

Top Management Decision Making Processes in the Finnish Business and Hospital Sector

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Key Words

Decision making processes, competition, hospital business, Finland.

Key questions

How are successful and difficult decisions made? How are failed decisions made? What is decision making metamorphosis and decision making anatomy? How does the decision making process function? How will hospital management decision making processes change in Finland?

Business based decision making processes will influence hospital operations in Finland. In 1997, the municipal hospital system will implement financial accounting based methods which will result in free market competition. At the same time, the private health care sector will also begin to compete against competitors. The strategically incorrect decisions of upper management can, at the worst, seriously damage the critical points of an entire business. The upper management decision making processes of Finnish business maintains a high ethical and moral code. The decision making anatomy includes intuition, experience and vision which all play an important part in decision making.

The worst mistakes occur in issues concerning personnel and when key personnel wait too long to decide. The correct timing of decision making is emphasized in strategic decision making. Modern decision making processes are influenced by the large amount of information and the ability to handle and process the information quickly. In the "black box" theory, information is lost into a black hole and upper management must blindly decide upon an issue based on the recommendations of a subordinate. One of the largest problems in business decision making is the vast amount of variables affecting the result of the decision and the difficulty in forecasting the unknown changes. With the implementation of accounting based procedures, the management of the municipal hospital must accept business risks and business based methodology in the decision making process.

Abstract

The decision-making process of leaders is compared between both hospitals and private business groups in Finland through a qualitative method of open-ended questions. In Finland, the decision-making of upper management in hospitals is bureaucratic. Political decision making is significant in both major decisions of hospitals and upper management decision making processes. This is contrary to developed business practices. However, new legislation will be implemented in 1997; *all municipal hospitals in Finland must be evaluated based on an income statement and balance sheet*. Also, invisible cartels of medical products, supplies and equipment are slowly opening up towards free competition within the directorates of the European Union. The decision making mechanism in how to make good decisions in a business sense must be implemented in hospitals and the multi-layered organizational structure abolished. Business professionals must follow-up on the cost effectiveness of the medical sector. With the implementation of business accounting methods, the management of the hospital must accept business risks and business decision making methodology. Health care management and its new management culture will be the key words in the near future.

The research goal

The research goal is to find out whether or not a niche exists in creating a consulting service for the development of effective Finnish municipal and public hospitals based on the principles of business decision-making (1).

The scope of the study includes 49 in depth interviews and focuses on chief executive officers of companies (29 interviews) and chief surgeons of hospitals (20 interviews). The research was conducted during 1995 primarily through the use of qualitative open-ended questions. Saturation points and similar patterns are analyzed with a focus of applying business methods and leadership toward hospital decision-making.

Business saturation effect

The business saturation effects (see Table 1) described by the respondents are listed by rank and issue.

Rank	Issue
1	Toughest decision
2	Largest disappointment
3	Best decision
4	Force decisions through
5	Role of president
6	Follow-up
7	Decision-maker
8	Listening to employees
9	Evaluation of job performance
10	Ethics
11	Most important decisions
12	Experts
13	Purchasing
14	Price/quality
15	Pressure in decision-making
16	Politics
17	Management information systems
18	Largest Success

Business saturation effect
(Table 1)

Toughest decision: The toughest decision is the firing and laying off of employees. Another tough decision is when to stop deliberating on an issue and decide. Often there exists a "gray area" where there is no right decision but nevertheless a decision must be made. One of the toughest problems in business decision making is in predicting all the variables which will influence the outcome of the decision.

Largest disappointment: A decision is made to trust an employee with a new job or a particular task based on the long term relationship between the employer and employee. The largest disappointment occurs when the employee does not achieve the specified results, is an alcoholic or simply does not get along with people. Also, there were disappointments when work was delegated and not completed. Another disappointment also includes the results of a bad decision due to a key individual delaying in making a decision.

Best decision: The best decision making anatomy focuses on the correct timing particularly when an investment is the issue. The best decisions are based on facts including the correct calculations, intuition, experience and vision. The timing of the correct decision is emphasized in strategic decision making.

Force decision through: Management must be committed and follow-up on their decisions; otherwise, a decision can result in failure. Occasionally, decisions are forced to go through concerning people; laying-off, firing or organizational decisions. At the same time, the largest failures are due to personnel related reasons; specifically hiring decisions.

