "it is a much more aggressive pricing situation". Yet, a 5 per cent increase in prices in both markets "would have a fairly insignificant impact on our market share"; and a 10 per cent increase "would have little effect but only in the on-trade market". However, it seems that because of its porduct brand, Ascot believes that even with such increases it "may still maintain our market share". As with regard to the effect of 5 or 10 per cent reductions in prices, Ascot does "expect to gain extra market share though not an enormous one" in the on-trade market.

"Maintaining our market share and increasing profitability" seems to be Ascot's main objective behind changes in their prices.

7.1.3 The Highly Competitive Group:

South Pacific Ltd.

This company is a subsidiary of Parkinson & Sons, a public company based in the U.K. South Pacific accounted last year for 17 per cent of its parent company's sales and 24 per cent of the trading profit. It produces about 70 branded products which are divided into two categories, A and B.

> "There are about a dozen of companies that compete with us in the same industry, and we have a large share of the

> market and no other company is comparable with us. We have around 32 per cent of (category A) market share and more than 60 per cent of (category B)."

Therefore, it is claimed that "we are considered as a price setter and the other companies tend to follow us".

It seems that there are two major factors that affect the revenue of the products of this industry. The demand by the general public and the demand of business organizations. Apparently, there is a very high correlation between the demand of both markets i.e. if the demand by the general public is high, it is very likely that the demand by the business organizations to be high too. However, the demand by the business organizations seems also to be susceptable to changes in the economy. Such a situation tended to have benefited

> "those companies that have dominant positions in the market of (the general public) since they could afford to charge (business organizations) higher prices"

Although, "it requires a lot of money to get into this industry", it is believed that "there is a number of new products that have recently been launched, though some of them tend to have limited life expectance". Furthermore, in spite of the fact that "the entry of new companies to this industry could make competitions tough", South Pacific believes that "from experience, if a company is already well established in a particular sector of the market, it would not be greatly damaged by new entrants".

South Pacific is of the view that increasing prices 5 or 10 per cent "may not have an effect on our market by share or sales volume provided that such increases are in line with the general level of inflation". But, "if we move prices faster than inflation, we will be running a risk". It also seems that "in times of rapid inflation, we tend to increase our prices more rapidly than our competitors". Nevertheless, such increases "hardly cause us to lose part of our market share, and we would rather lose a bit of market share than erode our profit margins". A decrease of 5 or 10 per cent "doesn't differ a lot in terms of capturing more of our share of the market". The main reasons behind such a situation appears to be "the distinguished brand of each company's product" in addition to "the high level of loyalty which each product has established".

In changing its prices, South Pacific endeavours to "maintain (its profit margins".

Ascot Product R.

By taking over Popco Ltd in 1970, Ascot was able to expand its range of products and enter the industry of product R. There are "quite a considerable number of companies, well over 90, "that compete in this industry and Ascot has "about 13 per cent share of the markets".

The market leader has "something around 40 per cent".

Ascot recognizes that "there are no entry barriers" in this industry and as in the case of product S, "the own brands products have successfully penetrated this market". However, "the big threat seems to be coming from the companies in the (product) industry as they have gradually started to move into this industry".

Product R is also sold in the home and on-trade markets mentioned in product S. According to Ascot, a 5 or 10 per cent increase "would certainly cause a huge loss in our market share, but it may not have an appreciable impact in the on-trade market". Similarly, a 5 or 10 per cent reduction in prices "would hardly damage our share in the on-trade"; however, in the home market "it is likely that we get extra business".

By changing prices in the market of product R, Ascot seems to be attempting to increase its market share.

S.D.R. Ltd.

S.D.R. is considered the largest subsidiary of its parent company in terms of revenue and number of employees. In the U.K., the products of S.D.R. are well known but because the nature of this industry, the company hardly depends on consumer loyalty. S.D.R.'s share of the market is about 25 per cent and there are 18 other manufacturers that compete with it in this market.

However, "the main competitors to us in this market are the imported (product) that come from the neighbouring European countries". S.D.R. therefore believes that in terms of the U.K. manufacturers, it is the market leader but this does not appear to apply to the imported products since their prices are very much affected by the exchange rate. Another factor that tends to have an impact on the prices of this product, is the general price pattern of other similar products in the same industry.

S.D.R. is of the opinion that entry of other firms into this market "is no major threat and we can't think of any example where a new major company has come into (product) in recent years".

Apparently, if S.D.R. attempts to "increase our prices by 5 per cent or more and the other manufacturers are standing still, it will have a major impact on our market share". Equally, it seems that a decrease of 5 per cent "would get us quite a lot" share of the market. However, S.D.R. points out that the gains it may be able to achieve by decreasing or increasing its prices would be limited to the very short run. This is because, as mentioned above, there seems to be a correlation between the prices of this product and the other similar products in the industry. Thus, if it tries to increase its prices,

> "the prices of (the other products), which have tended for a good number of years to set the scene for (industry) prices in general, would be very attractive".

In changing its prices, S.D.R. attempts to increase its "margin of profits, which are far below where we want them, in order to generate the necessary funds for our investments".

7.2 Market Competition

The concept of competition that was developed in the previous chapter and which has been used in the collection of the data, stresses the role of the perception of the decision maker in the study of the interaction process that takes place between the firm and the market. So, having adumbrated the market conditions in which each company in our sample seems to have been operating, it will be attempted to ascertain the degree of competition each company is facing during the current phase. Figure 7.1 gives a summary of some of the salient factors that affect each company's degree of competition.

7.2.1 The Less Competitive Group:

Rank and Blue Nile

In the case of Rank and Blue Nile, there are three companies competing with them in the same market and yet Rank, the market leader, believes that it is unable to increase its prices by 5 per cent without suffering a considerable loss in its share of the market if its competitors didn't follow. Indeed, Rank's adjustment of its prices because Blue Nile and Zenith didn't follow, seems to be a strong evidence of the competitiveness of

Figure 7.1. Major Factors That Affect Companies' Degree of Competition

COMPANY	No. of companies in industry.	Percentage of market share	Position in the market.	Consideration to threat of entry.	Effect of an increase of 5% and 10%.	Effect of a decrease of 5% and 10%.	Objective behind prices changes.
Rank Ltd.	5	56%	Leader	Meagre	- Drastic - Impossible	Depends on Competitors Response	Maintain Profit margins.
Blue Nile Ltd.	5	15%	Follower	Meagre	- Surely affect. - Very Much affect	May lose	Maintain Profit margins.
Newbridge Ltd.	6	14%	No price competition	Nil	No effect	Insignificant	Maintain return on capital.
Tecno Product X	3 Major and few small companies	50%	Leader	Considerable	Immediate heavy losses.	Growth mkt.: not significant. Parity mkt.: substan.	Maximize share market, + profitability
United Ltd.	1 Major and many small.	30%	Share price setting	Not Considerable	In-hand mkt.:-no effect-significant Take-home mkt.: - severe - more	In-home mkt.: insignificant Take-home mkt. boost.	Maximize profitability
Beta Ltd.	12	40%	Leader	Attention given.	- Lose mkt. - damaging effect.	- make products attractive. - Greater share	Maximize profitability.
Tecno Product Z	5 Major and many small.	20%	Follower	A lot	Very much affect	- make some gains. - substantial	Maintain profit margins
Ascot Product S	60	70%	Leader	Meagre	- Fairly insignificant. - Little effect	Gain extra business.	Maintain mkt. share + increase profitability.
Ascot Product R	Over 90	13%	Follower	Some attention.	Huge loss in home trade mkt.	-In-trade mkt: no great effect. Home-trade mkt.: gain extra bus.	Increase mkt. share.
South Pacific Ltd.	12	32% 60%	Leader	No Great fear.	No effect.	No great difference.	Maintain profit margin.
S.D.R. Ltd.	18	25%	Leader	Nil	Major impact.	Quite a lot.	Increase profit margin.

this market. Hence, the impact of such an interaction between Rank and the rest of the market on the former's future pricing decisions and what may constitute a competitive period.

Furthermore, the information relating to Blue Nile appears to establish the same competitive view of the market. Apparently, because both companies perceive the market to be very competitive, an endeavour to reduce prices by 5 per cent may not be feasible by Blue Nile because of the low returns such a reduction may yield. Rank also appears to be in the same position as any assessment of what it could get would depend on its competitors response.

Thus, the fact that a market leader and a follower in the same industry seem to perceive similar repercussions on their market share if each attempts to increase its prices unilaterally, tends to suggest the competitiveness of their market.

Newbridge Ltd.

Owing to the absence of any price competition in the industry of this company, and in additiin to the lack of any threat of entry from other firms, this industry reflects a "clear monopoly situation". It is therefore not surprising that an increase or decrease of 5 and 10 per cent wouldn't have any effect on the company's market share. Accordingly, one could easily claim that the market this market. Hence, the impact of such an interaction between Rank and the rest of the market on the former's future pricing decisions and what may constitute a competitive period.

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Newbridge Ltd.

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Tecno Product X.

Being the market leader, the case of Tecno product X does not seem to differ greatly from the situation of Rank. Even though this company has more than 50 per cent of the market share, it seems that the consequences of increasing its prices by 5 per cent, without the same movement by its competitors would lead to a substantial losses in its market share. However, unlike Rank and Blue Nile, a decrease of 5 or 10 per cent could have a significant rise in its market share especially in the market where it is at parity with its competitors. Furthermore, the considerable attention given by Tecno to the threat of entry into this market, tends to add to its competitiveness; and although Rank and Blue Nile do not face similar threat, the three companies still consider their markets competitive.

United Ltd.

United has 30 per cent share of the market and is also a price setter. However, the existence of a major competitor and many small regional companies, seem to have led to a price sensitive situation in the take-home market. As a result, United believes that an increase of 5 per cent could have a severe impact on its market share while a reduction of the same percentage could lead to a boost in its business. Moreover, even the in-hand market seems to be susceptable to price increases beyond 5 per cent increase. It therefore appears that like the other two market leaders in this category, United is also operating in a competitive market despite the fact that all three companies appear to be facing a different order of competition.

Thus, unlike the indications provided by concentration ratios, the measurement of market competition using perceptual data tends to demonstrate that four out of the five companies in the less competitive category see themselves confronting competitive market situations. However, even the uncompetitive market of the fifth company is due to the absence of price competition in that industry because of the existing common price agreement; and this is not reflected by the concentration ratios. Moreover, it can also be recognized that three of the five companies are market leaders (United also considers itself a price setter) and yet, it seems that none of them would attempt a price increase without making sure that its competitors would follow. If they failed to do so, it is highly likely that they would lose part of their market share because of the perceived high degree of competition prevailing in their markets.

7.2.2 The Not Highly Competitive Group:

Beta Ltd.

Beta competes in its industry with eleven other companies and, in spite of the fact that it is the market leader, the possible reaction of the market changes in its prices seems similar to the competitive companies in the less competitive category. This appears to be evident from the likely impact on its market share if it tries to increase its prices and its competitors decided not to follow. Indeed, Beta believes that an increase up to 10 per cent could have a damaging effect on its market share. Furthermore, the static nature of this industry and the considerations given to the threat of entry appear to have added to the competitiveness of this market. Therefore, it could also be argued that Beta is trading in a competitive market.

<u>Tecno Product Z.</u>

Although there are five major and many small companies in the market of Tecno product Z, it is still considered by Tecno as a price sensitive market. Apparently, should it endeavour an increase of 5 or 10 per cent in prices, Tecno believes that this may have a very great effect on its market share. On the other hand, a decrease of similar percentages is likely to enable the company to gain extra business.

Compared to Beta's market conditions, Tecno product Z seems to be demonstrating similar degree of competitiveness regardless of the fact that the former is a price leader and has a higher share of the market.

Ascot Product S.

The market conditions of Ascot product S seem to differ from the other two companies in this category, although both Ascot and Beta are market leaders. There are about 60 companies competing in this market, yet Ascot is of the view that an increase in its prices by 5 or 10 per cent may have an insignificant or at most little effect on its share of the market. This is possibly due to its 70 per cent share of the market and the well known name of its product brand. Indeed, such an uncompetitiveness appears to have made it easier for Ascot to charge a price premium over the other brands. Compared with Beta and Tecno product Z, Ascot competes with a greater number of companies and gives only meagre attention to thread of entry to its market. However, unlike the other two companies in this group, its product brand seems to give it a considerable freedom to increase its prices.

In comparing the less competitive and not highly competitive groups, it appears that the markets of six out of the eight major products are believed to be competitive irrespective of the differences between them with respect to the number of firms in a particular market, their market shares, their position in the market or their consideration to threat of entry. As for the uncompetitive markets of the two remaining major products, they seem to have specific factors, not considered by the concentration ratios, that made it possible for each of them to accommodate increases in prices up to a certain limit without significant negative repercussions on their market shares. Thus, it can be realized, from what has been said so far, that by emphasizing the importance of the role of decision makers' perception of what constitute a competitive or uncompetitive market, a better picture tends to emerge of the degree of competition that exists in a particular market than that suggested by statistical economic measures.

7.2.3 The Highly Competitive Group:

South Pacific Ltd.

This company seems to confront no real competition from the other companies in its industry. Being the market leader and depending on the product loyalty of its customers, it believes that increases or decreases of 5 and 10 per cent in its prices, as far as they are within the general level of inflation, would not have a great impact on its 60 and 30 per cent market shares. This seems to be even more evident from the company's attitude of indifference towards the many new entrants into the industry. It can therefore, be realized that, unlike the indications of the concentration ratios, such a situation seems to clearly suggest the uncompetitive market in which South Pacific is trading.

The consumer loyalty to the products of both South Pacific and Ascot product S, which is in the not highly competitive group, seems to be the main factor that has contributed towards the uncompetitiveness of their markets. Moreover, the fact that the former has less companies competing with it in the same industry than the latter, does not appear to influence their markets' degree of competition. Hence, the concentration ratio does not reflect differences in the order of competition in various industries.

<u>Ascot Product R.</u>

In product R's market, Ascot does not seem to have the dominant situation as in the market of product S. Being a price follower and with the existence of over 90 companies in this market, Ascot believes that it is unable to increase or decrease its prices without affecting its share of the market particularly the home-trade one. An increase of 5 per cent could lead to huge losses in its market share and the company expects to gain extra business if it decreased its prices. Thus, unlike South Pacific, it could be argued that the market of Ascot product R is a competitive one.

<u>S.D.R. Ltd.</u>

The other 18 companies competing with S.D.R. in this market together with the imported products, seem to make this market a competitive one despite the 25 per cent of S.D.R. share of themarket. This competitive situation appears to be reflected in S.D.R. attitude towards changes in prices. It believes that a 5 per cent or more increases in prices would have a significant reduction on its share of the market. On the other hand, a 5 per cent decrease in prices would tend to have an appreciable increase in its share of the market. Furthermore, since the general price behaviour of this industry is likely to affect S.D.R.'s market, it tends to impose an additional constrain on the flexibility of the company to change its prices. Thus, it could be argued that S.D.R. is operating in a competitive market.

Compared with the other companies in this category, it does not seem that S.D.R. and Ascot product R have the same flexibility as South Pacific in pricing their products although in terms of the concentration ratios, the percentages of the three companies are extremely close to each other.

7.3. Concluding Remarks.

In comparing the companies in our sample who tend to perceive their market as competitive, it can be recognized that all of them are market leaders except Blue Nile and Ascot product R are price followers. It therefore seems plausible to state that if a company that has a dominant share of the market perceives its market to be a competitive one, it is highly likely that the price followers in the same market will also perceive that market as competitive; Rank and Blue Nile are a good case in point. However, this does not necessarly mean that if a price follower perceives its market to be a competitive one, the market leader of that market would also perceive it as competitive. For example, the price leader of Ascot product R's market may have a dominant situation similar to that of Ascot product S and thus find the same market an uncompetitive one. Accordingly, the case of Ascot product R appears to suggest that the same market could be competitive or uncompetitive depending, first, on the perception of the firm's decision makers and, secondly, on the firm's position in the market whether that be a price leader or a price follower.

Figure 7.2. gives a reclassification of the companies in our sample according to the <u>perception</u> of the decision makers regarding what is or is not a competitive market. It can be realized that six out of the eight major products that were classified in Figure 7.1 under the less competitive and not highly competitive groups, are now under the competitive category in Figure 7.2. South Pacific was under the highly competitive group and is now classified under the not competitive group. Ascot product R and S.D.R. remained in the competitive category while Ascot product S is no more under the not highly competitive group. Newbridge is still considered in the not competitive group.

Looking back at what is suggested in the economics literature, it seems that the majority of the empirical studies which were conducted (Evely and Little 1960,

Figure 7.2 Reclassification of Companies' Degree of Competition According to Perception of Decision Makers.

COMPETITIVE		NOT COMPETITIVE	
Rank Ltd.	(LC)	Newbridge Ltd.	(LC)
Blue Nile Ltd.	(LC)	South Pacific Ltd.	(HC)
Tecno Product X	(LC)	Ascot Product S	(HC)
United Ltd.	(LC)		
Beta Ltd.	(NHC)		
Tecno Product Z	(NHC)		
Ascot Product R	(NHC)		
S.D.R. Ltd.	(HC)		

Letters in parentheses show the classification according to the measures of concentration ratios.

HC : Highly Competitive.

NHC : Not Highly Competitive.

LC : Less Competitive

Hannah and Kay 1977, Hart and Clark 1980), have attempted to use concentration ratios as a principal tool of analysis so that it could be possible to identify the change that has taken place over a period of time in industrial concentration. However, it is being admitted that such a tool of analysis is nothing "more than a preliminary screening device to indicate industries where competition is likely to be more or less intensive" (Hart and Clark 1980, p.105). Hannah and Kay (1977, p.18) also realized that "the kind of measures of concentration which empirical economists are normally forced to use (most commonly 3-, 4-, or 5-, firms concentration ratios) are rather poor approximation in several respects to the measures which our theory requires". Thus, these researchers seem to have recognized that "detailed case studies .... are needed to ascertain whether the high degree of monopoly indicated by a high level of (concentration ratio) for a particular industry is misleading or not" (Hart and Clark, 1980 p.105).

The notion of perceptual data and the findings that have emerged from our above analysis should therefore be appealing to all those who attempt to remedy many of the shortcomings of concentration ratios by using case studies so that a better evaluation of the state of competition in a particular industry could be achieved. This means that more attention should be given to the decision making realities in organizations and not to downplay their role in what is or is not a competitive industry.

Hence, the implication of our findings to what is propagated in the economics literature is to illuminate the danger of research in economics that rely on concentration measures to identify the degree of competition and then try to relate that to corporate behaviour. Indeed, it is on the established state of competition that the analysis and explanation of corporate pricing decisions are based. For example, although Hague (1971) does not use concentration measures to establish the degree of competition when he studied the pricing practices of thirteen companies to show firms' objectives and how they fix their prices, his use of the concept of competition is similar to that of economists. He defines the concept of competition as "a situation where large numbers of firms compete in a market" (Hague, 1971 p.20). His results must therefore be interpreted with this definition of competition very clearly in mind.

This chapter has attempted to determine the degree of competition in the various markets of the companies in our sample using perceptual data. It goes without saying that this pertains only to the current phase i.e. after the abolition of the Price Commission. In the following chapters it will be endeavoured to ascertain whether there had been any changes during the other three phases in the degrees of competition already established in this chapter; and what determined pricing practices.

Chapter Eight

Analysis of Interview Data:

Part II: Prior to The Introduction of The Price Commission

8.1. Introduction.

In this chapter an endeavour will be made to compare and describe companies pricing practices during the era prior to the introduction of the Price Commission. It will be recalled that the hypotheses developed in chapter five from Hekmat's case study cater for the following possibilities that are pertinent to this phase.

Hypothesis 1 leads us to seek information in this phase as to whether prices are determined mainly by market forces and if so Hyp.2 and Hyp.3 in combination suggest that if the market was highly competitive, the marketing department was dominant in setting prices whereas if the state of market competition was less competitive, accountants became more dominant through the company's greater reliance on accounting data to signal price increases.

