

management focus

essential management knowledge for today's leaders

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health care organizations*

An interview with:
Sir Martin Sorrell



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Welcome to Management Focus

... and welcome to the November/December issue.

Power is not a very popular concept in health care because it refers to health care professionals' exercise of power over patients. However, health care organizations are, like any other organization, systems of power.

Organizations are complex systems of individuals and coalitions, where everyone has their own interests, beliefs, values, preferences and angles. Owing to limited resources, there is competition, which results in conflicts. The actors whose roles are more critical for the organization gain more power. Read the article to find out more.

WPP was established in 1986 by Chief Executive Martin Sorrell. He made his name as finance director of the advertising giant Saatchi & Saatchi Plc, joining the firm in 1977 and playing a key role in its growth through acquisitions. In 1985 he left Saatchi & Saatchi to establish his own marketing services company.

Sir Martin Sorrell is one of the best known chief executives of a FTSE 100 company. He has created from scratch the largest marketing services firm in the world by sales and profit. He is greatly admired and respected for his achievements. Here, we are privileged to interview Sir Martin Sorrell and discover in greater depth the strategies he has deployed to create such a successful company.

Finally, a basic element for successful managerial activity is business education, which supports business action. Business education is about facilitating learning of job-related behaviours in order to improve individual and corporate performance. Find out more in our *Management Matters* section, which discusses excellence in business education.

Remember, log on to our website at: <http://first.emeraldinsight.com> to expand on the topics highlighted in this issue of *Management Focus*

Best wishes,

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Decision-making power in health care organizations

Power is not a very popular concept in health care, because it refers to health care professionals' exercise of power over patients. However, health care organizations are, like any other organization, systems of power.

Organizations are complex systems of individuals and coalitions, where everyone has their own interests,

beliefs, values, preferences and angles. Owing to limited resources, there is competition, which results in conflicts. The actors whose roles are more critical for the organization gain more power.

In Finland, health care services are based on public provision. As a consequence, the structures of health care organizations represent traditional organization models, such

as bureaucracy and professional organization. Hospitals, for instance, are mainly seen as professional bureaucracies where the structure is bureaucratic but decentralized. The main performers are doctors, and nurses are classified as support staff.

New waves of result-based management have delegated tasks to the unit level and brought features of managerialism to health care. It has

strengthened unit-based thinking, but at the same time it can lead to fragmentation. As a consequence, first-line management has emerged to the forefront.

Making decisions

Making decisions is at the core of management. To make the correct and rational decisions, a manager has to gather as much information as possible to be able to choose from various options and their imaginable consequences. Because not all possible consequences can be predicted, decisions can only be rational to a limited degree. Authority in organizations means legitimate power to give orders and make decisions.

Discretion is an important part of the decision-making process, and involves choosing between options. At the unit level there is greater opportunity for discretion if the top management is disintegrated, the case under consideration is not important, or the unit is sustainable. Managerial discretion depends on how managers perceive it. Perceived discretion, even if it is slight, gives managerial power. If a person does not recognize their possibilities, it is less likely that they will act.

Power vested in resources is based on the fact that some resources are more critical for the organization than others. Persons who can offer resources like money, fame, legitimacy, rewards, sanctions, special skills or the ability to deal with uncertainty have power. The point is to own resources somebody else needs or desires. Scarcity and dependence are the keys to resource power. Resource allocation can also have an impact on the decision-making process as a premise for it.

Power in an organization depends on an individual's or unit's position in the official and unofficial communication networks. A formal position brings access to invisible tools of power such as knowledge and membership in networks. Knowledge is also an important part of decision making. For informed decisions there must be enough information about the alternatives.

First-line management

Lower level managers are "employees who have one hierarchical level under them". In health care that means nurse and physician managers at the unit level.

First-line managers are members of two organization subsystems, the managerial structure and the unit

"Making decisions is at the core of management. To make the correct and rational decisions, a manager has to gather as much information as possible to be able to choose from various options and their imaginable consequences."

supervised. This can cause problems if the demands of these subsystems come into conflict. The position needs balance between different values. First-line managers operate at the core of the action. They deal with people as individuals rather than as groups.

As the first-line managers work close to the operative core, the nature of their work is short-term, fluctuating and fractured. It has some regular variation in the long term but, the lower the hierarchical position, the more short-term are the duties. Because of the nature of the action, reactions must be immediate, and the main concern is maintaining the fluency of work processes.