Role of president: The most important role of a president is to increase shareholder value. A president also functions as a catalyst of new ideas, motivates employees to follow policy in unnoticeable ways and utilizes intrapreneurship policies within the company.

Follow-up: Follow-up is practiced through management by walking around, following key figures through a reporting system and listening to client needs. However, systematic ADP follow-up does not occur except for a few individuals.

Decision-maker: The key is to have a few but talented key decision makers, "*so that they can fit into one volkswagen.*" Most chief executive officers prefer two to three key decision-makers on more important issues.

Listening to employees: There is an 'open-door' policy at most chief executive offices, however, most chief executive officers want to empower people to make decisions as close to the customers as possible.

Evaluation of job performance: A chief executive officer is evaluated by the board of directors, through feedback and key financial figures. There is an emphasis on an open culture.

Ethics: The decision making of Finnish business management contains a high moral and ethical code which is either written or understood and acts as a reference frame in decision making. The ethical code in business functions on a much higher level when compared to the ethical decision making of doctors in issues concerning leadership and self evaluation. Companies are devising a system of follow-up not only in financial figures but also in an ethical incentive system. The emphasis is on building long-term customer relationship based on trust. *There must be a balance between the different types of interest.* The rules for company transactions are more detailed and there is a supervisory committee. *If I do something wrong, then the rumors can destroy the whole system.* If an employee creates an error then he can be forgiven, but if the employee cheats, the employee is fired.

Most important decisions: The critical points of the most important decisions are to make not only the correct decisions concerning investment and strategic business deals but to also be prepared to handle unexpected crises and emergencies.

Experts: Most companies prefer to have in-house line management experts. Occasionally, before important investment decisions are made, consultants are brought in to act as devil's advocates with the key decision-makers. In major issues and strategic decisions, upper management may bypass the statements of an expert if a decision is made to take a calculated risk on a business opportunity. But usually, expert decisions carry a lot of weight in ordinary issues.

Purchasing: The decision centers around the purchasing manager who is empowered to decide purchases up to a certain FIM amount. However, the key criteria are price, quality, supplier's delivery time and guarantee of the product. For more expensive decisions, an approval is usually necessary from another key person and the issue is centered on the long term value-added generated by the product.

Price/Quality: The common factor for raw materials and parts is a non-expensive price and high quality, but the end product must have positive impact on customer satisfaction.

Pressure in decision-making: The key influences of pressure are customers, employees and unions. Usually outside influences do not affect decision making if upper management utilizes proactive thinking including calculating the possible effects of outside influences. When a large and difficult decision must be made, top management usually takes approximately one to three days to recover from the decision process and return to the sharpness of their leadership skills.

Politics: Most chief executive officers do not accept players who play politics or power games especially with the withholding of information from other employees.

Management information systems: The largest problem is the mass of information given to the chief executive officer instead of shorter, more concise forms. The decision making process is influenced by the vast amount of information and the ability to find and understand the relevant parts. In the black box theory, a decision must be made by upper management solely based on the information presented by the subordinate due to time constraints.

Largest success: The most successful decisions are made when the issue is familiar to the decision maker and when there is a system of checks and balances on the information and key people involved in the decision. Interaction and cooperation between key people is also significant.

Hospital saturation effect from interviews

The hospital saturation effects (see Table 2) described by the respondents are listed by rank and issue.

Rank	Issue
1	Business-like
2	Decisions forced through
3	Politics
4	Purchasing
5	Tough decisions
6	Follow-up
7	Ethics
8	Management information systems
9	Decision-making
10	Best decisions

Hospital saturation effect
(Table 2)

Business-like: Hospitals will begin to advertise their services, since there will be more competition from other hospitals for patients. As ordered by the state health committee, hospitals will begin to focus on their own area of specialty. Previously, the hospital received a state subsidy, whereas now the municipality will receive the subsidy and buy the services directly from the hospital of its choice.

Decisions forced through: Forced decisions include the Finnish state health system assigning cost centers within the municipal hospital system to become profit centers. Many surgeons complained that the decision was made without consulting the proper chief surgeons of the hospital sector.

Politics: Politicians decide on how the money within a county is divided. In one instance, a hospital and health center were built within a municipality based solely on political influence. Conflicts within the hospital board of directors are present since individual members of the board also represent purchasers. More than 50% of the interviewees felt that political decision making was a significant barrier to sensible decision making.