It is worth mentioning at this stage that although Hyp 4, which asserts that subunit power may be derived from factors other than the state of market competition or the existence of price control, is relevant to all four phases, it will be discussed in the conclusion chapter (Chapter 12) to avoid repitition.

8.2. The Less Competitive Group by Concentration Ratios

Rank and Blue Nile.

As stated in the previous chapter these two companies trade in the same industry and accordingly their pricing practices will be examined together.

These two companies suggest that this era was a stable one. The rate of inflation was relatively low and therefore price increases were very much less frequent and smaller in amount. It is believed that there were few changes in the structure and size of the market though Rank's share of the market was a bit more than its current 56 per cent. The degree of competition seems to have been the same and according to Blue Nile

> "whenever a company wanted to increase prices and couldn't, it had the opportunity of adjusting the weight of raw material and thereby accommodate the extra increase in cost".

In the two companies, cost increases tended to be the major factor that triggered the pressure for price increase. In Rank, it was a standard procedure whereby the accounting department identified the expected increase in costs which was then presented in the annual budget review to the board which is fully responsible for pricing decisions. The various suggestions would be discussed at length by the directors of the company who are all members of the board including the finance director. The suggested cost increases are very carefully viewed with regard to its impact on the company's profitability and whether such increases would be accommodated by the market place. Pricing was, and still is, a corporate board decision. "It is highly centralized and even the chairman would have at least to inform our parent company of the expected price increase".

Price changes in Blue Nile are considered by the managing director together with the marketing and finance directors. According to the present financial planning director.

> "they had ad hoc discussions held for this purpsoe. Accounting information reflecting profit performance was used to identify price increases and at that time the company's attitude was to take price increases when we had the opportunity to do so i.e. when (Rank and Zenith) took price increases".

However, if due to increases in costs, the company felt that it needed to correct its profit situation and

> "it didn't seem feasible to increase prices, we sought our own means to achieve savings in product costs or more likely to reduce the cost of raw material by altering the amount of (raw material) in (product). So we could, to some extent, compensate for price increases by those sort of savings and adjustments which did help until such times a price increase was available".

Thus, it seems that because of its market leadership, Rank was able to initiate price increases and thereby managed to include such increases in its annual budget as part of its standard procedures. Being a price follower, it appears that Blue Nile was not in a position to plan price increases as Rank did and therefore it had to wait for the other two major companies to make a move before it could follow. Hence, the ad hoc rather than standard meetings that were held in order to respond to price increases by other companies.

The marketing director claims that because Rank manufactures "a consumer product which is very sensitive to price increases", it had to pursue during that period "the marketing policies of our (marketing) department". Accordingly, "what really mattered to the board was what we though the market place would accommodate". Such a situation seems to have enabled the marketing department in Rank to play "a rather influential part in setting prices". It is not therefore surprising that there were no differences in views between the marketing and accounting departments regarding pricing decisions.

Being very much market oriented during that period, Rank appears to have considered price increases when accounting information identified an increase in costs only through the budget which was reviewed from time to time by the board. However, prices were not increased whenever accounting data identified an increase in cost since "this had to be carefully thought out by the marketing department". Indeed,

> "we wouldn't endorse any price increase directly as a result of cost increase unless there was a major increase in cost; for example, devaluation because it would lead us to consider price increases".

With respect to Blue Nile, the financial planning director makes the remark that

> "I wouldn't have thought that the accounting and marketing departments had differences of opinion regarding the suggested price increases in our circumstances. I don't think that the finance

> department would have taken a particular view on what our price increases should be. They may have identified the need for a price increase but decisions on which brands to increase and by what amounts, bearing in mind that we tend to follow other companies' lead in terms of price adjustments, I think they were the responsiblity of the marketing department".

Indeed, "the marketing department designed our policies so that the company could maintain a competitive position".

It therefore follows that when accounting information identified an increase in costs, "the marketing department would come and say whether price increases or the opportunity of cost savings should be implemented". However, since "we are a market oriented company and as we wouldn't increase our prices in advance of competition", it seems that "market consideration would have more weight". As such

> "any increases that we (the accounting department) identified, but were considered not to match our rivals, would have been by adjustments in cost reductions i.e. by decreasing the amount of (raw material)".

Thus, "at the end of the day, it was the ideas from the marketing department that highly shaped our pricing decisions".

It can be realized that the control of the marketing departments in both companies over pricing policies, presumably because of their abilities to handle the market place, seems to have resulted in both companies increasing their prices according to what their marketing departments perceived the market conditions would stand. This is reflected by the response of the marketing departments to increases in costs suggested by the accounting departments. In addition, it seems possible to state that the accounting departments in each company were not particularly keen to challenge the marketing departments' views especially as there was no apparent source of power pertinent to pricing decisions which they could use.

Newbridge Ltd.

As was mentioned in the previous chapter, the common pricing agreement which is governing the price of the products sold by the companies in this industry has been implemented for a long time. Accordingly the measures that were used to identify the uncompetitive nature of this market are equally applicable to this period since no changes had occured.

Price changes during this time were carried out on annual bases. It was the responsibility of the Independent Association to collect details of costs and revenues in order to determine the level of price that would give the sort of level of return on capital. However, it seems that the companies themselves were suggesting price increases to the association. Indeed, it was noted that

> "price increases would sometimes come from any company. In our case, the accounting department would point out that a price increase was needed so that they could maintain their margin".

Apparently, there were not any differences in views between the two departments

> "because British (product) was cheaper than foreign (product) and it was a cheap commodotity. No one thought in terms of if you went above a certain level of price you might run into some other constraints. It was just a question of was it justifiable under the common price agreement".

Nevertheless, it is believed that

> "the finance department was influential because the marketing department didn't look at it (pricing decision) in terms of if the price was increased, they would loose market share because the price of everybody else goes up so there was no question of loosing market share to anybody else".

It seems that, it was not a situation where one might think that given a fixed price for all companies, then the increase or decrease of profitability would depend on the company's marketing abilities; because the way these companies win or loose customers is related to the level of their delivery service and "it is a matter of efficiency". It is further believed that the influence of the finance department was due to the fact that

> "as far as the marketing
> department was concerned
> it would not be a price
> sensitive situation at
> all, and the finance
> department was always
> conscious about the
> decline of the returns
> on profit on ton of
> (product)".

Hence, it was not market competition that prevented prices to be considered or implemented whenever accounting data identified an increase in costs. Rather,

> "it was the customers,
> particularly one set of
> them who do not favour
> little and often price
> increases. So, we were
> in the habit of increasing
> our prices twice a year".

It therefore appears from the above that the uncompetitive market of this industry has contributed greatly to the reliance of this company, as well as the other companies under the common price agreement, on accounting information regarding price increases. Such a situation tended to have helped the accounting department to dominate pricing decisions particularly since the companies' market shares could be increased by their efficiency in delivering the goods and not as a result of marketing policies.

<u>Tecno Products X and Z</u>

Since it was felt that it would not be feasible to look at the decision making process of each product seperately, both these products will be considered under this category because in terms of revenue, product X is more important to the company. More than 50 per cent of the company's revenue is attributed to product X while that of product Z is approximately 23 per cent.

Before the introduction of the Price Commission, Tecno was not the leader in the market of product X. In 1968, their major competitors launched a new brand which soon dominated the market and that "year was the nadir of (their) fortune". Indded, that product proved to be very successful to the extent that their competitors "charged a premium for quality brand and it worked". Apparently, the competition was very fierce between the three major competitors since this is considered a growing market and every company was attempting to have a larger share of the market.

As with regard to the market conditions of product Z, Tecno believes that its competitor "was also more ahead than it is now". Some smaller companies that have entered the industry recently did not exist then and the market shares of those companies that were operating at that time were higher than now. Thus, it seems that, compared to the present situation, the major change at that time was that Tecno was a price follower in the market of product X.

The pressure for a price change "would come from our need to make our profit target; basically by increases in costs". Specially as "1969 was very unprofitable period for the company and we were hardly making any money". The accounting department identified the need for a price change and according to the finance director,

> "it (accounting department) would be pointing for that need whenever its information reflected low margins of profits or higher costs; it would then be left for the marketing department to see whether the increase is feasible and how it should be done".

The suggested price increases

> "would be considered by the marketing department where there are three marketing groups which are responsible for the volume of profit contribution of their business".

In each marketing group there is an accountant who would communicate to the group the increases in costs and the relative costs with which their competitors will try to judge Tecno's reaction.

Since it is the practice of this company to promote its products it tends "to make a decision about price every cycle i.e. every four weeks". This procedure was felt necessary in order to follow the pattern of the products behaviour in the market particularly the response of the market to the prices indicated on the package, for example, 4 pence off.

Apparently, there were no appreciable differences in views between the marketing and accounting departments because

> "the accounting department saw its duty as providing the marketing department with the necessary information that would help it in arriving at a pricing decision".

On the other hand, the finance director realizes that

> "the marketing department was very strong and the base of their strength was their perceived knowledge of the results of price changes; who in the end is reading that magical graph that reflects the trade off between margin and profit. We would say the marketing department".

Furthermore, it is believed that

> "the marketing director was a very strong man and in a way he was contesting with the previous finance director as to who was going to stir the company. The marketing director was ultimately successful and he is now the chairman of the company".

As mentioned above, in Tecno, price increases would be considered at least every four weeks whenever accounting data identified an increase in cost; however, they "would not be increased when an increase in costs is shown by the accounting information". It seems that the costs of both product X and Z "go up differentially" and since

> "their elasticities are different the company doesn't put an average percentage increase on each of them. We don't even keep the margins the same

for the two products".

The prices to be charged would finally be approved by the marketing director.

It could therefore be argued that the marketing department in Tecno was influential in setting prices during the period before the introduction of the Price Commission. This seems to have been due to their ability to cater for the required expertise that was needed in order that Tecno could gain more share of the market especially with respect to product X since it was a growing market which each of the major competitors wanted to dominate. In addition, it seems that prices were increased with reference to what the marketing department perceived the market would bear as is clear in the attitude towards price increases when the accounting department identified an increase in costs.

United Ltd.

During that period, the take-home market hardly existed because the electrical appliances that contributed greatly to its development later on were not invented; and therefore, the companies in this industry were competing mainly in the in-hand market. It is believed that since the facilities of the take-home market tended to very much help the two major companies to compete nationally, its absence at that time seems to have meant that both major companies were competing on equal footing with the regional competitors. Thus, "the degree of competition was not very much different from now". Indeed, United is of the view that "an increase in prices by certain percentages during that time would have surely affected our market share".

Pricing decision at United

> "is a corporate decision made by the executive committee which meets regularly on weekly bases and it is kept in tune with the changes that occur to the business in input costs through the finance department. It (finance department) also informs us (marketing department) of the likely future cost profiles of the business in terms of its impact on the profit margins".

The finance director believes that there was no difference in views between the two departments since it seems that

> "there was a general consensus that the accounting department to be responsible for making the assessment of what is going to be the inflation in costs for the coming twelve months and would indicate to the marketing department the sort of money that each product would have to recover".

He further adds that

> "ultimately, there were two parts who influenced prices. The first was the executive committee which influences the price increases by the clarity of the decision on the total amount required.

> The second part, perhaps
> the important one, was
> the marketing department
> which would recommend to
> the committee the best
> set of products to move
> and when to move them".

Both the marketing and accounting directors agree that price increases were not considered everytime the finance department identified an increase in cost; nor were prices increased when the accounting information indicated increases in costs. Rather, it appears that

> "the practice was that in
> the budgeting process, the
> finance department attempted
> to find out by how much each
> item within our business was
> likely to increase. In those
> days we didn't wait for costs
> to go up and then put our
> prices up, except if any of
> our basic materials suddenly
> jumped up by 10 per cent
> over and above that we were
> expecting it to increase,
> then we would virtually
> have no way out but to
> consider an extra price
> charge".

On the other hand, the finance director admits that

> "in the end the
> responsibility of pricing
> the products rests with
> marketing the product i.e.
> it is the marketing
> department responsibility,
> the actual recommendation
> of where the product fits
> into the pricing spectrum
> in the shops".

Accordingly, "the marketing department would give the market place a lot of consideration" since it is believed that "it is the provider of all funds and if we ignored it, we would be at peril".

It therefore appears that although in this company the marekting department depended on the forecast of the finance department to indicate the expected increases in costs, pricing decisions were ultimately based on what the marketing department perceived the market place would bear. This is because the dominance of the marketing department seems evident from the comments of the finance director who believes that it was the marketing department to look after pricing decisions.

In comparing the companies in the less competitive group, it can be realized that, except for Newbridge which was facing an uncompetitive market situation, all the companies believed that their markets were competitive and acted as though they were. Pricing decisions in these competitive companies were therefore mainly based on what the marketing department perceived the traffic in the market would stand because of their dominant role in those decisions. It is also possible to note that the function of the accounting departments was limited to the extent of providing the relevant costing information and not to use that information to press for a price increase except in the case of Newbridge. Moreover, it seems that due to their position as market leaders, both Rank and United were able to initiate price increases and therefore could plan for it in their budgets. This seems not to have been the case with the price followers especially in Blue Nile where ad hoc meetings were held for the purpose of responding to price increases by the market leader rather than planning for them. As with respect to Tecno, every four weeks pricing decisions were reviewed in order to initiate or respond to price increases.

8.3. The Not Highly Competitive Group.

Beta Ltd.

Beta claims that because of the static nature of its market there were barely any significant changes during the era before the introduction of the Price Commission in the degree of competition that was discussed in the previous chapter. It will therefore be considered that it was a competitive market.

As in the less competitive group, the main factor that led to the pressure for a price increase in the company was increases in costs which were identified by the finance department using its costing information. It seems that budgeted increases were discussed at regular board meetings where all relevant factors were considered.

> "There was a price list with 80 items on it and there was no single price increases because all prices were relative to the market place and relative to each other on the list. It was a matter of increase of group of products".

Apparently, the marketing and accounting departments had different pricing views during that time. Each of them attempted to maintain the profitability of the business; the marketing concentrated on the marketing side of the product mainly the consumer behaviour and the respond of the market, and the accounting department on the other side emphasized the financial side mainly the increase of prices so as to increase investment and to maintain the margin of profit. However, according to the finance director,

> "the marketing department was always reluctant to increase prices because they believed that if we wanted to sell our products we shouldn't increase our prices very often. It was their philosophy that if we didn't increase our prices very frequently then we would be able to maintain and increase our market share. They were always looking for ways to avoid putting the prices up".

Hence, the marketing manager commented that "the marketing department was very strong, and pricing philosophy was developed in that department". It seems that the influence of the marketing department was due to the fact that

> "since the marketing function was starting to develop during that time, it had a significant impact on the firm's operations. They had the responsibility of producing the profit which granted them the influence they had, 'we sell the product'"[1].

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1. Pettigrew (1973) has demonstrated in his case study that certain professions like computer programmers and system analysts seem to gain power because of the recognized demand for their jobs which were emerging at specific periods of time.

Furthermore,

> "whenever they were confronted with a high inevitable increase in costs, they would always attempt to fiddle with the product in order to minimize the increase".

During that period, price increases were considered by the marketing department when "the accounting information identified increases in costs that led to the margin being erroded". However, prices were not increased whenever increases in costs were identified because it seems that "it was our marketing department that decided when price should be increased after taking the market response into consideration".

Thus, it could be argued that, like the other companies operating in competitive markets, Beta's pricing decisions were based on what the conditions in the market would bear because of the dominance of the marketing department over pricing decisions.

Ascot Product S and R.

Ascot's products S and R will also be considered together under this category since product S is more important to the company, in terms of revenue, than product R. About 81 per cent of the company's revenue is attributed to product S while that of product R is less than 10 per cent.

It is suggested that during that period the market share of product S was very much the same and Ascot was also the market leader and therefore its market is still considered uncompetitive. As for product R, its share of the market was a bit less than the present period and the company's position in the market didn't differ as a price follower.

The pressure for a price increase arose primarily from increases in costs and it was the finance department that identified these increases which needed to be recovered. Since the price increases in this industry tended to be seasonal at that time they

> "were pre-planned when
> doing the budget and
> would normally be put
> for implementation before
> the two main peak seasons
> i.e. summer and Christmas.
> Any other increase was only
> when the board decided that
> we needed one".

However, while the company took the initiative in increasing the price of product S, the implementation of product R's increases" were held pending the assessment of our competitors' move by the marketing department".

According to the marketing director, "there was a tendency from the marketing department to resist price increases as long as possible", and in addition,

> "given the difficulty of
> actually measuring price
> elasticity in practice,
> you got a feeling that
> tells you the longer
> you can put off price

> increases, may be the
> more you can maintain,
> grow your market share
> and keep your volume
> sales going up".

This seems to have been the orientation of the marketing department towards both products. Moreover, the chief accountant pointed out that

> "although the initiative
> would come from the
> finance department, it
> was the marketing
> department that evaluated
> our position in the
> market and the current
> trend of our products.
> It was an assessment
> of what would be
> possible and how
> competition would move".

Indeed,

> "in relation to (product R),
> it would be very much an
> assessment of whether our
> competitors would move;
> that was absolutely
> critical since we were not
> the market leader".

There didn't seem to be differences between the two departments concerning pricing decisions during that time. This tended to be due to that

> "the role of the finance
> department was seen to
> measure increases in costs
> of producing the products
> and to advise us (the
> marketing department) of
> cost increases so that
> we are in a position to
> know what kind of price
> increases were required
> to recover those costs".

However, "whether such price increases could be instituted without harming our market position, was really the marketing department decision". Furthermore, the chief accountant made the remarks that "certainly the marketing department was influential in setting the details and final prices and by how much". Their influence seems to have been due to

> "their knowledge of product performance within the market and also what our competitors were doing and what other influences came to bear on the market at that time".

As with regard to product S, it appears that price increases were considered when the accounting information identified an increase in prices, but not necessarily increased as this depended on the marketing department and its evaluation of the market. On the other hand, increases in product R's prices were very much related to the marketing department expectation of the market leader initiative to increase prices. This meant that prices were not increased whenever the accounting department identified increases in costs. It is worth mentioning that Ascot pointed out that prices were not increased during that period with the same frequency as was the case during the Price Commission.

It could therefore be realized that the marketing department in this company was very powerful in setting the pricing decisions during the era prior to the introduction of the Price Commission. In addition, the role of the accounting department was limited to advising the marketing department of increases in costs and the amounts needed to maintain the margin of profit. However, it was then up to the marketing department to decide by how much and when the market place was ready to absorb the increase. Thus, it appears that, like Beta and the other companies in the previous group operating in a competitive market, Ascot's pricing practice was based on what the dominant departments perceived the market would bear. Furthermore, similar to the other market leaders, both Beta and Ascot product S were able to plan for their price increases, apparently due to their abilities as market leader to initiate price increases for the rest of the market.

8.4. The Highly Competitive Group.

South Pacific Ltd.

During that period, South Pacific believes that there were no significant changes in the degree of competition that affected their pricing policy. Indeed, South Pacific seems to have taken the view that "the market was not that sensitive to price changes". The share of the market of category B products was higher than the present 60 per cent, yet approximately the same number of competitors were also existing at that time.

According to the previous finance director,

> "price changes have always
> come through the general
> planning system of the
> company. Once a year, we

> sit down and do our plan for the coming year and in doing that one forecasts cost increases and sets the sort of prices so that we get to our profit objective, bearing in mind that at certain times of the year where we increase prices more than others".

Similar to other companies, increases in costs where the major factor in increasing prices which were produced by the finance department whose "role was to keep the records and produce the forecasts".

It seems that because of the nature of its products, the organizational structure of South Pacific is different from the other companies in our sample. The marketing and finance departments are considered as service departments where each product category has a business manager who is in charge of their profitability. The business managers of category A and B together with the director of the general management department decide the pricing policies which would then be presented to the board of directors for approval. It seems that

> "the accounting department didn't have a big role to play with regard to pricing. They had no input in the actual pricing decisions because that was the responsibility of the business manager who was in charge of the profits".

