

Choosing Centralization vs. Decentralization

By Alan Zuckerman

The best organizational structure for a health care system depends on its needs.



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Ever since product-line management was introduced in the late 1980s, then fueled by industry consolidation in the mid- to late-1990s, health care executives have struggled with the polar opposites of organizational structure: centralization and decentralization. In the misguided belief that one is inherently better, health care organizations, especially larger ones, have occasionally lurched from one extreme to the other with no discernable benefit. Instead, such vacillations can significantly disrupt the organization.

With the global and health care economic downturn sparking a new wave of consolidations in the industry, debates about centralization versus decentralization rage—it's a hot-button issue for many senior executives. So what should executives be looking for as they search for the best organizational structure to meet their strategic and operational needs?

Focusing on Balance

Research carried out by organizational design experts is clear on two points: There is no "right" organizational structure to fit all organizations in a certain industry or of a certain size. The old adage "form follows function" still applies. Health care executive and consultant Pete McGinn argues that the central task for leaders in post-merger integration (a likely event for many health care organizations in the next three to five years) is to create balance, including balance of centralization and decentralization in creating organizational structures that "support strategy, streamline decision-making, and align competence and responsibility" to achieve strong performance. (See McGinn, Pete, "Post-Merger Integration: The Balance of Forces," *HealthLeaders News*, March 6, 2009.)

Lowell Bryan and Claudia Joyce's research suggests "there is no better use of a CEO's time and energy than making organizations work better." They comment that "modernizing organizational design for a 21st-century business environment can trump the gains generated by other, more traditional strategic initiatives." (See Bryan, Lowell L., and Claudia I. Joyce, "Better Strategy through Organizational Design," *The McKinsey Quarterly*, May 2007.)

Michael Goold and Andrew Campbell's research shows that "in complex, interdependent corporate structures, there is overlap and sharing of responsibilities between the operating units and the corporate parent." Beyond the minimum of obligatory tasks (legal and regulatory requirements and basic governance functions), which should be centralized, additional centralization should be predicated on its ability to add clear value to the operating units. In their classic article "Desperately Seeking Synergy" (a title that will no doubt resonate with many health care executives), they state, "The pursuit of synergy pervades the management of most large companies." "When it comes to synergy, executives could be wise to heed the physicians' creed: First do no harm." (See Goold,

Michael, and Andrew Campbell, "Parenting in Complex Structures," *Long Range Planning*, 35 [June 2002], pp. 219-243, and "Desperately Seeking Synergy," *Harvard Business Review*, September-October 1998, pp. 131-143.)

Finally, to bring matters to the present, Richard Rumelt argues in the coming era that "cutting costs isn't enough. Things have to be done differently, and on two levels: reducing the complexity of corporate structures and transforming business models." (See Rumelt, Richard P., "Strategy in a 'Structural Break,'" *McKinsey Quarterly*, December 2008.)

Guidelines for Choosing Structure

So, as you start to transform your business model in the next week, month or year, what should you do about the choice of greater centralization or decentralization? Our research and experience show that greater decentralization may be warranted if the *primary needs* are for:

- creativity and innovation;
- entrepreneurialism; and
- expansion of products/services and markets.

However, more centralization may be warranted if the *primary needs* are for:

- efficiencies;
- control; and
- coordination.

For most providers, the answer may not be clear-cut, and the best solution is rarely just one or the other. But balancing the benefits of centralization and decentralization should be a conscious choice and a necessary task for meeting performance goals—which are increasingly elusive in today's unstable market conditions.

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