Purchasing: At a municipal hospital, a purchasing manager is a mere formality and must accept the purchasing decisions of the chief surgeon. The culture within Finland is that the judgement of the chief surgeon cannot be questioned even if the chief surgeon purchases from the same supplier which hires him as a consultant.

Tough Decisions: The toughest decision for a chief surgeon involved a trade-off between the necessary health care for a patient and the cost of the health care to the municipality. How long must a comatose patient be kept on a life support system? There is no correct answer but still a decision must be made. *I only know the answer afterwards."*

Follow-up: Follow-up for the chief surgeon is based on the financial figures from daily, weekly and monthly reports, feedback from municipal chief surgeons, nurses and patients and staff meetings. However, the numbers are not credible due to a lack of an on-line system which is partially the reason why HYKS hospital maintains artificially inflated prices.

Ethics: All chief surgeons in principal must see that the patient receives treatment on equal terms, however, the smaller municipalities do not send patients to hospitals outside the municipality due to the expense involved. There is a conflict of interest for chief surgeons since their job evaluation is completed by themselves which allows for a lack of an objective opinion. Surgeons can receive a "conference trip" from a medical product supplier where the emphasis is on a paid for vacation. A conflict of interests exists since the same chief surgeon decides on whether or not the hospital will purchase the particular product.

Management information systems: There is a lack of financial information needed to follow-up upon budgeting and purchasing decisions. Chief surgeons are not satisfied with information coming from the city system.

Decision-making: Chief surgeons believe the most important factor in decision making is on the leadership within the hospital and on the level of medical knowledge and experience of the chief surgeon.

Best decisions: The best decisions are made when the people who are affected by the decision are factored into the equation. Key people must receive the relevant information, particularly if an expert opinion is needed on a complex and expensive medical product.

Theory

The theory is focused on various decision making and ethics models including the routines of the decision process, the purchase decision process model, the executive decision process, the application of decisions to ill structured problems, improving decision making processes and in the integrity based approach to ethical behavior. The models are chosen since they represent methods which were observed and analyzed during the course of the research.

Decision Processes

Routines of the decision process

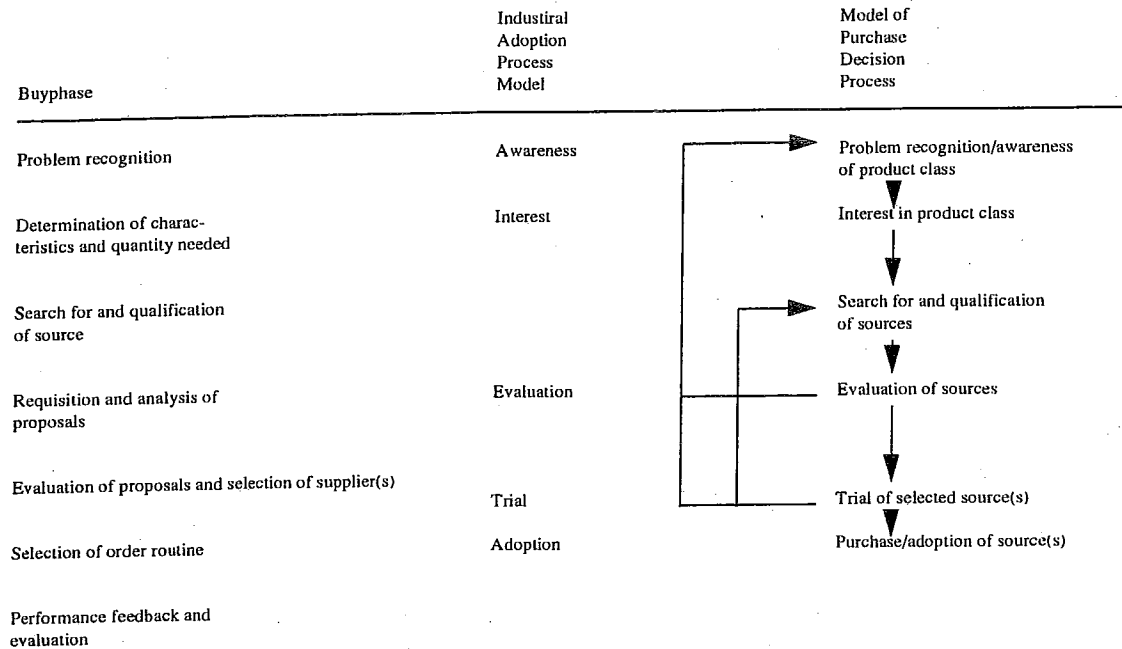
The model (2) separates the decision process into a series of steps which Mintzberg calls routines. There are seven routines in the basic model.