Therefore, what tended to happen was that

> "the business manager would look at the costs and all the forecasts provided by the accounting department

> and then would draw upon the information from the marketing department as to the possible reaction of the market to the suggested price increases. He would then come up with suggestions for prices which would then be reviewed in the (general management) and then through the management structure".

Apparently, price increases would be considered if the accounting department identified increases in costs or if the general management department found out that the company was falling short of its planned profit targets because cost increases were higher than anticipated. "Mostly, the market was ready to absorb the increase". It appears that

> "It was the practice of this company not to increase prices very often during that time and so a certain amount of cost increases would be absorbed and prices wouldn't be increased as soon as our costs have gone up".

However,

> "as we work from historic and forecast information so we reach a point where we say, well, actual cost increases incurred and cost increases which we forecasted is going to be incurred, as such we think that we ought to put up our prices at this point".

Although it appears from the above that the finance department didn't play a significant role in pricing decisions, the company tended to depend heavily on accounting information in order to plan and set its prices. It is highly likely that being a price leader and operating in an uncompetitive market, South Pacific could afford to plan for its price increases as forecasted by the accounting information. Thus, it could be argued that although pricing decisions were the responsibility of the general management department, it tended to rely greatly on the information provided by the finance department. This situation seems to be similar to the case of Newbridge Ltd. where because of the perceived uncompetitiveness of the market, both companies tended to base their pricing decisions on accounting information, although in Newbridge the finance department was the dominant one. South Pacific also appears to have had the same attitude of the other market leaders in that it could afford to plan for its price increases and take the initiative to implement them.

S.D.R. Ltd.

During that era, S.D.R. believes that competition was "more severe than it is now". Apparently, if a 5 per cent increase was attempted, "we would have lost a very high share of our market because at that time (product) market was more controlled by imported (product)". Its market share was a bit less than now but it was still the market leader for the U.K. manufacturers. Thus, it will be considered that before the introduction of the Price Commission, S.D.R. was trading in a competitive market.

It is believed that increases in costs, mainly raw material, was the main factor that triggered the pressure for a price increase. These costs "were identified by the management accountant by using individual product costing information". As with respect to how the suggestions for price changes were considered, it seems that

> "movements in prime costs presented by the management accountant were presented to the marketing department to evaluate what the competition in the market place would stand and the impact on our volume share".

According to the managing director and the previous marketing director, the accounting and marketing departments

> "had no major difference of views because with a normal margin we had an opportunity to say although the prices of raw material have moved up by 2 or 3 per cent on a particular product, it needn't necessarily take 2 or 3 per cent increase on that product. You may spread it around a bit according to what competition was doing or to what imported prices were".

However,

> "when both departments didn't mutually agree, it was the managing director who would decide, but I think the marketing department was more influential because with our very low profit margins we had to carefully base our prices on marketing policies".

It is believed that price increases were considered whenever accounting data identified an increase in cost

> "only if it was a real genuine long term increase in the trend of what the rate of raw material prices were going. We are in a business which is highly seasonal and the raw material is also fluctuating over the year, so you have to recognize what is a normal seasonal short term increase and what is a genuine underlining increase in costs".

Furthermore, it appears that prices were not increased when the accounting department identified increases in costs because "a lot of consideration were given to the market place at that time.

It therefore seems from the above that the competitive market conditions in which S.D.R. was operating during that period, particularly the imported products which had a high share of the market, had led to the influential role of the marketing department in setting pricing decisions. The considerable attention given to the market place is also reflected by the hesitant attitude of the marketing department to increase prices unless the increases in costs were of long term nature. Moreover, unlike the other market leaders in our sample, it appears that S.D.R. was unable to plan for its prices. This is implied by the practice of the company which is to consider price increases only when the accounting information identified increases in costs which were likely to prevail in the market over the long run. A further reason may be the unpredictable import prices.

8.5. Concluding Remarks.

Figure 8.1. summarises the main findings of this section. It indicates that out of the eleven major products manufactured by the nine companies in our sample, the degree of competition perceived by the decision makers of eight major products was competitive and the other three uncompetitive. It can also be realized that in all the companies whose major products were confronting competitive market conditions, including the uncompetitive market of Ascot product S, the marketing departments were dominant and accordingly pricing decisions were fixed with reference to what they perceived the market place would bear. On the other hand, it seems that the role of the accounting department in these companies was similar to a service department that provides the necessary information that is relevant to pricing decisions but not to press for it. However, in the remaining two uncompetitive markets of Newbridge and South Pacific, although both appear to have fixed their pricing decisions with reference to accounting information; the accounting department was only dominant in the former company.

Figure 8.1. Companies' Pricing Practices During the Era Prior to the Introduction of the Price Commission According to the Decision Makers' Perception.

COMPANY	Rank	Blue Nile	Newbridge	Tecno X & Z	United	Beta	Ascot S & R	South Pacific	S.D.R.
Degree of Competition	Competitive	Competitive	Uncom-petitive	Competitive	Competitive	Competitive	S.Uncompe-titive. R.Competit-ive	Uncom-petitive	Competitive
Dominant Department	Marketing	Marketing	Accounting	Marketing	Marketing	Marketing	Marketing	General Management	Marketing
Pricing Practice	Market Conditions	Market Conditions	Accounting Information	Market Conditions	Market Conditions	Market Conditions	Market Conditions	Accounting Information	Market Conditions

Figure 8.2. Companies' Degree of Competition as Classified by Concentration Ratios and Pricing Practices During the Era Prior to the Introduction of the Price Commission.

Company	Rank	Blue Nile	Newbridge	Tecno X & Z	United	Beta	Ascot S & R	South Pacific	S.D.R.
Degree of Competition	Less Competitive	Less Competitive	Less Competitive	X: Less Competitive Z: Not Highly Competitive	Less Competitive	Not Highly Competitive	S: Not Highly Competitive R: Highly Competitive	Highly Competitive	Highly Competitive
Dominant Department	Marketing	Marketing	Accounting	Marketing	Marketing	Marketing	Marketing	General Management	Marketing
Pricing Practice	Market Conditions	Market Conditions	Accounting Information	Market Conditions	Market Conditions	Marekt Conditions	Market Conditions	Accounting Information	Market Conditions

On the other hand, using the concentration ratios' classification, Fig. 8.2. demonstrates the degree of competition each firm was confronting and the department which had prime influence over pricing decisions. It suggests that with the exception of Newbridge and South Pacific, which fall under the categories of less competitive and highly competitive respectively, the marketing departments dominated pricing decisions. This seems to have taken place under the various degrees of competition faced by the companies and, in addition, prices were fixed by reference to what the market would stand. It is very interesting to note, therefore, that if the study had been conducted on the basis of the concentration ratio measure of competition alone, the results would have yielded rather confusing indications about the impact of market competition. However, the perceptions of market competition have a much clearer correlation with pricing practices and seem to enable the researcher to make much more sense of his data.

It seems plausible to state that the findings summarized by both figures bear out the dominance of the market state of competition in governing prices during this phase. The findings generally tend to support the parts of the general hypotheses 1 and 2 pertaining to this phase and which claim that the marketing department dominated pricing decisions and as such prices were fixed according to what was perceived the market would bear.

There is also weak evidence that tends to give support to Hyp 3 which advocates the dominance of the accountants when market state is less competitive. In the case of Newbridge, the accounting department clearly dominated pricing decisions. At first sight the pricing practices of South Pacific and Ascot product S, which are both facing uncompetitive markets and yet their accounting departments did not have prime influence over pricing decisions, tend to throw doubt on this support. However, in South Pacific costing information was the key factor involved in pricing even if accountants did not have dominating influence. This suggests that wider studies comparing degrees of market competition with accounting/ marginalist pricing practices might explain much.

Furthermore, during that phase, all the companies, with the exception of S.D.R., who have a large share of the market, exhibited a tendency to plan for their price increase presumably because of their abilities to initiate those increases for the rest of their markets; the price followers, particularly Blue Nile and Ascot product R, suggest that companies in their market position are likely to increase their prices on ad hoc bases according to the initiative of the market leaders.

In the next chapter, it will be attempted to examine the impact of the introduction of the Price Commission on what has been established regarding this phase.

Chapter Nine

Analysis of Interview Data:
Part III: The 1973 - 77 Price Code.

9.1. Introduction.

This chapter looks at companies' attitude towards pricing practices after the implementation of the mathematical formula as the only criterion by which companies could increase their prices. It will be remembered that Hyp 1 and Hyp 2 argue that during the era of the first code, the accounting department was powerful and that prices were fixed predominantly by reference to accounting data no matter what state of competition was prevailing. Alternatively, as Alt.Hyp.1 suggests, it may be the state of market competition which mainly determines when prices can be increased even under price controlled environment. If so it is still possible that we find support for Hyp.3 which argues that when the market is less competitive, the accountants do become more dominant through the company's greater reliance on accounting data to signal price increases. This means that Hyp.3 will only hold if Alt. Hyp.1 is established.

In this chapter, we shall also examine the hypothesis dealing with the extent to which companies' information processing systems were adapted to cater for the extra work required by the Price Commission so that the information produced for internal decision making was not squeezed and thereby no dysfunctional decisions took place.

Therefore, it is expected that by comparing and describing the pricing decision making process of the companies in our sample, the above hypotheses would lead us to find either:-

1. that during this period, the marketing department lost its power over pricing decisions because the information required by the Price Commission gave the accounting department a power base and accordingly prices were fixed predominantly by reference to accounting data regardless of the degree of competition which the firms in our sample were facing.

   or:-

2. that the introduction of prices control had no effect on when prices could be increased since it depended on the degree of competition each of the companies in our sample was encountering. Moreover, if the market of any of the companies was uncompetitive, we should expect the accountants to be dominant because of the firm's dependence on the accounting data to identify the needed price increase.

The hypothesis tackling companies' information processing systems would lead us to find:-

whether the companies in our sample were forced to drop important information produced for internal decision making because of the inadaptability and scarce capacity of their information processing systems to meet the extra information required by the Commission and as a result dysfunctional decisions took place.

9.2. The Less Competitive Group:

Rank and Blue Nile.

It is believed that during the1973 - 77 Price Code, the position of the companies in this industry

> "continued much as it had been right up to 1977 because the one factor which caused the change in the market and the market shares of individual companies was the change in the system of (product) taxation".

Blue Nile further points our that

> "in terms of market consideration about structure and market shares, it was still much as it had been in the previous five years. The difference was in the way on which people would go for a price increase and the frequency with which they thought to take them".

In Rank the work of the Price Commission was looked ~~after~~ by the Commercial and marketing department which is separate from the finance department; however, that department "gradually realized that we needed the back up to the finance department because of the increasing complex information which the Price Commission was demanding". As with regard to Blue Nile, the financial planning director makes it clear that it was his "responsiblility to supervise and co-ordinate all the work we had to do for various purposes in connection with the Price Commission".

Both companies agree that increases in costs were mainly behind the increases in their prices and Rank suggests that the identification of and suggestions for price increases were the same as before. Although in Blue Nile, the accounting department continued to identify the changes in costs, it seems that the practice of doing that had changed. According to the financial director

> "we developed our planning and financial forecasting abilities and then we were producing profit projections which might have been for two or three periods ahead. We also took account of price increases that should be available under the Price Commission".

He further points out that

> "we also established a regular procedure whereby we could continuously monitor movements in unit costs and calculate the potential price increase that tends to be available from those cost movements. If the unit cost showed that there was an increase that would justify the price increase then we would find out the total value that we could seek as a yield from the price

> increase and the marketing department would then decide how to spread that amount over our range of products".

Hence, it can be realized that the impact of inflation and the regular increases that could be secured under the rules of the Price Commission seem to have caused Blue Nile to forecast and plan for its price increases.

Although the marketing department in Rank "always looked very carefully at whether the increases in prices would be accepted by the market", it seems that

> "the accounting department was influential enough to convince the board and had most increases passed over to the consumer as soon as they were ratified by the Price Commission".

The marketing director further adds that

> "the main concern of the accounting department seems to have been to take the price increases that were available for them under the legislation rather than to forgo a price increase for the benefit of gaining some advantage in the market".

Apparently, the understanding that dominated the attitude of Rank towards price increases during that period was that

> "all the other companies were suffering similar types of cost increases; the level of costs may have been different and

> the unit of costs may have been different but they were all subject to the same pressure".

It was also believed that "all the other companies sought price increases on a fairly regular bases".

During that era, the dominance of the accounting department in Rank over pricing decisions could be realized from the remarks of the marketing director who admitted that

> "the Price Commission increased the importance of the accounting department in the sense that its information was required to justify a decision which affected the survival of the company".

In addition, it seems strange that although the requirements of the Price Commission were mainly costing information, in Rank as mentioned above, the commercial and marketing department was the contact of the company with the Commission. However, it is hardly surprising that when discussing price increases with the Commission, the director of that department "found it necessary to have a senior accountant with me". Such a situation seems to have made the senior accountant "feel very important since it depended on him to explain the mechanics of the suggested increase to the Price Commission". Furthermore, he was invited to the board of directors, in which the finance director is a member, to give his opinion on matters regarding the Price Commission; and it was also reported that the grading system that was used for performance evaluation took into consideration the success of the accountants in having sixteen application approved by the Commission. Thus, such repercussions of the introduction of the Price Commission seem to have helped in mobilizing the power which is believed to have been gained by the accounting department during that era over pricing decisions.

Apparently, Blue Nile was experiencing similar organizational changes during that phase. It seems that

> "the marketing department was attempting to make marketing considerations play a good part in pricing decisions, but this was only intermittently because they were concentrating more on advertising, promoting certain bands and selling the products".

On the other hand,

> "the accounting department was eager to have as much increases as possible that could be allowed by the mathematical formula because of the impact of inflation on our profits. Certainly the effect of the Commission increased the involvement of the accounting function in that area and the process of price increases became much more frequent anyway".

The financial planning director further claims that

> "the finance director would seek to satisfy himself that we were taking as much by way of price increases as

> the cost increases would warrant unless there was a very good marketing reason not to do so. If we worked out that we could take a price increase that would yield half a million pound then he would be anxious to see that the price increases proposed by the marketing department really did yield that amount. If it was less than half a million then why didn't they consider it inappropriate to increase the prices of other brands by sufficient amount to produce the total sum that was available".

It is also believed in Blue Nile that "since the existence of cost increases was the trigger which prompted a price increase action", the accounting information did become important. In addition,

> "as far as the Commission encouraged one to compare costs on regular bases, and it provided a mechanical system for assessing whether or not price increases were available, one like all other companies, took advantage of that in terms of when the accounting figures required a price increase notification, we thought to make a price increase".

Hence, the changes in both companies in the role of their accounting departments when compared with the previous phase. The role here is one of identifying the required price increases as well as committing the company to these increases; and the marketing departments were left with the burden of spreading the required sum of money on the range of products. Previously, it appears that it was up to the discretion of the marekting departments to initiate price increases or not.

According to Rank, prices were considered and hardly not increased whenever the accounting data did suggest that there were increases in costs which could be justified under the mathematical formula. It was believed that this was necessary in order that the company's "profits could keep pace with the inflation". Blue Nile also seems to have followed the same pattern of price increases as Rank. Indeed, "prices were invariably increased when the rules allowed it except during the time when there was a likely increase in duty".

One can therefore realize that the attitude to price increases in these two companies was different from what it had been prior to the introduction of the Price Commission. According to Blue Nile, such a change could be because

> "the way in which the legislation was drawn out, probably created a state of mind that whenever the accounting department managed to produce a total sum of money that was permitted by the Commission, everyone jolly well took it".

As a result,

> "managers became mentally tuned to accept the suggested increases; whereas in the absence of price control they would have taken a lot more account of the market conditions because of the marketing people resistence".

Thus, it could be argued that although both companies agree that there had been no significant changes that occured in the degree of competition that was prevailing in the previous phase, the frequency of price increases did change and prices were increased by reference to accounting information. This appears to be due to the power gained by the accounting departments in both companies as a result of the introduction of the mathematical formula of the Price Commission.

Newbridge Ltd.

Since the common pricing agreement that governs the pricing decisions in this industry was also binding during the 1973 - 77 phase, the market conditions of Newbridge can still be considered uncompetitive as was argued in the previous chapter.

The managing director points out that increases in costs were the main factors that caused the company to consider increasing its prices. It seems that

> "it was a completely accounting exercise, the accountants met

> and came up with the figures that could be justified under the formula and a price application would be sent to the Commission on regular bases".

Apparently,

> "it was upon identification of costs that we (all the companies bound by the agreement) went for a price increase since one had to work like the speed of a convoy".

Although Newbridge could sometimes justify cost increases of, for example, six per cent and another company in the industry could only manage four per cent, then all th companies had to take the four per cent i.e. the lower figure. This is because since all the companies implement the same price, a higher percentage would make the companies suggesting low percentage fall beyond their profit margin limits and thereby be subject to the Price Commission enquiries.

Given the market conditions that have been prevailing in this industry, it is expected that "the market was always ready to accommodate these increases and there was no fall in demand". This is supported by the comparisons of changes that were carried out between the type of work volume and product consumption volume and it appears that

> "there was no indication whatsoever that the (type of work) volume had gone down because of increases

> in the prices of (product); so there has been no indication that (product) has priced itself out of the market".

The managing director also believed that "there was no differences between the marketing and accounting departments" regarding price increases. He further states that "I am sure the introduction of the Commission affected the importance of accounting information and it did strengthen the accounting department enormously". This seems to have been

> "because it was so much an emphasis on what the accountants could manage to get through as well as what they could put in successfully to a price increase notification".

It is also believed that price increases were considered and increased in this industry whenever the rules of the Price Commission allowed it; and prices were always increased by reference to accounting data using cost plus. "We were eager to reverse the trend of our low return on capital employed".

It is possible to recognize from the above that the uncompetitiveness of this market together with the introduction of the first code seem to have greatly enhanced the power of the accounting department in Newbridge, and very likely in the other companies of this industry, over pricing decisions. In additions, it appears that the use of cost plus method in pricing the products of this industry and the regular increase of prices is a further evidence of the dominance of the accounting department in this company.

Tecno Ltd.

The only significant changes that appears to have taken place during this phase with respect to the degree of competition in Tecno's market was in product X. The company began to put together a strategy whereby it could increase its market share after its competitor had successfully launched a new product. Tecno claims that it contrived "to reverse the situation and we are now ahead of (competitor)".

After the first code was introduced, the work of the Price Commission was allocated to the finance department and apparently it found it necessary "to take on some more people including a senior and a junior managers". It seems that the changes that took place in Tecno after the introduction of the code were appreciable to the finance director who believes that

> "the power of the finance department, which I don't think was good, increased and I also think that the pressure to take price increases on the bases of cost greatly increased; whereas in the past, increases in costs didn't necessarily lead to price increases".

It is also highly likely that the determination of prices on costing information was so large to the extent that

> "what the finance department was not prepared to do in that time was to let the chance of a price increase go, as one didn't know if he was going to get it back".

Thus, what tended to happen was that

> "the financial department made damn sure that we put our prices up when we could i.e. if the Price Commission formula said we have a right to put our prices up, we normally wanted to exercise that right".

Tecno seems to have adopted what it calls a global approach towards pricing decisions during that era. This meant that if the company didn't have to increase the price of a product whose cost had increased then it would compensate that unrecovered cost by rising the price of a quite different product which had best bare a price increase in the short run. By so doing the company believes that it "had a wide scope to make sure we recovered all our costs, which we were allowed by the code without necessarily losing market share".

Regarding the differences in views between the marketing and accounting departments, the financial director is of the opinion that

> "the marketing department had been more cautious

> than the accounting department. However, we were listened to in the board because the margins were tied through this period and what was clear to the management was that to let the margins go down by not recovering costs in a situation where the controls were changing, was a very risky thing to let it happen because you may not recover it. So, we made damn sure that we made the permissable margin by whatever tiny fraction. As such, there were enormous pressures in a not profitable time not to lose opportunitiies since they may never come back and we might put our company on a new even lower profit base from which you will be controlled in the future. So think of the force of that argument against someone saying I don't really know whether we can stand it in the market place or not. Jolly well go and try".