Compared with other management levels, managerial roles in first-line management are the same, but the stressing of them is different. On the other hand, skills needed at higher levels may not be relevant at lower levels of management. The central point is to use the skills suitable for the relevant level. At the lowest level the most important is the implementation of policies set higher up. It can be done more or less effectively.

In the Finnish health care system, there are two managerial lines in the management structure. This also means that the two professional groups in first-line manager positions are doctors and nurses. The position of nurse managers is traditionally strong and clear. They work as leaders in their units concerning nursing operations. However, they often partake in hands-on work in their units and the proportion of managerial duties in their work varies according to the size of the unit.

On the other hand, the position of first-line physician managers is not so clear. The main focus is on clinical work, not managerial duties and the name of the position has a connection to the determination of salary, not necessarily to the content of the position. In spite of that, there are doctors working in managerial positions at the unit level.

Making space for more meaningful management

Are first-line managers' recruiting, qualification requirements and training in balance with the real conditions in the units? Do we lure first-line managers with advertisements for a job promising an innovative and development-favourable working environment, or to get higher education, causing frustration when they realize what the real conditions are? In Finland, there are no congruent competences or qualification requirements for first-line managers. In the end organizations define them themselves.

Or should the organizations reevaluate their structures, responsibilities and distribution of work, so that there could be space for more powerful first-line managers? If the organizations seek innovative and active managers at the unit level, they should change the organizational structure and redistribute the work, so that there could be more space for meaningful management. First-line managers desire more decision-making power, not just gathering background information for somebody else.

Or do they actually have the power but do not perceive or use it? With clear frames of managerial duties, first-line managers use more discretion. With proper job descriptions first-line managers can be conscious of the possibilities and the limitations of their position and use their power effectively.

This is a shortened version of "Power in health care organizations: contemplations from the first-line management perspective", which originally appeared in *Journal of Health Organization and Management*, Volume 25 Number 4, 2011.

The author is Ulla Isoaari.



Building a marketing services giant by acquisition: an interview with

Sir Martin Sorrell

Interview by *Journal of Strategy Management*

Journal of Strategy and Management: How do you define strategy?

Sir Martin: Strategy directs the key future investment decisions. It offers an umbrella for managing an organization's future. Our strategy comprises three strands: new markets, new media, and consumer insights. The WPP's strategy is explorative – we search for and invest in new growth opportunities.

JSMA: You have built WPP to a business of over £9bn market capitalization through a series of acquisitions and investment in other companies. Academic research indicates that between 60-85 per cent of all Mergers and Acquisitions fail to create value. Why has WPP succeeded, when so many have failed?

Sir Martin: When you start with a wire basket manufacturer and you want to build a multinational services company, there is very little that you can do other than grow by acquisition. We have been successful but of course make mistakes all the time. We made a number of big acquisitions, which have worked pretty well, for example:

- JWT Group in 1987;
- Ogilvy Group in 1989;
- Young & Rubicam Group in 2000;
- Grey Global Group in 2005;
- Real Media in 2007; and
- TNS in 2008.

All of those were in the public market and usually public company acquisitions are more expensive than private acquisitions. For these and others we had a well thought through strategy – we started off focusing on “below the line” activities that were both unfashionable and fragmented and therefore affordable. We identified

this approach before the industry and the markets as a whole agreed with that diagnosis.

In 1987 we acquired JWT, which had, in addition to an advertising agency, a PR company and a research company. That represented a change in strategic direction for WPP, as until then we were seen as a “below the line” company. Below the line is everything except traditional advertising in television, newspapers and magazines. We have a clear strategy and we acquire companies that meet the needs of our strategy.

JSMA: In creative businesses people are very important and, in an acquisition, one of the key issues is retaining key people. How do you retain the key people?

Sir Martin: We have a transparent private equity-based model, which we derived in the early 1990s, where targets are set and up to a percentage of the profit before bonuses and taxes is used as an incentive.

We also developed “leap” executive plans in the early 1990s which were somewhat controversial at the time, where we asked our key people to invest in the company (people talk about entrepreneurial opportunities and they confuse entrepreneurialism with autonomy). Autonomy is target setting and freedom to achieve that target, whereas entrepreneurialism means taking risks with their own money. This is where employees commit stock that they own or buy stock and, dependent on performance, get a multiple of that stock as a performance bonus.