- 1 Decision recognition (the need for a decision is identified).
- 2 Diagnosis (detailed analysis of the issues involved)
- 3 Search (the exploration of a ready-made solution)
- 4 Design (the development of custom-made solutions, or the modification of ready-made ones)
- 5 Screen (Elimination of the least feasible alternatives)
- 6 Evaluation-choice (the final selection from amongst the feasible solutions)
- 7 Authorisation (seeking approval to proceed with implementation or to the next stage of the decision process)

Despite a largely phase-wise progression, it is recognized that one routine does not necessarily follow another in a strict sequence. In reality, decision processes are liable to move backwards and forwards between the routines in a sporadic manner, so factors have been included within the model which act upon and throughout these central routines. These involve additional routines of control, communication and politics plus a number of dynamic factors (interrupts, delays) which cause a delineation of the basic steps.

The Purchase decision process model

The Purchase decision process model (see Figure 1) consists of awareness, interest, evaluation, trial and adoption and is structured as follows:



Purchase decision process model
(Figure 1)

- 1 Problem recognition and the awareness of product class are both presented as the first stage, because either element may initiate the process, problem recognition may lead to awareness, or vice versa.
- 2 Both the search stage from buyphase and the trial stage from the industrial adoption-process model are included. The search phase recognizes that the buyer plays an active role in the process seeking out information about potential sources of supply. The trial phase demonstrates that, because of the high risk associated with many industrial purchase decisions, a strategy of trial before adoption is implemented for many categories of purchases.
- 3 The model includes feedback loops. Two emanate from the trial stage, one returns to the beginning of the process and the other reenters the process at the search phase. A third feedback loop may occur at the evaluation stage and lead back to the problem-recognition stage. Each of these feedback loops is predicated on some degree of dissatisfaction with the results of the decision to that point (3).

Decision analysis

Role of devil's advocate

In the decision making process, first, the problem is recognized and identified and then the desired outcome is determined. Attention at this point can be focused upon the way things should be, rather than upon how they are. In order to establish criteria to be met in solving the problem, information objectively pertinent to the problem must be generated or acquired. Without any such information the decision maker must trust to luck; with some data, he or she can apply analysis and systematic approaches to the problem (4).

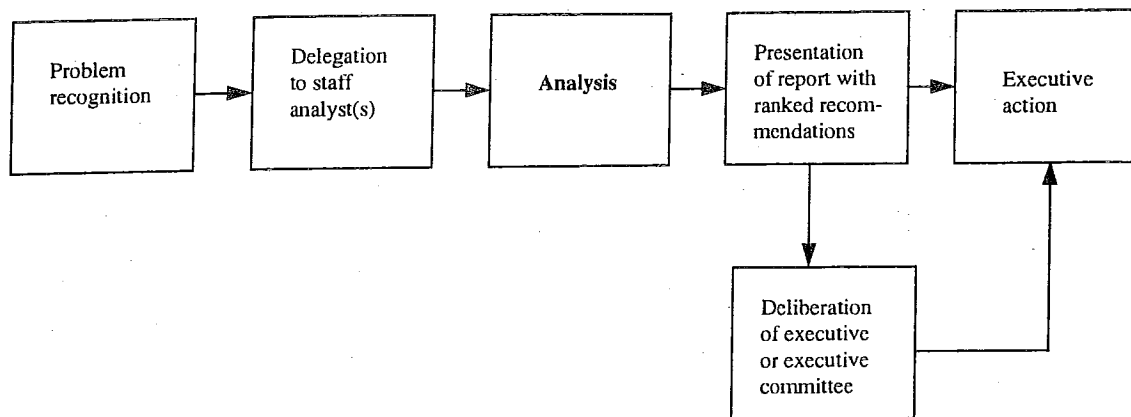
Once enough valid information has been gathered, alternative solutions to the problem may be proposed. Additional data will be required to determine the implications for each alternative and to predict possible outcomes. The data associated with each alternative may then be compared with the established criteria. The hoped for result is that one alternative will (a) meet all criteria; and /or (b) cause the objectives to be attained, at the same time eliminating the problem.