Indeed, the power of that argument of permanent loss of margins plus the Price Commission seems to have "changed the ethos of the place".

It is admitted in Tecno that the role of the accounting department was affected by the introduction of the Price Commission. It seems that "it made it increase its strength because they are the people who interpreted the control and were held responsible for maximising the profitability under that control". The financial director also adds that "the accounting function was setting the limit very clearly and it wasn't saying which brand should have those price increases". However,

> "we were merely insisting, and being heard, that the total cost recovery was made, we were still left with the decision as to where it (price increases) was to be made which was a marketing affair. So one was no longer saying to the brand manager, who is usually responsible for profits, what price do you think optimizes your brand while beginning to try and optimize the company's as a whole. It was a change in the nature of the decision".

The apparent power of the accounting department during that time seems to have led to prices being considered and increased almost everytime the accounting information identified increases in costs. As with respect to the response of the market place to these increases, it is claimed that

> "our competitors too were likely to do the same thing. They had the same fears that unrecovered costs in one period may well be lost for ever with a permanent loss of margin".

In addition it was suggested that the company also "had (its) own means to cushion the effect on the market place; you allow old price dealing and you change the amount of promotion money off the list price".

Like the other two competitive companies in this category, Tecno appears to have experienced a shift in the department's dominance over pricing decisions. In the previous phase, the marketing department because of its expertise to deal with the competition in the market, seems to have been very influential in setting pricing decisions. However, the introduction of the first code appears to have given the accounting department a source of power which it had used to dilate its limited role in pricing decisions to include not only the identification process, which it already had, but also the ability to commit the company to increase prices once costs had increased and to some extent where those increases should be.

<u>United Ltd</u>.

During that era United suggests that

> "the situation was beginning to get more competitive in the take-home market because of the continuous growth of (the electrical appliances) though perhaps not as much as it is now".

The market as a whole was growing apparently due to the tax that was removed in 1973 from the product and which made it "comparatively cheaper and consequently there was a really measurable change in the volume sold of (product) round the country". However, the removed tax was reimposed in the form of value added tax and that had the opposite effect particularly when it was met with a bad season. This meant that "in 1974, competition got even more intense". The remaining period of that phase seems to have varied from year to year depending on the weather which is considered one of the major factors that affect the volume of sales in that industry.

The introduction of the first code tended to make United

> "monitor our costs very regularly so that we could constantly put in an application for a price increase because we didn't want any time to lag before we got it in".

The financial director further states that "it was much more the situation that having identified cost increases, we were very keen to push that cost through to the public as soon as it was identified". Hence,

> "the code gave us the impetus to increase prices more often than one did previously because one worked on an annual plan and tended to increase prices less frequent".

Both the marketing and accounting directors in United suggest that they had different views during that period. According to the marketing director,

> "the marketing department, like any other marketing department in fast consumer

> goods companies, didn't like to see upward changes in the price of the products because they (changes in prices) inhibit potentially the consumer demand".

However, the finance director advocates the view that

> "the marketing department might have made the argument that by increasing prices it is going to affect the volume. Yes, they were always in a bit of fear to put prices up but they couldn't put down so much pressure to stop us from actually putting prices up".

Indeed, the marketing director admits that

> "the accounting function held absolute supremacy and it was through the chief executive and managing director that they managed to put pressure on our department simply to recognize the need for a change. Yes, we had to accept the change in the rules of the game as a fact of life".

The marketing department argues that the role of the finance department

> "had changed dramatically and it became much more authoritarian in the sense that yes you could do and no you can't. Also there had to be a lot more policing of the requirements of the marketing department to make sure it conformed in every detail to the way that the regulations had converted them to think".

On the other hand, the finance director believes that the role of their department was affected

> "because all the other departments were relying upon us for actually taking some action rather than they themselves being expected to know whether their product fitted into the price structure in the market place. I believe, we changed from being a service area connected with pricing to being actually the indicator of costs have changed so prices better change".

The change in the role of the finance department seems to have had a positive repercussions on the company as pointed out by the following remarks of the marketing director.

> "In retrospect, I think it had quite a good effect in that it tended to be related very much to costing information. The Commission really brought the accounting function much closer to the relationship between revenue and volume and growth product performance. That is a good thing".

The two directors agree that price increases were considered as well as implemented when the finance department prsented to the board that the company could increase its prices under the mathematical formula. However, as to the possible response of the market, the finance director expressed the view that "all what the people in the market seemed to bother about was how one could get permission from the Commission to put his prices up". This view appears not to have been totally accepted by the marketing director who believes that the impact of the regular increases on the market was that "in some of those years, the market did badly in terms of volume".

It seems clear from the above that as a result of the introduction of the first code, the accounting department managed to gain a source of power which it has used to swing the emphasis from basing pricing decisions mainly on marketing conditions, as was the practice in the previous phase, to more involvement of costing information as a criterion to increase prices. Thus, its previous role as a service department with respect to pricing decisions was broadened to determine the required increases as well as to influence its views on the marketing department in terms of what it can and can not do.

In comparing the pricing practices of the companies in this group, it can be realized that the accounting departments became dominant over pricing decisions due to the introduction of the mathematical formula of the Price Commission and as a result there was a greater tendency to base pricing decisions on accouting information. Furthermore, as this category includes competitive and uncompetitive markets and price leaders and followers, it can be argued that pricing decisions were determined by the dominance of the accounting departments irrespective to the degree of competition or a company's position in the market.

9.3. The Not Highly Competitive Group:

Beta Ltd.

During that period, Beta believes that there were no changes in the degree of competition as was stated in the previous chapter and it did continue to be the market leader of that industry.

The finance department in Beta was given the responsiblity of looking after the requirements of the Price Commission because "the required information was very much cost orientated and therefore it was thought that it was best to let the finance people handle it". The additional work incumbent on the finance department required that one of the senior employees to be shifted from another function to look after the information of the Price Commission. His duty included knowing what the whole code was about and how it could be applied.

According to the marketing manager,

> "it was mainly increases in costs that pushed the finance department to almost totally trigger price increases because it became a cost orientated price change and they had access to that information i.e. things changed from a market orientated

> price to a cost
> orientated one"

Suggestions for price increases were put before the board and the finance department "presented the maximum price we could get based on the cost increases that were incurred".

The finance director pointed out that

> we differed with the
> marketing department.
> They argued for and
> emphasized the concept
> of volume but we would
> simply not care because
> for us the most important
> factor that was given
> consideration was that
> our profit margins
> were not erroded".

He further states that

> "everyone in the company
> understood that price
> increases were necessary
> to protect our margins
> and therefore we were
> listened to. Every
> department also depended
> on our success to achieve
> the required price
> increase".

Indeed, this dominance of the finance department over pricing decisions is confirmed by the marketing manager who commented that

> "the accountants took
> over because of their
> information that was
> required by the
> Commission and they were
> able to demonstrate how
> the company could survive.
> We therefore had very
> frequent price increases
> subject to the Commission's

> terms and the accountants
> took the running".

Therefore, like the other companies in our sample, "the balance of influence had shifted to the finance department and we became very strong while the marketing people lost most of their grounds".

Both departments in this company agree that "prices were increased almost every time we could justify it to the Commission". According to the finance director,

> "Our theory was to
> increase prices and
> then test the market
> later, rather than
> take precautions.
> We also believed that
> if you ever let the
> profit margins slip
> away, it would be very
> difficult to bring
> them back to their
> original level".

On the other hand, the marketing manager states that "most manufacturers were in the same boat. They were all experiencing increases in basic costs and the consumer was expecting prices to increase".

The marketing manager further adds that

> "the formula of the
> Commission did not force
> companies to be efficient
> with respect to their
> cost structures. Any
> increases in costs which
> firms were able to
> justify were automatically
> passed on to the consumer
> and there was no need to
> go through the classical
> response of whether the
> market would stand

> the increase or not.
> All what mattered was
> here is a code we would
> follow it".

Beta's experience seems to be similar to the other companies in the less competitive group in terms of the power which the finance department had gained as a result of the introduction of the first code and which enabled it to influence pricing decisions by using accounting information.

Ascot Ltd.

Ascot product S was still the market leader and according to the company the response of the market was the same as now. Therefore the market of product S can still be uncompetitive during the first code phase. It is also believed that there were no changes with respect to the competitive market of product R and Ascot remained as a price follower.

The legislation was seen in Ascot "as very much the responsibility of the accounting department to understand it and advise the firm of the possible increases that were available". Increases in costs were the major impetus for a price increase and they were produced from each month's management accounts to the board where the pricing decisions were finally approved. The accounting department demonstrated to the board the amount that was needed to be recovered and the kind of increases that could be achieved within the rules.

The marketing director points out that

> "it was almost inevitable to have differences in opinion between the two departments. It was a difference of orientation, the marketing department recognizing the unnecessary evil of price increases and the accounting department measuring the required revenue increases in very mechanistic terms without necessarily appreciating the impact on the business long and short terms".

However, the chief accountant believes that

> "to the marketing department it was a game of competitive pressures of having difficulty in allocating price increases to the product in the market, particularly (product R); whereas the finance department wanted a price increase each time the rules allowed it to maintain our margins".

Given these differences, the marketing director admits that

> "the accounting department became very important and influential. They exerted a lot of pressure on us to increase prices every time they thought it was possible and they managed to bring to the management attention the degree of cost increases which may not have been given top priority".

The accounting department also seems to have realized that it

> "was influential in that with the work we were doing in preparation for any increases and we were

> highlighting the fact that we were in a position to cover our costs rather than the marketing department coming back and saying (the market leader) hasn't gone up, no we can't".

Furthermore,

> "we used to say to the marketing department you got to find ways of spreading a price increase of say a million pounds across the range of our products. Go away and work it out and we want the answer back by Friday because we got to give 28 days notice".

As with respect to the ability to increase prices whenever the rules of the Commission allowed it regarding both products, the chief accountant states that

> "we used to put in an application to increase our prices almost every three months. We always assumed that (the market leader of product R) was on the same boat. In a way we were pushing them (market leader of product R) to get their prices up and we even tried to influence their finance department to push their marketing department for a price increase".

The marketing department on the other hand believed that the competitors of product R

> "were following similar policies of price increases anyway i.e. whenever the rules allowed it they would increase their prices. After all they were experiencing similar cost increases in the same product area by definition".

It was also stated that "we had no problem with (product S)".

Ascot's attitude towards pricing does not seem to be different from the companies we have examined so far. The influence of the accounting department seems to be very apparent even though one may realize that the company might have been hesitant to increase the prices of product R because of its low share of the market. However, it can be recognized that the dominance of the accounting department over pricing decisions seems to have been helped by the impact that the Price Commission had on the perception of companies and which led them to assume that their competitors were also suffering similar cost increases and therefore would be applying for price increases. Thus, we can reiterate what has been stated at the concluding remarks of the less competitive group that during the era of the first code companies tended to increase their prices according to accounting information because of the power of the accounting departments irrespective to their position in the market or the degree of competition.

9.4. The Highly Competitive Group:

South Pacific

There seems to have been no major changes in the degree of competition in the market of South Pacific and the company still considered itself a market leader. Therefore, according to the perceptual data criterion, this market remains an uncompetitive one.

The previous finance director believes that

> "the accounting information became very much crucial to price increases at that time because of the costing information which was needed to put in an application form".

He adds that "it was therefore appropriate to allocate the Commission's work to the finance department because it had the necessary information". Although the need for "price increases arose mainly because of increases in costs and its effect on profit", the company was also "trying to increase (its) profitability.

On looking at the possible effect which the introduction of the Commission had brought about with respect to the role of the finance department, it was pointed out that

> "the legislation helped the accountants in terms of acceptance by their colleagues, and although it was not observable at that time, it created a sort of dependence on them by the (general management) department".

Consequently, it was realized that

> "the accountants spent more time with top management than now, discussing the way to approach the Price Commission and the way in which pricing policy would go. This didn't happen before and that in itself increased their status and influence in the company".

Therefore, what tended to happen was that the finance department

> "would show whether we needed a price increase or not and then inform the (general management) department of its intentions. It was then left to the (general management) department to decide how to spend that increase in terms of individual products".

Apparently, the general management department was influenced by the figures presented by the finance department because "it tended to brush aside the marketing people saying we can't have price increases. We did have price increases".

As to whether prices were increased whenever the rules of the Commission were satisfied, the previous finance director pointed out that

> "we identified the cost increases that were affecting our profit margins and all we had to decide then was the timing of when we went to the Price Commission with the price increases that we wanted. We never actually knew whether the market was ready or not, however, as a matter of policy we decided when we wanted a price increase we would go for it. We knew that to a large extent our competitors would tend to follow us when we put our prices up. In fact we were ahead of the other major companies in terms of pricing".

Thus, it could be argued that although the general management department was in charge of pricing decisions and responsible for the company's profitability, it was very much influenced by the accounting department to increase prices whenever accounting information indicated that such increases were necessary and would be allowed by the Commission.

S.D.R. Ltd.

S.D.R. suggested that the degree of competition was very much similar to the previous phase. The managing director says that

> "the degree of competition didn't change and we saw a situation where the margins were suddenly dropping very quickly and inflation shooting up; people fought like mad to get prices up in line with the rate of inflation".

It is worth mentioning that the major competitors of S.D.R. are the imported products which according to the managing director were not affected by what was happening in the U.K. or subject to the Price Commission's rules.

In S.D.R. it is thought that, like the other companies, the company has

> "a sophisticated standard costing applied to individual products so we became very alert to what was going on to our business in terms of cost increases and the whole of the business became more cost conscious".

However, since the company was "seeking and achieving the Price Commission's approval on historical information rather than projected information", it came to realize that

> "the thing never caught up because if we presented a case to the Commission on a three months historical information, by the time we had it approved and sorted out the individual product pricing strategy, we found that we were two months behind because of historical information".

The dependence of the company on accounting information to trigger price increases appears to have "sharpened the importance of the accounting department and I think they saw themselves as the people who would primary obtain approval from the Commission". Accordingly, the accounting department seems to have been able

> "to put a regular quarterly claim for a price increase at the earliest possible moment, and having secured the increase it was then left to the marketing department to decide how to spread that among our products".

The influence of the accounting department to increase prices regularly seems to have caused the company to "price (itself) out of the market in some products". Moreover,

> "during that time we were forced to increase (product) because our raw material costs went up so what happened was that imported

> (product) took over the
> market in this country;
> meanwhile the marketing
> department was saying
> we are losing our market".

This was hardly surprising to the marketing people who saw the attitude of the whole company being changed to that of "once an approval was given then everything moved up in tandem rather than saying well maybe we should wait and see how the market would respond".

The case of S.D.R. can therefore be considered to be similar to the other companies in our sample in terms of the influence of pricing decisions by the power of the accounting department which it derived from the first code of the Price Commission.

9.5. Concluding Remarks.

Figure 9.1. gives a summary of the major findings of this chapter concerning the 1973-77 first code phase. It suggests that the implementation of the mathematical formula to regulate pricing decisions appears to have led to a shift away from the dominance of the marketing department over pricing decisions to the accounting department. It further suggests that the pricing practices of the companies in our sample were increased by reference to accounting data. This seems to have taken place irrespective of the competitive and uncompetitive markets of the companies as perceived by their decision makers, or the position of these companies in the market. Furthermore, this appears to have been equally true in

Figure 9.1 Companies' Pricing Practices During the 1973 - 77 Price Code According to Decision Makers' Perception.

Company	RANK	BLUE NILE	NEWBRIDGE	TECNO X & Z	UNITED	BETA	ASCOT S & R	SOUTH PACIFIC	S.D.R.
Degree of Competition	Competitive	Competitive	Uncom-petitive	Competitive	Competitive	Competitive	S:Uncompe-titive. R:Compet-itive	Uncom-petitive	Competitive.
Dominant Department	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting
Pricing Practice	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information

Figure 9.2. Companies' Degree of Competition as Classified by Concentration Ratios and Pricing Practices During the 1973 - 77 Price Code.

Company	Rank	Blue Nile	Newbridge	Tecno X & Z	United	Beta	Ascot S & R	South Pacific	S.D.R.
Degree of Competition	Less Competitive	Less Competitive	Less Competitive	X: Less Competitive Z: Not Highly Competitive	Less Competitive	Not Highly Competitive	S: Not Highly Competitive R: Highly Competitive	Highly Competitive	Highly Competitve
Dominant Department	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting
Pricing Practice	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information

terms of the classification of the concentration ratios as depicted in Fig. 9.2.

Thus, the findings depicted in both figures tend to establish the hypothesized impact of the Prices Code on pricing practices and give support to Hyp. 1 and Hyp. 2 which claim that during this era, the accouting department was dominant and that prices were fixed by reference to accounting data regardless of the degree of competition which firms were experiencing. Hence, this means that Alt. Hyp. 1 which stresses the determination of prices accoridng to the state of market competition as well as Hyp. 3 which asserts that where market states are less competitive the accountants become more dominant, are disconfirmed.

The findings of Evely (1976) which are mentioned in chapter two are relevant to this phase. He argues that

> "the consensus view emerging from the survey was that since the onset of the recession the dominant factor governing prices has been market conditions rather than the controls inherent in the Price Code" (Evely, 1976 p.50).

Evely's conclusions are based on his interviews with 71 manufacturing companies when asked (a) how their current market prices compared with what they might have been if the Code had not been implemented and (b) how much their current prices could be increased without infringing the Code if market conditions permitted.

Although Evely's questions did not probe this issue in more depth, it is interesting to note that two fifths of the manufacturing companies stated that the Price Code had kept their prices down while another equal percentage believed that their current prices were about the same as they would have been if the Price Code had not been implemented. Hence, given the various aspects of the pricing decision making process that are covered in this thesis, it is hardly surprising to find that at least 40 per cent of the companies included in Evely's study bear out the hypotheses arguing the dominance of the Price Code in determining price increases and not the state of market competition.

Although Evely had shown that not all the companies in his sample had been affected by the Price Commission, our study demonstrates the process of fixing prices and how the degree of influence over these decisions exercised by the different organizational subunits was affected. We are interested in the organizational impact of the Price Commission and not whether prices reached an absolute level during the Commission's era, or whether prices were higher or lower than otherwise would have been.

The substantiation of the above hypotheses regarding the power of the marketing and accounting departments over pricing decision in the previous and current phases respectively, add a unique dimension to as well as throw grave doubts on what is suggested in the literature on pricing. It projects the need for more attention to be devoted to the internal organizational factors e.g. subunits power, that are likely to influence pricing decisions and which have been ignored in the economics literature because of its misemphasis on external factors as being the only relevant grounds for analysing pricing decisions.

Indded, Simon (1977) lamented the exaggerated dependence on the economic theory of rational choice which seems to have led to the lack of realistic models that adequately demonstrate what decision makers do in reality in their decision making function, as distinct from what economic theory suggests they should do. In addition, McMillan (1980 p.23) points out that

> "the few studies that deal with actual decision outcomes tend to deal with what, in general, are relatively simple issues, i.e. those where application of statistical techniques greatly simplify the organisation situation, or where, as in the case of business firms, the decision criteria can, with a few assumptions, be reduced to quantitative criteria, including pricing allocation mechanisms".

In the next chapter it will be attempted to ascertain whether the changes that took place in the criteria by which companies could increase their prices, have caused any disturbance in the structure of power established by the accounting departments during this period; and if this had an effect on companies' pricing practices.

9.6. Information Processing Systems.

One of the hypotheses that was developed in chapter six pertaining to this phase attempts to examine the response of companies' information processing systems to the requirements of the Price Commission. It was suggested that in supplying the information required by the Commission during the first code, the inadequate spare capacity and the unadaptability of the processing system led to the squeezing of the information produced for decision making and as a result dysfunctional decisions took place.