JSMA: Do you think that a joint CEO situation can work in a merger or acquisition?

Sir Martin: There is no such thing as a merger – they are all acquisitions. A structure that proclaims to support a

merger with a joint CEO or joint chairman cannot succeed in the medium to long term.

JSMA: Do you think that the experience of the Chief Executive in mergers and acquisitions is an important driver of success?

Sir Martin: Experience obviously helps, as, the more experience you have, the fewer mistakes you are likely to make. Ownership is an important driver – whereas I don't have any patience with options, as it is giving managers a call on your stock for ten years. A Chief Executive may not have to do anything if the markets are rising and there is reward in shares. This is simply outrageous.

What is important is commitment – this can also be emotional as well as financial commitment.

JSMA: What are the core competencies of WPP?

Sir Martin: Our core competencies revolve around new markets, new media and consumer insights. We have a very strong geographic footprint with the strongest position in Russia, China, India and Brazil. We also have the strongest position in Africa. It is also important to have a presence in the USA, which has an economy three times the size of China. If one was starting from the beginning, I would suggest that a strong presence is needed in the USA, Europe and, in particular, Germany, Asia, Latin America, the Middle East and Central Europe.

This is a shortened version of “Building from scratch a marketing services giant by acquisition: case study and interview with Sir Martin Sorrell, Chief Executive of WPP”, which originally appeared in *Journal of Strategy and Management*, Volume 4 Number 3, 2011.

Management Matters

Incisive commentary on topical business issues

Searching for excellence in business education

A basic element for successful managerial activity is business education, which supports business action. Business education is about facilitating learning of job-related behaviours in order to improve individual and corporate performance. It is the mechanism for transferring the knowledge of different management subjects from the holder of that knowledge to the receivers.

The essence of business education, for more than a century, has been perceived by managers and global academic leaders as being synonymous with the provision of a certain knowledge corpus that will enable individuals to acquire a global mindset and act to achieve high self and corporate performance levels (nowadays, by paying attention to ethics and corporate responsibility issues).

The great demand for business education during the last decades has

resulted in an increase of business schools and a variety of business education programmes offered globally. In an age of fierce competition and in the face of many cases of corporate misbehaviour, the issue of excellence in business education becomes crucial.

Excellence in business education is usually considered in relation to balanced performance levels in pre-defined performance dimensions. In broad terms, it includes quality in infrastructure and academic staff, quality of students, sufficient resources, business school interaction with the corporate world and comprehensive business curriculum, so that future managers have all the necessary knowledge, skills and abilities to have a successful professional career.

In a recent survey, conducted by *Harvard Business Review* on whether business schools are to blame for the current global crisis, 67 percent of the respondents felt that business schools were at least partly

responsible for the ethical and strategic lapses of their graduates, who spawned the economic crisis.

However, it is rather superficial and unwise to condemn solely business schools for the “golden boys” scandals or “toxic” financial products, as education is not the only factor affecting human behaviour. This does not mean that business education should not improve. Weaknesses and problems of business education need to be addressed and, to that extent, a glimpse into the past conceptualizations of excellence can help towards progress in that direction.

Excellence in business education surely depends on the dominating management school of thought. Nevertheless, it calls for a way of thinking and acting beyond generally accepted business imperatives. Some management gurus have raised the question of business education effectiveness and have suggested that business education in its present form does not make a great contribution to excellence in management practice.

Incomplete theories, unquestioned assumptions by management practitioners and scholars and the “bottom line” culture have stripped business education of its ethical dimension and have degraded management from being a comprehensive to being a technocratic knowledge corpus, whose consequences are often combined with complaints that management educators fail to meet corporate needs.

Adapted from “Searching for excellence in business education”, *Journal of Management Development*, Volume 30 Number 9, 2011.





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Final thought ...

“ Developing excellent communication skills is absolutely essential to effective leadership. The leader must be able to share knowledge and ideas to transmit a sense of urgency and enthusiasm to others. If a leader can't get a message across clearly and motivate others to act on it, then having a message doesn't even matter. ”

Gilbert Amelio

President and CEO of National Semiconductor Corp

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