The executive decision process

An obvious difference between the executive and "normal" decision process is the delegating of the analytical phases to corporate staff and other analysts. The administrative process does not lend itself to "normal" decisions. Typically the constraints of time and expertise required the use of computers to generate and sort out data and force most of the decision making processes to subordinates and specialists.

When the entire analytical process has been delegated to others, the "blackbox" (see Figure 2) truly becomes an unknown to the executive. From the black box comes a report and recommendation for action. The decision may have been effectively reduced to "yes" or "no". If the executive dismisses the recommended alternative he may either choose a different alternative or request additional staff analysis on the matter.

The executive decision-making process can only be as effective as the analytical phase allows, yet time and expertise are not normally applied to managing the analytical process. The executive, who is typically a generalist rather than a specialist, relies upon the expertise of others. In order to have confidence in proposals submitted and decisions recommended, the executive must feel assured that the analysis has been thorough, objective, realistic and correct.



The executive decision process
(Figure 2)

The executive typically cannot control the performance of analysts. So the executive is forced into either accepting the analysis as essentially valid or of using the analysis while doubts swirl. The demands of the administrative process encourage executive decision-making to be limited to the single step of choosing or confirming one "best" alternative.

Hazards from the decision-making executive

The following exhibit certain hazards which are a result of the analytical "black box."

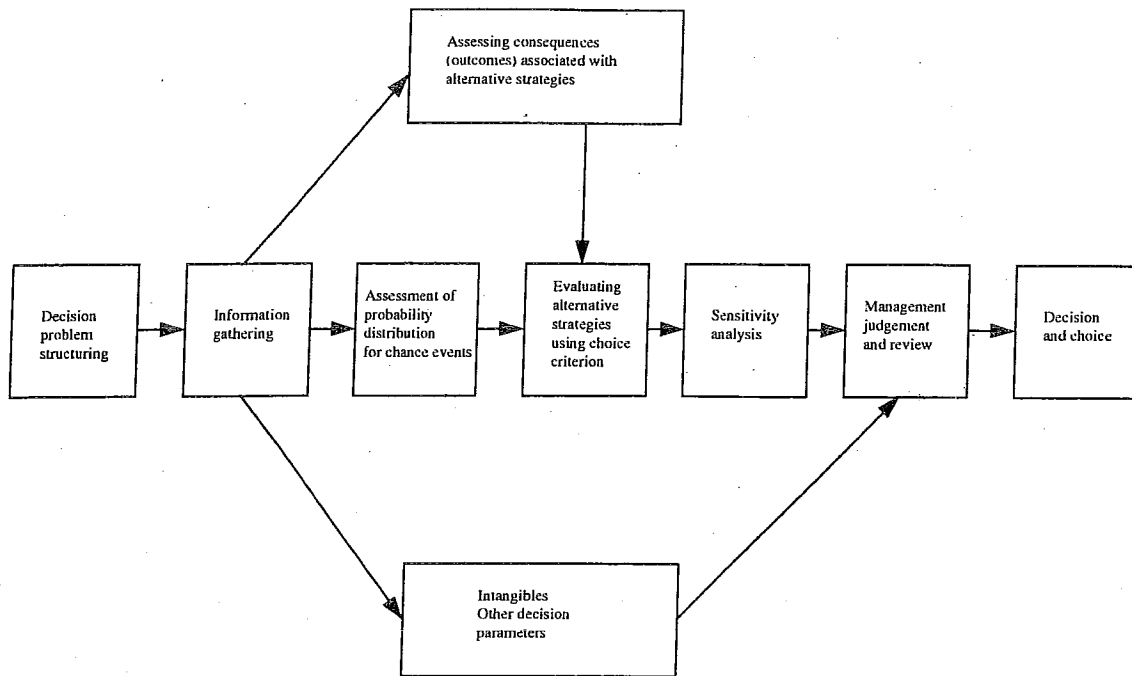
- Complete staff work, which produces over-reliance upon the staff analytical process, may encourage the harried executive to accept uncritically or with all but a superficial review of the proposal.
- Yes-man analysis which support the executive's own prejudices or inclinations are difficult to objectively evaluate or criticize (that may have been why they were written).
- Unwillingness to recycle, the analytical process especially by time-conscious line executives may result in accepting a proposal that falls short of optimum but which seem satisfactory.