In Rank, the commercial and marketing director, who was the main contact of the company with the Price Commission, points out that "the firm had to employ a full time cost accountant to help in fulfilling the Commission's requirements and most of our employees were working overtime to finish the work in time". However, although it is believed that the company's information system was capable to maintain the previous management information system as well as to satisfy the requirements of the Commission, he admits that "certain management information was delayed in terms of priority but this was routine unimportant information".

In Blue Nile, the requirements of the Commission resulted in the employment of extra people. However, this company seems to have been lucky because according to the financial planning director, during that time it was "intending to go through a period of change, of increasing our abilities within the financial function. We were developing an improved system and to some extent we were computerizing. We were trying to insure that all the individual functions within the financial area were properly staffed. So we were in a position to produce greater range of information and therefore the requirements of the Commission were built into the system".

In Newbridge, it was realized that "the company had to employ 21 extra accountants and use our computer facilities later on" in order to satisfy both requirements for information. Furthermore, "some had to work overtime".

Tecno, too, "had to take on more people on the management level" and in addition, the company was "at the stage where we were computerizing quite a lot of accounting information. We also had a cascade costing system for operating costs as opposite to materials which was of great help. So if we hadn't had that, we would have either sacrificed our own information or increased the resources which we were using".

United experience seems to have been similar to the other companies. The financial director believes that "generally speaking, it was a time when the pressure on the finance department was pretty heavy. We relied very much on the use of office information system and computers to reduce the extra pressure of the Price Commission and

I think we succeeded".

In attempting to satisfy the Commission's requirements, the financial director of Beta points out that "we had to allocate one of our staff to be fully responsible for the information required. However, a number of our staff had to do a considerable amount of overtime to process the extra amount of the Commission's information, but this easied a lot when the presentation of the information became routine".

The chief accountant of Ascot affirms that "our mangement information system was capable to accommodate the extra work of the Commission". He adds that "we had to employ more people and also work late. We were also helped very much by our computer facilities."

The response of South Pacific was not different from the rest of the companies in our sample. According to the previous financial director, "the staff of the accounting department had to work overtime and later on we started to computerize most of the data".

The managing director of S.D.R. believes that their information processing system managed to satisfy both requirements for information "because our system was very good and flexible. Yes, with a bit of shuffling and working late we managed that extra work of the Commission".

Thus, the hypothesis has not been confirmed. It appears that the companies in our sample did not fail to appreciate the need for more manpower or the use of data processing and computers to cater for the extra information work which was required by the Price Commission. Indeed, its seems that their processing systems, particularly the data processing and computers which most companies tended to rely upon, were flexible and adaptable to these external pressures and none of these companies were forced to sacrifice any important information for decision making in order to satisfy the Commission's work.

Chapter Ten

Analysis of Interview Data:

Part IV: The 1977 - 79 Price Code.

10.1. Introduction

In this chapter it will be endeavoured to find out whether the shift from the mathematical formula of the first code to the vague criteria adopted in the second code distorted the dominance which the accounting department gained over pricing decisions in the previous chapter. Indeed, Hyp.1 and Hyp.2 argue that the accounting department was powerful during the 1977-79 era and consequently pricing decisions were fixed predominantly by reference to accounting data with little attention to the degree of competition faced by the companies. However, as Alt. Hyp. 1 suggests that there is also the possibility that it is the state of market competition which mainly determines when prices can be increased even under price controlled environment. Furthermore, if Alt. Hyp. 1 holds then it may also be possible to test Hyp. 3 which advocates the dominance of the accountants when market states are less competitive because of firms' reliance on accounting data to signal price increases.

An additional hypothesis that caters for the changes introduced in this era, argues that companies were encouraged to develop improved product costing schemes than would have otherwise existed and that led to wider corporate benefits.

Therefore, the above hypotheses to be tested in this chapter will lead us to find:

1. that the ambiguous criteria which were used by the Price Commission during the second code to regulate price increases, led the marketing department to depend on the accounting department for the interpretation of the legislation as well as to bear the risk of investigation should the Commission decide to conduct one. As a result, we expect the accounting department to sustain the power base it established previously and influence the increase of prices by the use of accounting data unheeding the state of market competition. It is also expected that Alt. Hyp. 1 and Hyp. 3 not to be supported during this phase.
2. that since the rules enforcing the increases of prices in terms of total cost were relaxed, companies would make more use of their product costing information and thereby achieve wider corporate benefits.

10.2. The Less Competitive Group.

Rank and Blue Nile

As was mentioned in chapter seven, the new indirect tax proposed by the government caused a radical change in the structure of the tax levied on the products of this industry. The new tax structure which was implemented during this phase favoured the large size products in terms of value for money. Accordingly, companies "were seeking to positi their brands in price terms where they would be competitive after the change in tax system". The financial planning director of Blue Nile points out that this seems to have been because

> "unless one repriced certain brands, consciously and deliberately, the effect of the tax would have been to make some relatively expensive brands (the large size) cheap and some cheap brands (the small size) relatively expensive; so, all the range of products tended to change in their position".

Rank's objective was therefore

> "to switch the majority of our customers from the small size brands that we have into a (large size products) which would provide us with more profit and obviously a more competitive position in the market because the sector of the (large size products) was expected to grow".

On the other hand, Blue Nile seems to have been attempting

> "to ensure that, we as a company, capitalize from our previous strength in (the large size products) which was rightly judged to be a sector of the market of growth potential. Our aim was to price our brands in a way that would make them very competitive after the change in tax occured; and in order to do that we had to suffer a short term loss before the tax was implemented so as to make our (large size product) competitive with the smaller cheaper products".

Apparently, every company in that industry was giving considerable attention to the changes in the tax structure since this meant that whoever contrived to capture a greater share of the large size brands market would become the market leader. Thus, what tended to happen was that the market became rather competitive and a price reduction war was witnessed in the industry. It is therefore not surprising to learn that the two companies in our sample were giving during that period more attention to the changes in the tax structure than the second code.

The finance and marketing departments in Rank seem not to have had differences in views regarding pricing decisions. The company was "very much involved in establishing our products in the market". The marketing director further adds that

> "it was a very critical time and the marketing department expertise was most needed. I think, no price increase would even be initiated without our consent".

Indeed, it was pointed out that price increases were considered but not increased when the accounting department identified increases in costs. The company was also of the opinion that

> "we had a lot of room to manoeuvre in terms of providing a justification for a price increase because we were not increasing prices to the level we were permitted".

The financial planning director of Blue Nile admits that the two departments had no differences in views regarding pricing decisions. Apparently, he thinks that

> "because of the company's long term objective, the opinion of the marketing people would prevail. They were influential and we really shifted to a marketing approach and price increased became much less frequent. I think it was the changes in the tax structure that upset the influence we had".

He also points out that

> "price increases may have been considered but not automatically increased even when the code allowed it because the marketing people were worried about the market. We did consider where we stood and we did consider the opportunity under the

the legislation but in the end it was the adopted market strategy that applied".

The changes introducted in the second code didn't appear to have an impact on the use of product costing information when considering pricing decisions in both comapnies. In rank it was believed that this was because the company had a very sophisticated product costing system and product costing information has always been used in pricing decisions. The financial planning director of Blue Nile advocates that "product costing information has always been considered when assessing the amount of price increases".

The marketing director of Rank points out that "the main fact why we were investigated was because we were the market leader". It is believed that the company's pricing policy was not affected by the risk of being investigated by the Price Commission because "we expected the investigation and we decided to get prepared for it". The investigation was controlled by the commercial and marketing department apparently because of its contact with the Commission. However, neither the increase that was granted to the company nor the monitoring of the investigation by the concerned department seem to have had any repercussions on the balance of power over pricing decisions because of the company's attitude towards the investigation which was described as "a headache which we all fought to get rid of and nobody was looking for an achievement other than the increase applied for".

It can therefore be realized that the changes which were introduced in the tax structure had a more crucial impact on the pricing stratagies of Rank and Blue Nile than the changes of the second code. This appears to have caused a shift in the balance of power in favour of the marketing departments which didn't seem to hesitate to have prices increased according to what they perceived the market place would stand. This seems also to be evident from the two companies' attitude which was not similar to the previous phase where prices were considered and increased almost every time both companies could fulfil the rules of the Price Commission.

Newbridge Ltd.

As stated in the previous chapter, the market of Newbridge is considered to be uncompetitive because of the common pricing agreement which regulates price increases for all the companies in the industry.

According to the managing director

> "there had been no changes in the way of increasing our prices. We (all companies bound by the agreement) continued to notify the Commission about our price increases everytime we realized that cost had gone up".

Like the first code, the finance department was responsible for the requirements of the Price Commission, and as the managing director has stated, "I would still say the finance people had absolute control over price decisions". Although the rules of the code had changed, what seems to have strengthened the role of the accounting department was that "it became more of a judgement than an opinion".

It appears that there has been no impact on the use of product costing information as a result of the changes that were introduced in the second code. Newbridge argues that "this information is indispensible for the purpose of pricing our range of products".

This company seems to have pursued the same attitude of Rank regarding the risk of being investigated. Indeed, the company also expected that it was going to be investigated because "the Commission was not pleased with our common pricing agreement". The finance department monitored the investigation and Newbridge was granted the increase.

It is therefore hardly unexpected to recognize that the dominance of the finance department in Newbridge over pricing decisions, and possibly in the other companies of this industry, had continued during the era of the second code. This power seems to have been enhanced by the total reliance on accounting information to increase prices because of the absence of price competition in this industry.

<u>Tecno Ltd</u>.

This era witnessed the significant increase in the share of product X market and Tecno became the market leader. According to the finance director, the company "was able to reverse the situation by deliberately setting our prices on a lower level and making use of the very large economies of scale in our business".

The finance department still identified and triggered the need for a price increase. Furthermore, it is believed that

> "the finance department still maintained its influence over pricing decisions although the changes introducted in the second code tended to reduce it because the great pressure to make the margins and the recovery of all our costs at a certain time no more existed."

Indeed, "our department tended to have many differences with the marketing department", and "we were moving to a stage where market considerations were also given some weight particularly (product Z)". Yet, "prices were frequently increased in order to recover our costs which were also going up". It therefore appears that although the finance department maintained an influence over pricing decisions, apparently because "the rules were vague and needed to be interpreted", one can realise that the market conditions were also taken into consideration.

It seems that the changes introducted in the second code did have an impact on the use of product costing information in Tecno. The finance director claims that

> "it enabled us to move more strongly, particularly the early part of the period, to a contribution bases for very short decisions. When we are looking at a pricing decision, we are looking at profits after variable cost i.e. contribution; whereas under the first code one was looking at the total cost of the business. We moved more towards contribution accounting".

It appears that the risk of being investigated did not influence the company's pricing policy. Tecno, too, was expecting the investigation and it was the finance department which looked after the investigation process. However, the finance director does not believe that by being granted the price increase they applied for, they gained extra power over pricing decision, although "it may have helped in terms of prestige".

United Ltd.

During the second code, the competition in the take-home market became very fierce since it is believed that "more than 40 per cent of the households now have (electrical equipment) and so this market has established itself".

The finance department was still responsible for the work of the Price Commission and according to the finance director, the company

> "had less frequent price increases compared with the period of the first code. You see we returned to the principle of our planning where we can fairly calculate what is likely to happen to costs and therefore we can plan our price increases on a longer term bases".

During the first code "we had to wait for costs to go up first before we can increase our prices".

The marketing director admits that

> "finance people were still influential. We were particularly anxious about the timing of the increase and would like to hold our price for long. The accountants would end up saying look that wouldn't do for the cash flow and profit margins if we don't increase our prices as planned. The chief executive would come back to me and say quite frankly if you look and see the impact that increase will have, you can't argue against it. I'll say well, I can but I don't understand what is being said and therefore we do it".

Thus, it appears that the power of the finance function in the company continued during the second code and price increases were to a large extent being planned and implemented on the bases of accounting information. Indeed, the marketing director further remarked that

> "what the accounting department would do, was to say to the board look this is the level of cost, the level of input cost that you are facing in the next 3, 6, and 12 months, what are we going to do about it".

The finance director points out that the changes introduced in the second code had no effect on the use of product costing information because "it was already fully utilized in arriving at our pricing decisions".

In comparing the companies in this category, it appears that the changes in the tax structure of Rank and Blue Nile products were more important to the two companies than the changes in the code and consequently the balance of power was distorted to favour the marketing departments. However, in the remaining three companies, the accounting departments maintained their dominance and pricing decisions were determined by reference to accounting information although in Tecno market considerations were also taken into account.

10.3. The Not Highly Competitive Group

Beta Ltd.

The degree of competition in Beta's market "remained fairly similar" to the previous phases and it is believed that there were no appreciable changes in the market structure of this industry.

The finance director believes that

> "the influence of the finance department was of the same degree as before. We still managed to have our prices increased when we feel that our costs ought to be recovered".

However, "there was a general feeling in the company that the fewer the price increases the better". Moreover, it appears that the dominance of the finance department was partly due to the fact that "the rules were very much arbitrary and no one except the accountants was ready to understand them". Therefore it is highly likely that this has led to a situation where "the marketing department became dependent on us as to what it can and can not do".

The finance director further adds that price increases were considered whenever accounting information indicated that costs went up but that the frequency of implementing those increases was not as often as during the first code. It was also pointed out that during this period, with respect to the

> "branded products, we dictated our prices, however, as for the label products every time we had to increase our prices, we had to go and fight for it with the retailers who dominated the market. We could't afford to allow the margin between the two to widen beyond a certain percentage".

It appears that the changes introduced in the second code didn't have an appreciable impact on the use of product costing information in pricing decisions at Beta. The finance director believes that "that information is very important for us and I can't think of a time when it wasn't used in our pricing decisions".

The main reason why Beta was investigated appears to have been "because we are the market leaders". It was stated that

> "we learned from other companies that were investigated before us and accordinly we planned our strategy. I was the only one who was responsible for the investigation and nobody was allowed to deal with the investigating team without my prior consent".

The finance director adds that "there was no risk whatsoever on myself nor on the accounting department" if the notified increase was not approved. In fact, after the Commission approved the price increase the finance department "was looked at with an eye of achievement".

Thus, it could be argued that the finance department in Beta maintained the power over pricing decisions which it gained during the first code and as such pricing decisions were influenced by accounting information.

<u>Ascot Ltd.</u>

The share of product S market was still very high during this period and the company didn't fear any increases in prices as it was believed that it wouldn't have any significant impact on its market share. Regarding product R, the share of the market leader of that product has decreased apparently because of

> relative structural factors in the industry e.g. the (companies) ownership of (similar products to R) companies and the development of those brands in the market place".

As with respect to the effect of the changes in the code, the chief accountant believes that

> "it didn't have a great effect on us except that we had to give a longer period notice. We still pushed the marketing department for price changes and we didn't slow down the frequency of increases and, in the main, we virtually got down to ninety days price increases as was with before".

On the other hand, the marketing director seems to have felt the influence of the accounting department by remarking that "they were responsible for that legislation and kept asking for price increases as before". As regarding the response of the market of product R, he adds that

> "(the market leader) was ahead of us and they also increased their prices very often. I don't think we priced ouselves out of the market and it was only once that we delayed an increase by a month".

Concerning the possible impact which the changes in the code might have had on the use of product costing information, the chief accountant doesn't seem to have realized any effect and his remarks were that "it only made it easier to justify price increases. We have been making use of our factory standard costing for a long time".

It therefore seems that the accounting department in Ascot contrived to preserve its influence over pricing decisions and stick to the ninety days period for regular price increases. Apparently, the company hasn't experienced any shift in its attitude towards the pricing practice that it was pursuing in the previous code.

The companies in this grouphave demonstrated similar pricing practices as those in the less competitive category, with the exception of Rank and Blue Nile, in terms of the dominance of their accounting departments over pricing decisions. Prices were therefore increased by reference to accounting information and this seems to have taken place despite the degree of competition in the market place or companies position in the market.

10.4 The Highly Competitive Group:

South Pacific.

This era seems to have witnessed no significant changes in the degree of competition, and the market of South Pacific remained uncompetitive since it was claimed that the company could increase its prices without any negative impact on its market share.

When prices were justified by the mathematical formula, the dealing with the Price Commission at South Pacific was at the level of the chief accountant because it was, to some extent, production of routine information. However, during the second code, "it became a discretionary matter which meant at that stage, the finance director had to take over the dealing with the Commission in controlling the operations". The previous finance director adds that

> "the (general management) department was dependent on us to get the thing through the Price Commission and this consolidated the power which we already had since the first code. I think it was a matter of great significance both to this company and our parent company that we (accounting department) get the price increase and handle the Commission correctly. I therefore had much more dealing with the chief executive, and the top management depended totally on us because the Commission element was very important".

Accordingly, the role of the accounting department with regard to pricing decisions "became a leading one and we were highly thought of by the other departments".

South Pacific tended to have its prices increased every three months and this is though to be the main reason why the company was investigated by the Price Commission. However as to the market responses to these increases, the previous finance director is of the opinion that "to some extent we got out of line with the market because we were probably pushing harder than others". In addition

> "we didn't care about the market to a great extent because of our dominant position and to some extent we can say to hell with the others. We can go with the policy we want to follow".

It is claimed that, the changes introduced in the second code which relaxed the increases of prices in terms of total cost, did not have any effect on the use of product costing information, and, apparently, "all it had an impact on was how to put the case across the Price Commission".

It is believed that South Pacific was investigated because

> "we applied for a price increase which was allowed by the Commission and we were told that they don't expect to receive another application from us for at least six months. But we couldn't wait longer than three months".

As such the risk of being investigated "didn't affect our pricing policy". The finance director was in control of the investigation, and because the price increase was approved, it seems that the repercussion this had was "from my career point of view, it did me some good because you get exposed and if the thing goes successfully then that is good news".

It can therefore be realized from the above that the finance department maintained its dominance over pricing decision because it seems that the discreationary nature of the second code made the general management department totally dependent on it. Accordingly pricing decisions were increased every three months by reference to accounting information. This also seems to have been partly helped by the uncompetitive nature of the comapny's market.

S.D.R. Ltd.

The managing director believes that during this phase

> "the competition was very much influenced by changes in Europe and not what was happening in the U.K. and I think a 5 per cent or more wouldn't have had so much an impact on our share of the market".

As such the market of S.D.R. became uncompetitive during this period.

The accounting department was still responsible for the work of the Price Commission and the pressure for price increases arose mainly because of increases in raw materials cost. The company was attempting to catch up and it seems that the accounting department exploited this situation and "prices were increased on regular bases so as to recover our costs and maintain our profit margins".

However, as to whether the market place responded positively to these increases, the managing director states that

> "we were confronted with a situation where the import prices were fluctuating and we had to recover our costs so the accountants were preparing the amounts needed and the role of the marketing department was to see how these amounts can be applied".

He further adds that "everyone in the comapny felt the influence of the accounting department simply because they managed to handle our affairs with the Commission".

Regarding the changes in the use of product costing information for pricing decisions during the second code, it was argued that "we have always regarded product costing information as a highly important area and it is fully used in pricing our products".

It can be argued, from what seesm to have been going on in S.D.R. at that time, that the accounting department was able to pursue its dominance over pricing decisions and have prices increased according to accounting information.

It also appears that the market was perceived to be uncompetitive during the second code and so it is highly likely that the company didn't price itself out of the market as happened in the previous phase.

10.5. Concluding Remarks.

Figure 10.1 gives a summary of the main findings of this chapter according to what decision makers perceive to be competitive. It can be realized that, with the exception of Rank and Blue Nile, in all the other companies, the accounting departments were capable of preserving the power over pricing decisions which they gained in the previous phase and consequently prices were to a great extent increased by reference to accounting information. Furthermore, such pricing practices appear to have taken place in some companies that were facing competitive market conditions and others of uncompetitive nature; and in companies that are market leaders and others that are price followers. In addition, a similar picture seems to emerge when the classification of concentration ratios is used as suggested in Fig. 10.2.

In the case of Rank and Blue Nile, it seems that it was due to the changes in the tax structure, which were considered more important than the code, that reversed the balance of power and enabled the marketing department to increase prices according to what they perceived the conditions in the market place would stand. This tends to give some support to Alt. Hyp. 1 which emphasises the

Figure 10.1. Companies' Pricing Practices During the 1977 - 79 Price Code According to the Decision Makers' Perception.

Company	RANK	BLUE NILE	NEWBRIDGE	TECNO X & Z	UNITED	BETA	ASCOT S & R	SOUTH PACIFIC	S.D.R.
Degree of Competition	Competitive	Competitive	Uncom-petitive	Competitive	Competitive	Competitive	S: Uncom-petitive R: Compet-itive	Uncom-petitive	Uncom-petitive
Dominant Department	Marketing	Marketing	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting
Pricing Practices	Market Conditions	Market Conditions	Accounting Information	Accounting information but also market con-siderations	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information

Figure 10.2. Companies' Degree of Competition as Classified by Concentration Ratios and Pricing Practices During the 1977 - 79 Price Code.

<u>Company</u>	RANK	BLUE NILE	NEWBRIDGE	TECNO X & Z	UNITED	BETA	ASCOT S & R	SOUTH PACIFIC	S.D.R.
<u>Degree of Competition</u>	Less Competitive	Less Competitive	Less Competitive	X: Less Competitive Z: Not highly Competitive	Less Competitive	Not highly Competitive	S: Not highly Competitive R: Highly Competitive	Highly Competitive	Highly Competitive
<u>Dominant Department</u>	Marketing	Marketing	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting	Accounting
<u>Pricing Practices</u>	Market Conditions	Market Conditions	Accounting Information	Accounting Information but also market considerations	Accounting Information	Accounting Information	Accounting Information	Accounting Information	Accounting Information

dominance of the market state in governing prices irrespective of the existence of prices code. Accordingly, the hypothesized impact of the Price Code on pricing practices in this era should be treated with caution.

Hence, although the situation of Rank and Blue Nile does not conform to what is hypothesized in Hyp. 1 and Hyp. 2 concerning this phase, and being confirmed by the pricing practices of the other companies, that the accounting department was powerful and that it used its dominance to influence the increase of prices according to accounting information, it is still in line with the general argument which claims that subunits power is not constant over time but varies with the changes in the environment that are relevant to pricing decisions.

Indeed, the notion that power is not constant over time is hardly spelt out in the organisation theory literature since the views expressed are essentially static in that little attention is given to those processes whereby power is accumulated or diminished in a relationship. Pfeffer (1977, p255) justifies this by suggesting that

> "because power can be used to affect allocation decisions, which then provide symbolic reaffirmation of relative influence as well as the resources to maintain power, it is the case that the distribution of power within organizations is most often quite stable. Only external contingencies that can no longer be adequately handled, or mistakes in managing the internal coalition can produce meaningful shifts in the distribution of influence within organizations."

Clegg (1977, p25) also implies that the relative power position of two groups should not be taken as always static. He argues that

> "the assumption of 'resources' based explanation of 'power' ought also to entail an exposition of how some people come to have access to these 'resources' while some others do not. The prior possession of resources in anything other than equal amounts is something which a theory of 'power' has to explain."

Hence, what is being established in this chapter, disconfirms further the two hypotheses regarding the impact of the state of market competition, and that of the dominance of accounting group when the market state is less competitive.

Furthermore, it was also apparent from our findings that none of the companies, except Tecno, experienced any significant changes in the use of product costing information in pricing decisions nor were they encouraged to develop improved product costing schemes as a result of the changes introducted in the second code. This seems to be because these companies did not alter the way in which they have been using that information. Thus, the hypothesized impact on product costing schemes is hardly corroborated.

The next chapter will address itself to ascertain whether the abolition of the Price Commission had any impact of the balance of power which the accounting department had established and if that has affected the companies' pricing practices.

Chapter Eleven

Analysis of Interview Data:

Part V: The Era After The Aboliton Of The Price Commission

11.1. Introduction

This chapter examines the possible impact of the abolition of the Price Commission which took place after the conservative party assumed power and adopted a strict monetary policy to fight the double figure rate of inflation. As a result, the U.K. has been experiencing an increasing level of unemployment and a deep recession. It is worth mentioning that the degree of competition of each company's market for this present period was established in chapter seven.

It is argued in this chapter that during this period the state of market competition is the dominant external factor which governs prices. Consequently it is believed that the marketing departments regained prime influence over pricing decisions and as such prices were fixed according to what these departments perceived the market place would bear. If so then those parts in Hy. 1 and Hyp. 2 relating to this phase would be borne out.

Furthermore, if it is the state of market competition that really matters in terms of when prices can be increased then there is the possibility that we find support for Hyp. 3 which advocates the dominance of accountants where the market state is less competitive.

It is therefore expected that in this chapter we find:

> that after the abolition of the Price Commission, the accounting department has lost its power base which it derived from the existence of the Prices Code. Moreover, it is the market forces which mainly determine prices in this era and as a result the marketing department regained its dominance over pricing decisions. In addition, it is expected that prices to be fixed predominantly according to what was perceived the market would stand.
>
> However, since it is expected that the state of market competition to dominate prices then there is the possibility that the accounting group to become powerful because of firms' dependance on their information to indicate price increases.

11.2. The Less Competitive Group

Rank and Blue Nile.

Both these companies tended to follow the strategies which their marketing departments developed in the previous phase in order to secure a high share of the large size products which, because of the changes in the tax structure, became the growing sector of the market.

In Rank, it was reported that

> "these days marketing considerations continue to be of prime importance in our pricing decisions. I would say the question of our pricing strategy which is nursed by the marketing department determines our price increases."

Hence, the company's efforts "to arrest a good share of the (large size) products and we have been putting a great deal of money in the U.K. market to regain that market". Thus, it is expected that

> "the accountants don't want to involve themselves in pricing decisions as they did during the Commission's time; but you have to remember that we still work from our plans, projections and the figures from the accounting function".

The marketing Director further adds that "prices are not increased every time costs have gone up".

In Blue Nile, the situation is explained by the financial planning director who claimed that

> "there are no differences between the two departments and we now pursue marketing policies in pricing our products. I think, since the changes in tax, the marketing people took over the business of pricing and we (finance department) would be very happy as long as they produce an appropriate level of profits".

As with regard to the role of the accounting department after these changes, he believes that "we lost the impetus to press for a price increase and we just produce the required data to the marketing department to see what it can do best".

Such a situation seems to have left the accounting department in Blue Nile in a position where

> "even if our cost increases would justify quite a high level of price increases, we have come to know for some years now that we are not in the sort of position as to say do or

> do we not need to increase our prices. I don't think we can increase our prices unless the marketing people approve of the right opportunity in the market and the action of our competitors".

It is therefore possible to argue that the marketing departments in both Rank and Blue Nile continued to have the power they gained in the previous phase and as a result pricing decisions were fixed predominantly according to what the perceived traffic in the market place would bear.

Newbridge Ltd.

Price increases in this industry "has slowed down after the abolition of the Price Commission and this is natural under the current severe conditions in the economy". However, the managing director believes that

> "(the independent association) still relies on companies costing information to fix the common price to be charged. It is still the same process where the accounting department checks its figures and supply the necessary information to the (association) and start pushing for a price increase. It is still a totally accounting exercise".

Such a reliance on acocunting information seems to be solely due to the "clear monopoly situation" of the market of this industry where price competition is absent.

Thus, it can be argued that the state of uncompetitiveness which this industry has been witnessing since the era prior to the introduction of the Price Commission, has made this industry rely on accounting information as it was the only source relevant for pricing decisions and accordingly the accounting department predominantly decided when and by how much prices should be increased.

Tecno Ltd.

At the time of interviewing, Tecno has just completed its plan for the next year and the finance director pointed out that

> "although the accounting data was fed into it in terms of increases in costs, the question that is being asked can we afford to increase our prices. The market pressures are rather intensive at the moment and it is up to the marketing people to say whether we can have our prices up or down."

In such a situation both departments hardly had any difference in views. According to the finance director,

> "the Price Commission gave the accountants a special influence in pricing. Now, I think it is the responsibility of the marketing people and it has become a metter of whether the market would bear it or not".

It is the practice in Tecno that "every month we provide a forward forecast of our costs and what amounts should be covered." Accordingly, price increases would be considered but not increased at once. The marketing department now decides when and by how much prices should be increased. "I think they have regained control over pricing decisions". The abolition of the Price Commission therefore appears to

> "have removed that control which we had and we now got rid of three senior people. It also lessened the dependence of the marketing department on us and gave them the chance to restore the priority of the market place".

Thus, it seems that the abolition of the Price Commission has deprived the accounting department in Tecno from the power which it derived from the existence of the first and second codes. On the other hand, the marketing department regained its dominance over pricing decisions and consequently prices were increased in accordance with what it percieved the market conditions would stand.

United Ltd.

In this company the expected increases in the retail price index are still linked to its plan and on these bases price increases are suggested. The company realizes from its planning that "since the costs of basic materials will be going up, we expect our competitors also to be thinking of increasing their prices even if they rumor other-wise." However, the marketing director points out that

> "since the dialogue is now a much more marketing orientated one rather than a Price Commission, we (marketing department) have become very strict in the time and the level of price increase".

It has also been realized in United that the role of the accounting department was affected after the abolition of the Price Commission. The marketing director made the remark that

> "in its simplist form, there was a great necessity previously for the information precisely on the prices changes to be carefully assimilated and annotated by the accounting function for a clearness with the main group and the Price Commission. That doesn't happen any more and we are now more independent and are capable of looking after the pricing decisions by ousleves".

Moreover, he believes that

> "the influence of the accounting department was in the interpretation of the legislation and we would be listening to that and would alter our decisions accordingly. Now, the accounting funtion is making the input much more on the bases of what is seen as a business dealing and the discussion is a fairly marketing one".

United seems to have had a similar experience to Tecno where the marketing department has regained its power over pricing decisions because of the abolition of the Price Commission and consequently prices were increased according to what is perceived as the prevailing market conditions.

The abolition of the Price Commission, seems to have had an impact on the balance of power of Tecno and United only in this category. The accounting department in Newbridge tended to control pricing decisions because of the relienace on its information while in Rank and Blue Nile the marketing departments maintained the dominance they already gained in the previous phase.

11.3. The Not Highly Competitive Group:

Beta Ltd.

According to the finance director of this company,

> "the differences that we used to have with the marketing people during the time of the Commission don't exist now. You see, the consumer has a say now on prices because of the recession and we appreciate the difficulty of increasing prices".

It is further believed that "prices are no more increased as frequent as before and they (marketing department) have a big say in what the company can increase".

On the other hand, the marketing manager of Beta seems to agree with the above and claims that

> "it is our pricing philosophy that is implemented and I think it is all over now for them (accounting department). It is only when the margins have erroded that we would then think of having a price increase".

Regarding the role of the accounting department and the impact which the abolition of the Price Commission might have on it, the finance director pointed out that "we feel that we can no longer push price increases. The marketing people are no longer dependent on us and they are becoming influential".

It seems from the above that the abolition of the Price Commission has enabled the marketing department to regain its power over pricing decisions and was therefore capable of influencing price increases according to its own pricing philosophy which is basically what it perceives the market place would bear.

Ascot Ltd.

In Ascot it is believed that pricing process is back to the previous days. It tends "to start from the budgeting process and in looking at cost forecast we build into the budget the suggested increases in prices". However, it appears that the frequency of price increases was not as it used to be and according to the chief accountant the company "stopped having quarterly increases as market competition is given more importance now and we are talking about two or less price increases a year".

As for the differences between the two departments, the marketing director believes that "there is a recognition by the finance department that they can not increase the prices of (product R) mechanistically anymore in raltion to costs". He further adds that the finance department

> "has lost its influence and although they are still involved, they do not set an overall revenue target as they used to do, so there is more flexibility".

Indeed, the chief accountant admitted that "they (marketing department) have a lot of influence and any suggested price increase is filtered as to what they see best in the present situation".

Thus, it appears that, similar to what has taken place in Tecno, United and Beta, the marketing department in Ascot has become dominant over pricing decisions after the abolition of the Price Commission and as a result price increases were fixed according to what the marketing department perceived the traffic in the market place would stand.

11.4. The Highly Competitive Group.

South Pacific.

The finance department in this company continues to produce as before the accounting information which the general management department needs in order to determine the prices to be charged. However, the previous finance director points out that

> "although the (general management) people appreciate our view that costs have to be recovered, they now have their own discretion on prices, and both of us agree that prices have to be increased so that the company's profitability is maintained. We did manage to convince them that we have to move prices up in line with the general level of inflation and I think from a marketing point of view we can afford that".

It has also been argued that

> "the marketing people would prefer that we don't increase prices because it would be easier to sell without the increase. But I don't think that the (general management) department would delay a price increase if we domonstrate that costs have gone up and we need to maintain our profit margins.

He further adds that "price increases in our company have always tended to follow cost increases".

It appears from the above that although the general management department has great influence in determining prices, it still tends to rely heavily on accounting information since price increases, to a large extent, follow the trend of cost increases. This is highly likely due to the uncompetitiveness of the company's market. The case of South Pacific appears to be very similar to that of Newbridge in terms of their dependance on accounting information possibly because of their markets uncompetitiveness.

S.D.R. Ltd.

After the abolition of the Price Commission, it is believed that price increases in this company are considered with much more flexibility and much more regard as to how that flexibility could be used. According to the managing director, the two departments seem to have differences in their views.

> "The marketing department now does most of the decisions and it became more polarized and focus attention on a range of areas where before it was constrained within limits".

As with regard to the accounting department, after the abolition of the Price Commission, "one can see that their involvement has been curtailed and they have lost the influence which was built up during the Commission's time".

Regarding the increase of prices whenever the accounting information indicates increases in costs, the managing director suggests that "prices are only increased after a careful examination of the market place".

It appears that the case of S.D.R. is not dissimilar to those in the previous groups where the marketing departments became powerful after the abolition of the Price Commission. Price increases are therefore set according to what the marketing department perceives the market conditions may allow.

11.5. Concluding Remarks.

Figure 11.1. gives a summary of the main findings of this chapter in terms of the decision makers' perceptions of competition. The abolition of the Price Commission seems to have given the marketing departments in our sample, except in Newbridge and South Pacific, the chance to regain the power which they had over pricing decisions during the period prior to its introduction. This appears to have enabled the marketing departments to fix pricing decisions predominantly according to what they perceive the traffic in the market would bear. Furthermore as Fig. 11.2 suggests, a similar reversal of influence seems to emerge if we adopt the classification of companies according to the concentration ratios, although as in chapter 8, classification by such ratios gives a more confusing picture than does classification of competition based on managers' perceptions.

Thus, it can be argued that the findings emerging from both figures tend to bear out the assertion that it is the state of market competition which mainly determines prices during this phase. Accordingly, the dominance of the marketing departments over pricing decisions gives support to Hyp. 2 and the part in Hyp. 1 which claims that prices will be fixed according to what is perceived the market would bear.

Figure 11.1. Companies' Pricing Practices During the Era After the Abolition of The Price Commission According to Decision Makers' Perception.

Company	RANK	BLUE NILE	NEWBRIDGE	TECNO X & Z	UNITED	BETA	ASCOT S & R	SOUTH PACIFIC	S.D.R.
Degree of Competition	Competitive	Competitive	Uncompetitive	Competitive	Competitive	Competitive	S: Uncompetitive R: Competitive	Uncompetitive	Competitive
Dominant Department	Marketing	Marketing	Accounting	Marketing	Marketing	Marketing	Marketing	General Management	Marketing
Pricing Practices	Market Conditions	Market Conditions	Accounting Information	Market Conditions	Market Conditions	Market Conditions	Market Conditions	Accounting Information	Market Conditions

Figure 11.2. Companies' Degree of Competition as Classified by Concentration Ratios and Pricing Practices During the Era After the Abolition of the Price Commission.

Company	Rank	Blue Nile	Newbridge	Tecno X & Z	United	Beta	Ascot S & R	South Pacific	S.D.R.
Degree of Competition	Less Competitive	Less Competitive	Less Competitive	X: Less Competitive Z: Not Highly Competitive	Less Competitive	Not Highly Competitive	S: Not Highly Competitive R: Highly Competitive	Highly Competitive	Highly Competitive
Dominant Department	Marketing	Marketing	Marketing	Marketing	Marketing	Marketing	Marketing	General Management	Marketing
Pricing Practices	Market Conditions	Market Conditions	Market Conditions	Market Conditions	Market Conditions	Market Conditions	Market Conditions	Accounting Information	Market Conditions

One again, as in the pre-Prices Code era, the case of Newbridge tends to give supporting evidence for Hyp. 3 concerning the dominance of the accountants where the market state is less competitive. Moreover, South Pacific retains a dominating reliance on accounting information. Suffice it to say that in the industry of Newbridge there is absolutely no price competition and so it should not be unexpected that the accounting department to be dominant and increase prices according to accounting data. On the other hand, the organizational structure of South Pacific appears to have led the dominant general management department to exploit the uncompetitive market of its product and rely on accounting information to increase prices.

The next chapter summarizes the findings of this thesis and presents the conclusions that have been reached. It also endeavours to fairly scan some of the possible implications which may be relevant for further research.

Chapter Twelve

Conclusions and Further Research Required

12.1 Conclusions

This thesis has availed itself of the splendid opportunity provided by the advent and abolition of the Price Commission to shed light on some of its repercussions on corporate pricing practices and thereby illuminate how the endeavours to refine the polemical arguments in the literature on pricing, which are rooted in micro-economics, accounting practices and some rather simple behavioural and organizational goals, will remain in vain if no scrupulous attention is devoted to the assertion that pricing decisions are negotiated and influenced by sub-unit power.

Hence the basic underpinning theme of this thesis is that the mechanism by which prices are settled will be determined by organizational sub-unit power which will not necessarily be constant over time. Indeed, the evidence emerging from the empirical work which was undertaken initially at Hekmats and afterwords tested in the other nine companies, strongly substantiate the hypotheses which argue:

Hyp. 1

That prices were fixed predominantly according to what the market would bear in phases (i) and (iv), and by reference to accounting data in phases (ii) and (iii) irrespective of the state of market competition.

Hyp. 2

That Non-Accounting/Non-Finance departments dominated pricing decisions in phase (i) and (iv), and Accounting/Finance departments in phase (ii) and (iii) irrespective of market competition.

Hence, the bearing out of the above hypotheses indicates that when the Prices Codes were in operation during the era 1973 - 79, they were the dominant external factors that governed the pricing practices and not the state of market competition encountered by each of the companies. It follows that Alt. Hyp. 1 which argues

Alternative Hyp. 1

That it is the state of market competition which mainly determines when prices can be increased even under price controlled environments,

is not confirmed.

However, the case of Rank and Blue Nile reminds us that we should treat the above findings with some caution since the pricing practices of these two companies during the second code give supporting evidence for Alt. Hyp. 1 which means that it was the state of market competition and not the Prices Code that determined prices. Consequently, it was not surprising to find that the marketing departments in both companies dominated pricing decisions and fixed prices according to what was perceived the market place would stand.

During phases (i) and (iv), the state of market competition was the external dominant factor that determined prices. However, although Hyp. 2 suggests that under such conditions the marketing department would be dominant, the case of Newbridge tends to give support to Hyp. 3 which asserts:

Hyp. 3.

> That where market states are less-competitive, accountants become more dominant through the company's greater reliance on accounting data to signal price increases irrespective of whether prices are controlled or not.

Nevertheless, the case of Newbridge seems to be the exception because of the absolute absence of price competition in that industry and therefore the marketing department hardly had any role in pricing decisions. Furthermore, the case of Ascot product S throws doubt on Hyp. 3 because of the dominance of the marketing department over pricing decisions where the market state is uncompetitive.

The pricing practice of South Pacific during these two phases is also worthy of attention. It seems that while prices were increased by reference to accounting data, because of the uncompetitive market state which this company was facing, it was the general management department which dominated pricing decisions. It is very likely that the power of this department is derived from the organizational structure of the company which gives the department the sole responsibility over pricing.