The major pitfalls of the executive decision process is therefore the executives lack of control over the delegated analytical function.

Applying decision analysis to ill-structured problems

The decision analysis approach (see Figure 3) is normally applied in terms of a series of distinct steps or stages (5). These are:

- 1 **Structuring the problem:** Definition of the set of alternative strategies; the key uncertainties; the time horizon and the attributes or dimensions by which alternatives should be judged.
- 2 **Assessing consequences:** Specification of impact or consequence measures for the decision alternatives.
- 3 **Assessing probabilities and preferences:** Assessment of probability measures for key uncertainties and utility measures to reflect preference for outcomes.
- 4 **Evaluating alternatives:** Evaluation of alternatives in terms of a criterion for choice such as the maximization of expected utility.
- 5 **Sensitivity analysis:** In relation to the optimal strategy which may lead to further information gathering.
- 6 **Choice of the most appropriate strategy:** In the light of the analysis and managerial judgement leading to implementation of the preferred strategy.



Application of decision analysis
(Figure 3)

Modification to decision analysis

The modifications to decision analysis should recognize the existence of a problem or a set of interrelated problems and define the problem area in such a way that the systems model includes all problem elements necessary to obtain a meaningful grasp of the situation. This model should also recognize that sensible problem structuring requires organizational commitment and attention to the potential for subsequently implementing any preferred strategy.

The analysis should focus on the creative process of the generation of alternative courses of action. Complex, feedback interrelationships among problem elements need to be identified. Detailed attention must be given to sensitivity analysis for uncertainty impacts both in relation to problem assumptions and to exclude problem elements.

Improving decision-making processes

Value-focused thinking

Value-focused thinking (6) contributes to the decision-making process in the following ways:

- guiding information collection
- evaluating alternatives
- interconnecting decisions
- improving communication
- facilitating involvement in multiple-stakeholder decisions

There is a significant amount of synergy among these aspects of decision-making. Better communication leads to better information collection, better evaluation of alternatives, and better involvement in multiple-stakeholder decisions. Better information leads to better evaluation of alternatives and better interconnection of decisions, as well as better recognition of decision opportunities.

Guiding information collection

Information about values relevant to a given decision situation should be obtained early and thoroughly. At a minimum, the fundamental objectives should be identified and structured into a hierarchy; developing a means-ends objectives network.

Evaluating alternatives

Value-focused thinking can lead to better models and to better analysis with those models. The fundamental objectives hierarchy defines the line to separate facts from values in an analysis and provides the foundation for a value model. The means-ends objectives provides the elements and structure for a model to relate alternatives to their possible consequences.

Interconnecting decisions

Value-focused thinking facilitates the logical and consistent linking of interconnected decisions in several ways. One is by guidance from the strategic objectives, a second is by the use of common fundamental objectives, a third is by attributes and a fourth is by value tradeoffs.

Any decision maker wishes to make decisions in a consistent manner. It seems useless to have some alternatives cancel out the effects of others. The strategic objectives provide common guidance to all of the decisions of a decision maker. The strategic objectives help suggest fundamental objectives for different decision contexts so these fundamental objectives have the same foundation. If the decision maker is an organization, then different decisions are likely to be taken by different individuals. The common guidance of the strategic objectives, if they are clearly and unambiguously stated can be of considerable help in ensuring consistency across decisions. If the various decision makers of the organization have taken part in defining those strategic objectives, then the likelihood that the organizational decision will be oriented in a consistent manner is greatly enhanced.

Improving communication

Value-focused thinking provides important insights for communicating about decisions in general and about specific decision situations. The insights concern not only what should be communicated but also to whom it should be communicated. Delving deeply into values also often helps to clarify one's own thinking. If you are an analyst trying to help a decision maker faced with a tough decision, you certainly will be better able to help if you thoroughly understand the decision maker's values.

People care about decisions because of their impact on the achievement of fundamental objectives. Thus, these objectives tell you what is important to communicate. In an analysis of alternatives, it may be that alternative 'A' is better than alternative 'B'. If you pursue why this is the case, the answer must lie in both the value judgments and the possible impacts. The framework of value-focused thinking should help clarify the contributions of each. When means objectives are used in place of fundamental objectives, the clarification of the relative roles of facts and values in an evaluation is more difficult.