Taking the cases of Newbridge, Ascot (S) and South Pacific together there at least seems to be weak evidence suggesting that accounting approaches to pricing is more crucial in less competitive markets.

In reviewing the four phases together it can be seen that no evidence was found that would substantiate Hyp. 4 which argues:

Hyp. 4

<u>That the dominant department will tend to enforce its own pricing practice philosophy on the company irrespective of the state of market competition or the existence of prices control.</u>

This hypothesis is therefore not confirmed.

However, a methodological limitation exists. Whilst this thesis has attempted to adhere to the study of decision making process in order to test the advocated impact of power on pricing practices, several writers have argued against what they label as the excessive behaviouralism implicit in this approach. For example, Bacharach and Baratz (1962) voice the argument that concentration on actual decision making are likely to conceal those incidents where issues are prevented from becoming the subject of decision making. Viewing the above two approaches as 'one dimensional' and 'two dimensional' respectively, Lukes (1974) propogates what he calls 'three dimensional'. In his comprehensive perspective, he considers the issues which are never spelt out or even realized by the reapient in the power relationship, as well as those issues are prevented from reaching the decision making arena.

Although one is likely to agree that any of the two approaches referred to above may delineate a better account of power relation in organization, it has to be appreciated that the time and opportunities that were available to this research would have made it impossible to pursue such broad approaches especially since they seem to require longitudinal study using participant observation method. Hence, there appears to be a need for further research to cater for these requirements and thereby bring to light those factors that were not covered when studying the decision making process and how they affect pricing decisions.

The other major issue pertinent to the pricing literature which this research has embarked upon, tackles the misgivings in micro-economics theory regarding the concept of competition. By emphasising the decision making realities and stressing the notion of the decision maker's perception of what constitutes competition, and how this is affected by the interaction process that takes place between the firm and the market, a better picture is believed to be exhibited of what the concept of competition should mean. Hence, the implementation of perceptual data in classifying the markets of companies as competitive or uncompetitive unveiled a lot of differences to that suggested by the concentration ratios.

The concatenation of the two concepts of power and perception of competition is manifested during the phases where the marketing department is powerful. It has been demonstrated that the dominance of the marketing department enabled it to fix prices according to what its decision makers perceived the traffic in the market place would stand.

In testing the hypothesis

> <u>that in supplying the information required by the Price Commission during the first code, the inadequate spare capacity and the inadaptability of the processing system led to the squeezing of the information produced for decision making and as a result dysfunctional decisions took place;</u>

it was found that the information processing systems of all the companies in our sample seem to have been adapted to the extra work imposed on them by the Price Commission in terms of more manpower and the use of data processing and computer facilities. Accordingly, it was not found necessary to squeeze some of the information which is produced for internal decision making. Thus, what appears to have happened at Hekmats was not experienced by the other companies.

Furthermore, with the exception of Tecno, none of the other eight companies appears to have undergone any changes during the second code in the use of their product costing information nor were they tempted to develop improved product costing schemes. This seems to have been because of the way in which these companies have used their product costing information in pricing decisions. Thus, the hypothesis that

> <u>during the second code, companies were encouraged to develop improved product costing schemes than would have otherwise existed and that this led to wider corporate benefits;</u>

was not corroborated.

In ending this thesis, it is hoped that it has elucidated the general corporate experiences with respect to the Prices Codes so that an insight knowledge could be gained regarding the following six issues outlined at the end of chapter five:

1 The way to introduce Prices Control (if it has to be introduced): it seems from the material presented in chapter 9, which deals with the first code, that when a rigid mathematical criterion is imposed to regulate price increases, companies may tend to become very keen to secure any price increase that becomes available under the Code. Hence, it is highly likely that such type of Code would increase inflation and not curb it as was the objective. On the other hand, a vague criterion like the one implemented in the second code would tend to discourage companies from applying for price increase because of the havoc of investigation and the fear of being exposed in

the reports published by the Commission.

2 What impact it may have on companies? The significant impact which the Prices Code had on companies seems to be the change in the process by which prices were determined in terms of sub-units power.

3 What style of Code is best? It is unfortunate that the information collected can not enable us to draw any conclusions with respect to this issue.

4 The influence of different professional groups on pricing practices: it became apparent that the dominant group would tend to enforce its own approach to pricing. For example, when the accounting group was dominant it tended to increase prices by reference to accounting data, and when the marketing group was dominant it tended to increase prices according to what it perceived the market would bear.

5 What influences professional group dominance in companies? The dominant groups seem to derive influence from their ability to cope with environmental uncertainty. In the case of the Price Commission this was in the form of providing the required information which affected companies' survival.

6 Deeper knowledge of the way in which economic and accounting models of pricing interact in real

world business conditions: by viewing the use of these models in a wider organizational perspective and focusing on the pricing decision making process, it was possible to learn that the use of these models was largely influenced by the group which had the power.

12.2 Implications for Further Research

The various theoretical issues raised by the conception of pricing decision making as a political process are liable to have some implications for the state of the art of pricing literature. It should be apparent by now that the efforts exerted by economists to portray marginal analyses as the main method for examining the salient factors in the determination of pricing decisions, and their simultaneous over-reliance on the economic theory of rational choice as a realistic model of managerial decision making, have resulted in a rather parochial view of what occurs in reality. Indeed, part of this misemphasis may be due to the constant and unquestioned use of quantitive models. As McMillan (1980, p.23) has correctly remarked, these models have all the benefits of closure, rigorous logic, and precision, but at the expense of realism.

On the other hand, it can be realized that the greater part of the accounting literature regarding pricing decisions has concentrated on the merits of applying absorption costing, direct costing, and rate of return.

The focus on these various costing techniques appears to have obscured consideration of more crucial issues that concern how the decisions to implement these models are made and on what terms.

Equally, those who have consecrated their studies to the understanding of simple behavioural and organizational goals, seem to have missed the gist of pricing decision making. They have failed to recognize more pertinent issues, like who makes these decisions and how pricing decisions are influenced by sub-unit power.

Hence, this thesis evokes a broad vista of further research that would consist of more in-depth studies dealing with a wider range of organizational factors involved in the process of arriving at pricing decisions. Furthermore, additional research seems to be warranted on specific issues that takes place in the pricing environment (for example the Price Commission) and their impact on organizations' pricing practices; rather than the general models which are assumed to be applicable under any conditions.

The findings regarding the determination of the state of market competition on the bases of the decision maker's perception should be appealing to all those who attempt to use concentration rations as a measure of industries' degrees of competition. This should be heeded particularly when studies based on the economic measures are used to analyse corporate pricing behaviour, since a rather misleading picture may be drawn.

Finally, while our study of one external factor, the Prices Code, has demonstrated how power shifted between the two concerned departments, more detailed studies relating to other external influences may show how balance of power shifts within a firm and do more to explain pricing and other decision processes than accounting and economic techniques viewed in logico-rational isolation.

Appendix A

Criteria of the Price Commission Act

1 It shall be the duty of the Commission, in performing any functions mentioned in subsection (3) of this section -

(a) to have regard to all matters which appear to the Commission in the particular circumstances to be relevant with a view to restraining prices of goods and charges for services so far as that appears to the Commission to be consistent with the making of adequate profits by efficient suppliers of goods and services; and

(b) to have regard in particular to the matters mentioned in the following subsection so far as the Commission consider them relevant,

and not to have regard to any other matters.

2 The matters aforesaid are -

(a) the need to recover costs incurred in efficiently supplying goods and services and in maintaining the value of the relevant businesses;

(b) the desirability of encouraging reductions in costs by improvements in the use of resources and of securing reductions in prices of goods and charges for services in consequence of such improvements;

(c) the need to earn, from selling goods and providing services in the United Kingdom, profits which provide a return on the capital employed in producing the profits which is sufficient taking one year with another -

(i) to defray the cost of the capital (including compensation for the risk involved in producing the profits), and

(ii) to provide money for, and to encourange the promotion of, innovations and technical improvements in and the expansion in the United Kingdom of the enterprises which consist of or include the relevant businesses;

(d) the need to take account of charges in prices in determining the value of assets;

(e) the desirability of maintaining the quality of goods and services and satisfying the demands of users of goods and services;

(f) the need to safeguard the interests of users of goods and services by promoting competition between suppliers or, where competition must be restricted or cannot be promoted (either because certain suppliers control a substantial share of the relevant market or for any other reason), by restricting prices and charges;

(g) the desirability of establishing and maintaining a balance between the supply of goods and services and the demand for them; and

(h) the need to avoid detriment, from restraints on prices and charges, to the United Kingdom's balance of payments and the need to increase the share of United Kingdom enterprises in markets in the United Kingdom and elsewhere.

Appendix B

Hekmats Limited

INTERVIEWER'S CHECK LIST OF POINTS TO COVER

Section A: Prior to introduction of the Price Commission

1. Did the accounting and marketing departments have different pricing philosophy?
   - If yes
     - What were they?
     - Who was most influential in setting pricing decisions?
     - What criteria was used in setting pricing decisions?
   - If no
     - What was their pricing philosophy?
     - What criteria was used in setting pricing decisions?

2. Who identified that a price change may be required?
   - Why was it this department or group?

3. By what process were changes in prices arrived at?
   - How were alternatives for price changes developed?

4. Who decided and finally approved the price to be charged?
   - Was the final approval ever taken to top management?
   - Why?

5. To what extent do you think that accounting information was used in pricing decisions?

- Over 75% of price decisions?
  50%- 75% of price decisions?
  25%- 50% of price decisions?
  Under 25% of price decisions?

6. To what extent did non-accounting information play a part in your pricing decisions?
   - Was it very important, important, not important?
   - Why?
   - What sort of non-accounting data?

Section B: 1973 - 1977 Price Code

1. How did your firm make its preparation for this new piece of legislation?
   - Did the firm allocate the work of the Price Commission to a certain department or group?
   - Why that department or group?
   - Did the firm have to employ internal and/or external experts to prepare itself for the Price Commission?
   - What and why experts?

2. Did the accounting and marketing departments have different pricing philosophy?
   - If yes - What were they?
     - Who was most influential in setting pricing decisions?
     - What criteria was used in setting pricing decisions?

- If no - What was their pricing philosophy?
  - What criteria was used in setting pricing decisions?

3. Who identified that a price change may be required?

   - Why was it this department or group?

4. By what process were changes in prices arrived at, specifically concentrating in the differences in procedures before 1973?

   - How were alternatives for price changes developed?

5. Who decided and finally approved the price to be charged?

   - Was the final approval ever taken to top management?
   - Why?

6. Did the company adopt a strategy in dealing with the Price Commission?

   - If yes - What strategy did it adopt?
     - What did you hope to achieve from this strategy?
     - Did that strategy originate from other factors beside the Price Commission?

7. How did the firm respond to the requirements of the Price Commission?

   (a) Did the company have to change the number of employees?

   - If yes - Why?
     - By how many did the company have to change the number of employees?

- Has there been any transfer of employees from other work?
- If yes - From where?
  - What type of work did they do?
  - How serious was this to the company?
- Do you think this change of employees was enough to perform the job?
- Why?
- How much do you think this recruitment cost?

- If no - Why do you think so?
- Did the company have an increase in the amount of overtime?
- If yes - Was it very often?
- If no - Were employees transferred from other activities?
  - If yes - From where and what type of work did they do?
    - Was this serious for the company i.e. important jobs not being done?
    - If yes - Were there any organi-

zational re-
percussions?

- If no - Do you think you had a surplus of employees?

- Yes + No - Did you have to recruit new types of personnel or to provide training for existing personnel?
  - Did this create any problems?
  - How much did it cost?

(b) Did the company reallocate some responsibilities between different functional groups?

- If yes - Which ones and why?
  - Was that done within the accounting department?
  - Why? and if yes - How and what?
  - Did the firm make any such changes between the accounting department and any other department?
  - Why? and if yes - How and what?
  - Did this reallocation affect your job?
  - If Yes - How?
  - Do you think that this reallocation of responsibilities led to the fulfilment of the Price Commission requirements in an efficient and effective manner?
  - Why and how?

- What were the organizational repercussions of this reallocation?

- If no - Why?

(c) Did the company attempt any shift towards data processing and/or computerization?

- If yes - Why?
  - Was this in addition to the change in employees or instead of it?
  - Why?
  - Do you think it helped in fulfilling the requirements of the Price Commission?
  - Why?
  - How much did it cost?
  - Was there any training involved, if so, how much did it cost?
  - What were the organizational repercussions of this shift?
  - Were there any advantages gained from the use of data processing and/or computers in addition to fulfilling the requirements of the Price Commission?
  - If yes - What were they?

(d) Did the company find that it had to collect any new basic data to comply with the requirements of the Price Commission?

- If yes - Why?
- What sort of data was this?

- Do you think that this data helped in fulfilling the requirements of the Price Commission?
- If yes - How?
- Did the company find that this data was useful for other purposes?
- How?
- Do you think that the collection of this data has led to changes in the number of employees and/or shift towards data processing as outlined above?
- Did the company find that the Price Commission required certain information which it was not able to provide?
- If yes - How did you overcome this problem?
  - Was it epensive to do so?
- If no - Why?

(e) Did the company need to change the structure of the accounting department?

- If yes - Why?
  - Do you think the new structure helped in performing the requirements of the Price Commission?
  - How?
  - In what way do you think that this new structure coped with the reallocation

of responsibilities mentioned above?

- Was your own job affected by this new structure?
- How (relate to decentralization or centralization of decision-making)?
- Were there any organizational repercussions of this new structure?
- Was there any training involved as part of this process?
- If yes - How much did it cost?

- If no - Do you think that it would have been useful for the company to make changes in the structure of the accounting department in order to be able to satisfy the requirements of the Price Commission?
  - Why (note the possibility of not being able to do so)?
  - If Q.7 (b) was yes - Do you think it would have been better to change the structure of the accounting department to cope with the reallocation of responsibilities?
  - Why?

8. Which activities of your company were affected by the requirements of the Price Commission?
   - What aspects of your firm's business was the Price Commission interested in?
   - Do you think that there were important aspects of your firm's activities that the Price Commission should

have covered and did not?

- If yes - What were they?
  - Why were they important?

9. Did the Price Commission affect the importance of accounting information in your firm?

- If yes - How?
  - To what extent do you think this has led to changes in the use made of accounting information in pricing decisions?
  - Did this lead to better (i.e. more profitable) pricing decisions?
  - Why?
- If no - Why do you think it has not affected it?
  - To what extent do you think accounting information was used in pricing decisions?

10. To what extent would you say that the Price Commission, rather than the market, induced a price change for your products?

- Over 75% of price decisions?
  50 -75% of price decisions?
  25 -50% of Price decisions?
  Under 25% of price decisions?
- To what extent do you think that accounting information was an important input for pricing decisions in the light of your previous answers (very important, important, not important)?

11. To what extent did non-accounting information play a

part in your pricing decisions?

- Was it very important, important, not important?
- Why?
- What sort of non-accounting data?

12. To what extent did the Price Commission affect the role of the accounting department and its relationship with other departments?
    - How?
    - Has this been affected by any reallocation of responsibilities such as were mentioned in Q.7 (b)?
    - How?

13. Did the accounting information system manage to maintain the previous management information as well as to satisfy the requirements of the Price Commission?
    - If yes - Was that done with the normal working hours or did you have to work overtime?
        - If yes - How much did it cost?
        - Do you think the accounting information system managed to do this after the change in employees and/or shift to data processing?
    - If no - Why?
        - Was this in any sense due to union restrictions or to say deterioration in employee relations?
        - What did you do to cope with both requirements?

- Do you think there could have been a better way?

14. Assuming the Price Commission had priority, did you ever decide to drop, delay or filter out any specific aspect of management information?

- If yes
    - Why?
    - What sort of information was affected?
    - What is the importance of that information to the company?
    - Why?
    - For how long did you continue doing that?
    - What did the company do in order to overcome this problem?
    - How did this affect the relation of this department with other departments?
- If no
    - Do you think there was a surplus of resources which the department was able to use to cater for the requirements of the Price Commission?
    - Did the company have to increase the number of employees, use more overtime etc?
    - Was the department able to provide all the information required of it?

15. Do you think that the requirements of the Price Commission ever led to poor management decisions because of the extra work involved in producing statutory information?

- If yes - Why?
  - What sort of decisions were mainly involved?
  - How serious has this affected your own job, your department and the company in general?
  - What do you think the company might have done in order to avoid such problems?
- If no - How was it that the accounting information system was able to provide this extra, statutory information without the normal day-to-day work being affected?

16. Did you ever find that information that you had to provide for the Price Commission was useful for the Company's purpose?
    - If yes - How did you find it useful?

      If no - Why?
      - Do you think it was a duplicate of what you already had?

17. Were there any cases where requirements of other government agencies overlapped with the requirements of the Price Commission?
    - What agencies were they?
    - Do you think that these requirements complemented or contradicted the work of the Price Commission?
    - How?

18. Did the work of the Price Commission require a certain level of understanding?
    - Which employees were allocated to the work?
    - What departments did they come from?
    - Why were they selected from those departments?

19. In your opinion which were the important documents submitted to the Price Commission?
    - Who prepared those documents?
    - How long did they take to prepare?
    - Were there any problems involved in preparing these documents?
    - If yes - What were they?
      - Can I have a look at these documents?

20. How did your company manage to maintain the consistency of information submitted to the Price Commission in the various documents?
    - Which in your opinion was the most important of these documents?
    - Why?

<u>Section C: 1977-1979 Price Code</u>

1. How did your firm make its preparation for this new piece of legislation?
    - Did the firm allocate the work of the Price Commission to a certain department or group?
    - Why that department or group?

- Did the firm have to employ internal and/or external experts to prepare itself for the Price Commission?
- What and why experts?

2. Did the accounting and marketing departments have different pricing philosophy?
   - If yes - What were they?
     - Who was most influential in setting pricing decisions?
     - What criteria was used in setting pricing decisions?
   - if No - What was their pricing philosophy?
     - What criteria was used in setting pricing decisions?

3. Who identified that a price change may be required?
   - Why was it this department or group?

4. By what process were changes in prices arrived at, specifically concentrating in the differences in procedures before 1977?
   - How were alternatives for price changes developed?
   - Did the company follow a strict commercial policy, a policy which would ensure that it never attracted the attention of the Price Commission, or any other policy?
   - Why?

5. Who decided and finally approved the price to be charged?

- Was the final approval ever taken to top management?
- Why?

6. Did the company adopt a strategy in dealing with the Price Commission?
   - If yes - What strategy did it adopt?
     - What did you hope to achieve from this strategy?
     - Did that strategy originate from other factors beside the Price Commission?

7. How did the firm respond to the requirements of the Price Commission?
   (a) Did the company have to change the number of employees?
       - If yes - Why?
         - By how many did the company have to change the number of employees?
         - Has there been any transfer of employees from other work?
         - If yes - From where?
           - What type of work did they do?
           - How serious was this to the company?
         - Do you think this change of employees was enough to perform the job?
         - Why?
         - How much do you think this recruitment cost?

- If no - Why do you think so?
  - Did the company have an increase in the amount of overtime?
  - If yes - Was it very often?
  - If no - Were employees transferred from other activities?
    - If yes - From where and what type of work did they do?
      - Was this serious for the company i.e. important jobs not being done?
      - If yes - Were there any organizational repercussions?
      - If no - Do you think you had a surplus of employees?
- Yes+No - Did you have to recruit new types of personnel or to provide training for existing personnel?
  - Did this create any problems?
  - How much did it cost?

(b) Did the company reallocate some responsibilities between different functional groups?
  - If yes - Which ones and why?
    - Was that done within the accounting department?
    - Why? and if yes - How and what?

- Did the firm make any such changes between the accounting department and any other department?
- Why? and if yes - How and what?
- Did this reallocation affect your job?
- If yes - How?
- Do you think that this reallocation of responsibilities led to the fulfilment of the Price Commission requirements in an efficient and effective manner?
- How and why?
- What were the organizational repercussions of this reallocation?
- If no - Why?