Facilitating involvement in multiple-stakeholder decisions

When multiple stakeholders are involved in a decision, there are naturally multiple value structures, one for each stakeholder, that are relevant. If the values are assessed for each of these stakeholders, the insights available from improved communication can multiply too.

In bargaining and negotiation situations, especially for positive-sum cases, it may be difficult to have the stakeholders jointly develop a common list of fundamental objectives. This allows the stakeholders to ensure that their stake in the decision will be addressed and possibly broadens their perspective on the decision.

Our research found that the process in value-focused thinking is similar. In many circumstances, numerous decisions are made that are directed at the same purpose. Making this purpose explicit by expressing the fundamental objectives and possibly also developing a value model enhances the ability to coordinate decisions. The manager of a major project may have fundamental objectives concerning the time and cost to finish the project and its resulting quality. Over the course of the project, the manager will face decisions about personnel, resources, details of what would be done, when and how to do it and changes in the project to name a few. Common fundamental objectives should facilitate the coordination of all these decisions.

Ethics

Integrity based approach to ethical behavior

An integrity based approach to ethics management (7) combines a concern for the law with an emphasis on managerial responsibility for ethical behavior. Integrity strategies strive to define the companies guiding values, aspirations and patterns of thought and conduct. This theory is chosen to be representative for both public and private hospitals in Finland since it covers the areas of communication, leadership, values, systems and management in an ethical framework.

Hallmarks of an effective integrity strategy are:

- The guiding values and commitments make sense and are clearly communicated: They reflect important organizational obligations and widely shared aspirations that appeal to the organization's members. Employees at all levels take them seriously, feel comfortable discussing them and have a concrete understanding of their practical importance.
- Company leaders are personally committed, credible and willing to take action on the values they espouse: They are willing to scrutinize their own decisions. Consistency on the part of leadership is key. Managers must assume responsibility for making tough calls when ethical obligations conflict.
- The espoused values are integrated into the normal channels of management decision making and are reflected in the organization's critical activities: The development of plans, the setting of goals, the search for opportunities, the allocation of resources and the promotion and advancement of personnel.
- The company's systems and structures support and reinforce its values: Information systems, for example, are designed to provide timely and accurate information.
- Managers throughout the company have the decision-making skills, knowledge, and competencies needed to make ethically sound decisions on a day-to-day basis: Ethical thinking and awareness must be part of every manager's mental equipment. Ethics education is usually part of the process.

However one of the problems with ethics education is that "Most advice on business ethics offered by academic papers tends towards moral absolutism. If ethics and the interests of business conflict, managers and employees are invariably told that they must always do the right thing--for no other reason than that it is right" (8).

Conclusion

Finnish municipal hospitals lack financial accounting and ethically based principles in the decision making process.

The municipal hospital financial decision making process is solely based on a budget. A cash surplus or deficit is not reflected in the hospital but instead in the city and state "cash register." In 1997, accounting principles will be implemented in all Finnish municipal hospitals which will allow for free market competition in the health care sector.

Doctors within the municipal hospitals participate in the decision making process when products are ordered from producers and importers of medical equipment and medicine. However, the producers are also sponsors in the "getting to know you conference trips." The producers are able to channel money through different medical organizations, educational and recreational funds to be used by the doctors. Under Finnish law, the conference trips constitute bribery if a doctor request for himself or an interest group an advantage or a payment for a particular purchase. At the worst, this form of business allows false competition and supports formation of cartels.

In the municipal hospital organization, the chief financial officer must blindly accept the "black box" recommendation of the chief surgeon regarding a product. The chief financial officer does not possess the medical education to evaluate the product. In the Finnish culture, the decision of the chief surgeon is not questioned by any of the hospital staff but simply accepted.

There is a lack of an ethical code in the municipal hospitals since the doctors grade themselves in ethical and moral decision making through a self evaluation. The ethical committee of a hospital does not see the lack of an objective evaluation as even an issue since the main focal point of the community is on questions concerning pure medical issues.

Business decision making processes must be applied to Finnish municipal hospital organizations by the implementation of accounting based methods and business ethics. The high moral and ethical code of the Finnish business management decision making process can be applied to hospitals. With the implementation of an income statement and balance sheet, the management of the municipal hospital organization must accept business risks and business based methodology in the decision making process. There is a tremendous growth potential in offering consulting services (the application of action learning based programs) to municipalities since a strong need exists for city and municipal hospitals to become competitive within a competitive market.

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