(c) Did the company attempt any shift towards data processing and/or computerization?

- If yes - Why?
    - Was this in addition to the change in employees or instead of it?
    - Why?
    - Do you think it helped in fulfilling the requirements of the Price Commission?
    - Why?
    - How much did it cost?
    - Was there any training involved, if so, how much did it cost?

- What were the organizational repercussions of this shift?
- Were there any advantages gained from the use of data processing and/or computers in addition to fulfilling the requirements of the Price Commission?
- If yes - What were they?

(d) Did the company find that it had to collect any new basic data to comply with the requirements of the Price Commission?

- If yes - Why?
    - What sort of data was this?
    - Do you think that this data helped in fulfilling the requirements of the Price Commission?
    - If yes - How?
    - Did the company find that this data was useful for other purposes?
    - How?
    - Do you think that the collection of this data has led to changes in the number of employees and/or shift towards data processing as outlined above?
    - Did the company find that the Price Commission required certain information which it was not able to provide?
    - If yes - How did you overcome this problem?

- Was it expensive to do so?
- If no - Why?

(e) Did the company need to change the structure of the accounting department?

- If yes - Why?
  - Do you think the new structure helped in performing the requirements of the Price Commission?
  - How?
  - In what way do you think that this new structure coped with the reallocation of responsibilities mentioned above?
  - Was your own job affected by this new structure?
  - How (relate to decentralization or centralization of decision-making)?
  - Were there any organizational repercussions of this new structure?
  - Was there any training involved as part of this process?
  - If yes - How much did it cost?
- If no - Do you think that it would have been useful for the company to make changes in the structure of the accounting department in order to be able to satisfy the requirements of the Price Commission?
  - Why (note the possibility of not being

able to do so)?

- If Q.7 (b) was yes - Do you think it would have been better to change the structure of the accounting department to cope with the reallocation of responsibilities?
- Why?

8. In your opinion what were the factors that led to your company being investigated by the Price Commission?
   - Why do you think so?

9. Which activities of your company were affected by the investigation of the Price Commission?
   - What aspects of your firm's business was the Price Commission interested in?
   - Do you think that there were important aspects of your firm's activities that the Price Commission should have covered and did not?
   - If yes - What were they?
     - Why were they important?

10. Did the Price Commission affect the importance of accounting information in your firm?
    - If yes - How?
      - To what extent do you think this has led to changes in the use made of accounting information in pricing decisions?

- Did this lead to better (i.e. more profitable) pricing decisions?
- Why?

- If no
  - Why do you think it has not affected it?
  - To what extent do you think accounting information was used in pricing decisions?

11. To what extent would you say that the Price Commission, rather than the market, induced a price change for your products?
    - Over 75% of price decisions?
      50%- 75% of price decisions?
      25%- 50% of price decisions?
      Under 25% of price decisions?
    - To what extent do you think that accounting information was an important input for pricing decisions in the light of your previous answers (very important, important, not important)?

12. To what extent did non-accounting information play a a part in your pricing decisions?
    - Was it very important, important, not important?
    - Why?
    - What sort of non-accounting data?

13. To what extent did the Price Commission affect the role of the accounting department and its relationship with other departments?
    - How?

- Has this been affected by any reallocation of responsibilities such as were mentioned in Q.7 (b)?
- How?

14. Did the accounting information system manage to maintain the previous management information as well as to satisfy the requirements of the Price Commission?
    - If yes - Was that done with the normal working hours or did you have to work overtime?
      - If yes for second part - How much did it cost?
      - Do you think the accounting information system managed to do this after the change in employees and/or shift to data processing?
    - If no - Why?
      - Was this in any sense due to union restrictions or to any deterioration in employee relations?
      - What did you do to cope with both requirements?
      - Do you think there could have been a better way?

15. Assuming the Price Commission had priority, did you ever decide to drop, delay or filter out any specific aspect of management information?
    - If yes - Why?
      - What sort of information was affected?
      - What is the importance of that information

to the company?

- Why?
- For how long did you continue doing that?
- What did the company do in order to overcome this problem?
- How did this affect the relation of this department with other departments?

- If no - Do you think there was a surplus of resources which the department was able to use to cater for the requirements of the Price Commission?
- Did the company have to increase the number of employees, use more overtime etc?
- Was the department able to provide all the information required of it?

16. Do you think that the requirements of the Price Commission ever led to poor management decisions because of the extra work involved in producing statutory information?

- If yes - Why?
- What sort of decisions were mainly involved?
- How serious has this affected your own job, your department and the company in general?
- What do you think the company might have done in order to avoid such problems?

If no - How was it that the accounting information system was able to provide this extra, statutory information without the normal day-to-day work being affected?

17. Did you ever find that information that you had to provide for the Price Commission was useful for the company's purpose?
    - If yes - How did you find it useful?
    - If no - Why?
      - Do you think it was a duplicate of what you already had?

18. Were there any cases where requirements of other government agencies overlapped with the requirements of the Price Commission?
    - What agencies were there?
    - Do you think that these requirements complemented or contradicted the work of the Price Commission?
    - How?

19. Did the work of the Price Commission require a certain level of understanding?
    - Which employees were allocated to the work?
    - What departments did they come from?
    - Why were they selected from those departments?

20. In your opinion which were the important documents submitted to the Price Commission by your company?
    - Who prepared those documents?
    - How long did they take to prepare?
    - Were there any problems involved in preparing these

documents?

- If yes - What were they?
  - Can I have a look at these documents?

21. How did your company manage to maintain the consistency of information submitted to the Price Commission in the various documents?
    - Which in your opinion was the most useful of these documents?
    - Why?

<u>Section D: After the abolition of the Price Commission</u>
(current position)

1. Do the accounting and marketing departments have different pricing philosophy?
   - If yes - What are they?
     - Who is most influential in setting pricing decisions?
     - What criteria is used in setting pricing decisions?
   - If no - What are their pricing philosophy?
     - What criteria is used in setting pricing decisions?

2. Who identifies that a price change may be required?
   - Why is it this department or group?

3. By what process are changes in prices arrived at?
   - How are alternatives for price changes developed?

4. Who decides and finally approves the price to be charged?

   - Is the final approval ever taken to top management?
   - Why?

5. To what extent do you think accounting information is used?

   - Over 75% of price decisions?
     50%- 75% of price decisions?
     25%- 50% of price decisions?
     Under 25% of price decisions?

6. To what extent does non-accounting information play a part in your pricing decisions?

   - Is it very important, important, not important?
   - Why?
   - What sort of non-accounting data?

7. Has the company had to change the number of employees?

   - Why?
   - Were employees released to do other work?
   - If yes - How vital?
     - Are there any organizational repercussions?
   - Is the accounting department overstaffed?

8. Has the company reallocated some responsibilities between functional groups?

   - Why?

9. Has the company attempted any shift towards data processing and/or computerization?
   - Is this resource used for other jobs or did the company find that it had idle resources?
   - Why for the second part?

10. Has the company found that it has to collect new basic data to comply with the requirements of the Price Commission?
    - Why?

11. Has the company had to change the structure of the accounting department?
    - Why

12. To what extent has the abolition of the Price Commission affcted the importance of accounting information in your firm?
    - Why?

13. If the Price Commission rather than the market, induced a price change in your products, to what extent would you say that this had changed after its abolition?
    - Why?

14. To what extent has the abolition of the Price Commission affected the role of the accounting department and its relationship with other departments?

- Why?
- Are there any organizational repercussions as a result of this change?

15. Have you continued to produce the information you had to provide for the Price Commission if you found that it was useful for the company's purposes?
    - Why?
    - If no - Does this have any organizational repercussions?

    - Have you stop having this information after the Price Commission was abolished?
    - If yes - For how long did you keep having it?
      - Why?
      - How much do you think it could have cost you?
    - If no - Did you find you had excess of employees?
      - If yes - How much is this costing you?
      - Did this have any organizational repercussions?

16. Now that the Price Commission has been abolished, do you see any new movements in the future which you have not managed to achieve yet?

Section E: Evaluating the Price Commission

1. What did you think of the Price Commission?

2. How did it affect your department?

3. How did it affect your own job?

4. What do you think about the abolition of the Price Commission in the light of your previous answers?

Appendix C

INTERVIEWER'S CHECK LIST OF POINTS TO COVER

(All questions relate to U.K. sales and activities)

Section A: General Background of Company (current position)

1. What industry does your firm trade in?

2. What are the major products that your firm manufactures for sale in the U.K.?

3. How many firms sell in the U.K. similar product(s) to those produced by your firm?

4. What is the percentage of your market share (U.K. only) for each major product group?
   - What is the proportion of revenue of each group?

5. To what extent is your firm a price setter, a price follower or a price taker regarding the major products(s) it sells in the U.K.?

6. To what extent is consideration given to the threat of entry of firms outside the industry regarding each major product group market in the U.K.?

7. In your perception to what extent do you think the following changes in prices would affect your firm's U.K. market share?

increases:	5%	10%	20%
decreases:	5%	10%	20%

8. To what extent would such price changes be feasible bearing in mind the need (i) to earn a profit; (ii) achieve other corporate objectives (what objectives)?

Section B: Prior to the introduction of the Price Commission

1. Were there any changes in Section A during this period with respect to each major product group?
   - Why?
   - Were these changes of significance to affect your pricing policy for each product group?
   - If yes: How?

2. How did the pressure for price changes arise?
   - What were the major factors that triggered price increases?

   - Did they always tend to be the same factors?
   - Why?
   - If No: What circumstances led to the change?
   - Were they the same factors for all product groups?

3. Who identified the need for a price change?
   - What information was used to identify it?

- What calculations and reports were made to suggest the price change?
- Were they standard procedures or ad hoc studies?

4. How were the suggestions for price changes considered?
   - Who considered the change?
   - Were there formal meetings held?
   - If yes: How many:
     Who attended them?
   - Were there informal meetings held?
   - If Yes: How many?
     Who attended them?
   - Were there standard procedures?

5. Did the accounting and marketing departments consistently tend to have different views regarding the suggested change in prices?
   - If yes:
     - Why?
     - What were they?
     - Which pricing view of the two was pursued in setting prices?
     - Why?
   - If no:
     - What was their pricing view?
     - Who developed that pricing view?

6. Who really influenced the pricing decision?
   - Why?

7. Were price increases <u>considered</u> whenever accounting

data identified an increase in cost?

- If yes: - Why?
  - To what extent was the market state taken into consideration?
- If No: - Why?
  - How important were the formal accounting documents in determining the price change?

8. Were prices <u>increased</u> whenever accounting data identified an increase in cost beyond some margin?
   - If yes: - Why?
     - To what extent was the market ready to absorb the increase?
     - What accounting method was used in setting prices?
   - If no: - Why?
     - What was the role of accounting data in pricing decisions?

9. Who finally approved the price to be charged?
   - Why?
   - Was the final approval ever referred to top management?
   - Why?

10. Were there any strategic factors considered in making the pricing policies?
    - Was there any long run pricing strategy which was later affected by the Price Codes?

Section C: 1973 - 1977 Price Code

1. Were there any changes in Section A during this period with respect to each major product group?
   - Why?
   - Were these changes of significance to affect your pricing policy for each product group?
   - If yes: How?
   - Compared with the period 1970-73 did the trend in the degree of competition change?
   - If yes: How?
   - If no: Why?
   - Was this change in any way due to the Price Commission?

2. How did your firm make its preparation for this new piece of legislation?
   - Did the firm allocate the work of the Price Commission to a certain department or group?
   - What increase in responsibilities did that department or group gain as a result of carrying out the work of the Price Commission?
   - Why?

3. How did the pressure for price changes arise?
   - What were the major factors that triggered price increases?
   - Did they always tend to be the same factors?
   - Why?

- If No: What circumstances led to the change?
- Were they the same factors for all product groups?

4. Who identified the need for a price change?
   - What information was used to identify it?
   - What calculations and reports were made to suggest the price change?
   - Were they standard procedures or ad hoc studies?

5. How were the suggestions for price changes considered?
   - Who considered the change?
   - Were there formal meetings held?
   - If Yes: How many?
     - Who attended them?
   - Were there informal meetings held?
   - If Yes: How many?
     - Who attended them?
   - Were there standard procedures?

6. What really determined the pricing decision during this period?
   - Why?

7. Did the accounting and marketing departments consistently tend to have different views regarding the suggested change in prices?

- If yes - Why?
  - What were they?
  - Which pricing view of the two was pursued in setting prices?
  - Why?
- If no - What was their pricing view?
  - Who developed that pricing view?

8. Did the Price Commission affect the importance of accounting information in your firm?
   - If yes - How?
     - Did this lead to changes in the use made of accounting information in pricing decisions?
     - Why?
     - Did this lead to better (i.e. more profitable) pricing decisions?
     - Why?
   - If no - Why do you think it has not affected it?
     - To what extent do you think accounting information was used in pricing decisions?

9. Did the marketing department have any particular pricing strategy that was dropped when the Price Commission was introduced?
   - Why?

10. Did the Price Commission affect the role of the accounting department and its relationship with

other departments?

- If yes - How?
    - What was the organizational repercussions of this effect?
      e.g. joining pricing committees, responsibilities over other decisions.
- If no - Why?

11. Were price increases <u>considered</u> whenever accounting data identified an increase in cost?
    - If yes - Why?
        - To what extent was the market state taken into consideration?
    - If no - Why?
        - How important were the formal accounting documents in determining the price change?

12. Were prices increased whenever the rules of the Price Commission allowed it?
    - If yes - Why?
        - Did the market always absorb the price increase without loss of sales?
        - If yes - Why?
            - Were prices increased by reference to accounting data?
            - If yes - Why?
                - What accounting method was used in setting prices?

- If no - Why?
  - What criterion was used in setting prices?
  - What was the role of accounting information in pricing decisions?

- If no - Why?
  - How frequent were prices increased?
  - What criteria were used in setting prices?
  - What was the role of accounting information in pricing decisions?

- If no - Why?
  - What was the role of accounting data in pricing decisions?
  - Why?

13. Compared with the period prior to the introduction of the Price Commission, to what extent were price increases influenced by the department responsible for the Price Commission's requirements?
    - Why?

14. Who finally approved the price to be charged?
    - Why?
    - Was the final approval ever referred to top management?
    - Why?

15. As a result of the introduction of the Price Commission, did your firm contemplate to concentrate more on exports?

    - Why?

16. Did the accounting information system manage to maintain the previous management information as well as to satisfy the requirements of the Price Commission?

    - If yes - How - 1. increase in employees;
      2. use of data processing and/or computer facilities;
      3. use of surplus resources;
      4. any other means.

    - If no - Why?
      - Assuming the Price Commission had priority, did you decide to drop any specific aspect of management information?
      - If yes - What sort of information was affected?
        - Was this information important?
        - If yes - Why?
          - How did the dropping of this information affect the firm?
          - For how long did you drop the information?
          - What did the company do to overcome this problem?
          - What were the organizational repercussions?

- If no - Why was it produced?
  - For how long was the information dropped?
- If no - What did the company do to fulfil both requirements for information?

Section D: 1977 - 79 Price Code

1. Were there any changes in Section A during this period with respect to each major product group?
   - Why?
   - Were these changes of significance to affect your pricing policy for each product group?
   - If yes - How?
   - Compared with the period 1973 - 77, did the trend in the degree of competition change?
   - If yes - How?
   - If no - Why?
   - Was this change in any way due to the Price Commission?

2. Which department was responsible for the requirements of the Price Commission during this period?
   - Compared with the first code, did the responsibilities of that department change as a result of carrying out the work of the Price Commission during the second code?
   - Why?

3. How did the pressure for price changes arise?

- What were the major factors that triggered price increases?
- Did they always tend to be the same factors?
- Why?
- If no - What circumstances led to the change?
- Were they the same factors for all product groups?

4. Who identified the need for a price change?
   - What information was used to identify it?
   - What calculations and reports were made to suggest the price change?
   - Were they standard procedures or ad hoc studies?

5. How were the suggestions for price changes considered?
   - Who considered the change?
   - Were there formal meetings held?
   - If yes - How many?
     - Who attended them?
   - Were there informal meetings held?
   - If yes - How many?
     - Who attended them?
   - Were there standard procedures or ad hoc studies?

6. What really determined the pricing decision during this period?
   - Why?

7. Did the accounting and marketing departments consistently tend to have different views regarding

the suggested change in prices?

- If yes - Why?
    - What were they?
    - Which pricing view of the two was pursued in setting prices?
    - Why?
- If no - What was their pricing view?
    - Who developed that pricing view?

8. The changes introduced in the second code relaxed the increase of prices in terms of total cost. Did this have an impact on the use of product costing information when considering price increases?
    - If yes - How?
        - Did this lead your firm to introduce any changes in its product costing system?
        - Why?
        - If yes - What benefits did your firm gain from these changes?
    - If no - Why?
        - What was the role of product costing information in pricing decisions?

9. Compared with the first code, did the changes introduced in the second code affect the role of accounting department and its relationship with other departments?
    - If yes - How?
        - What was the organizational repercussions

of this effect? e.g. joining pricing committees, responsibilities over other decisions.

- If no - Why?

10. Compared with the first code, to what extent were price increases influenced by the department responsible for the second code?
    - Why?

11. Were price increases <u>considered</u> whenever accounting data identified an increase in cost?
    - If yes - Why?
        - To what extent was the market state taken into consideration?
    - If no - Why?
        - How important were the formal accounting documents in determining the price change?

12. How frequent were prices <u>increased</u> whenever the criteria of the second code were satisfied?
    - Why?

13. Was your company investigated by the Price Commission?
    - If yes - What were the factors that led to the investigation?
        - Was your firm's pricing policy influenced by the risk of being investigated by the Price Commission?

- If yes - How?
- If no - Why?
- Which department was monitoring the investigation?
- Was the company granted the price increase it applied for?
- What were the organizational repercussions of this? e.g. influence over other decisions.

- If no - Why?
  - To what extent did your firm pursue a pricing policy that did not attract the attention of the Price Commission?
  - What was the impact of that policy on the company's profitability?
  - Did this have any organizational repercussions?

14. Who finally approved the price to be charged?
    - Why?
    - Was the final approval ever referred to top management?
    - Why?

<u>Section E: After the abolition of the Price Commission (current position)</u>

1. How does the pressure for price changes arise?
   - What are the major factors that trigger the change?

- Are they the same factors for all product groups?

2. Who identifies the need for price changes?
   - What information is used to identify it?
   - What calculations and reports are made to suggest the price change?
   - Are they standard procedures or ad hoc studies?

3. How are the suggestions for price changes considered?
   - Who considers the change?
   - Are there formal meetings held?
   - If yes - How many?
     - Who attends them?
   - Are there informal meetings held?
   - If yes - How many?
     - Who attended them?

4. Do the accounting and marketing departments consistently tend to have different views regarding the suggested change in prices?
   - If yes - Why?
     - What are they?
     - Which pricing view of the two is pursued in setting prices?
     - Why?
   - If no - What is their pricing view?
     - Who develops that pricing view?

5. Has the abolition of the Price Commission affected the role of the accounting department and its relationship with other departments?
   - Why?
   - What are the organizational repercussions of this effect?

6. Are price increases <u>considered</u> whenever accounting data identifies an increase in cost?
   - If yes - Why?
     - To what extent is the market state taken into consideration?
   - If no - Why?
     - How important are the formal accounting documents in determining the price change?

7. Are prices <u>increased</u> whenever accounting data identifies an increase in cost beyond some margin?
   - If yes - Why?
     - To what extent is the market ready to absorb the increase?
     - What accounting method is used in setting prices?
   - If no - Why?
     - What is the role of accounting data in pricing decisions?

8. Who finally approves the price to be charged?
   - Why?

- Is the final approval ever referred to top management?
- Why?

9. Has the Price Commission required the production of new information which has been continued after its abolition and seen to benefit the company?
   - If yes - What information?
     - How has it been of benefit to the company?
   - If no - Why?

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