Value-Based Structures: Centralization and Decentralization

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Disclosures & Disclaimers

• Never have, nor ever will, run a core facility

• I’m a:
  – management researcher
    • Who has taught at multiple Universities: OHSU, Vanderbilt, Waterloo, Michigan State, Oregon
  – management consultant
    • who applies theories in the “real world” of medical research (right now at multiple NIH ICs and in multiple countries)
Primary Research Questions

1. How to integrate diverse systems for better performance?
   Or how do you put the pieces of a system together?

2. How to transfer lessons learned between domains?
   Or, what can we learn, both good & bad, from others?

Note: Everyone considers themselves “special”, where normal rules don’t apply
Two Views

What “centralists” think of decentralization

What “decentralists” think of centralization

Chaos

Centralization Committee
5th Floor

Decentralization Committees
Northern 346 mi.
Southern 427 mi.
Eastern 976 mi.
Western 743 mi.

“How will the customers know what to buy if I don’t tell them?”
Simple reasons to choose Centralization or Decentralization

**Centralize**
- Very expensive or specialized technology
- Leveling of peaks and valleys of demand
- Control – central
  - With some degree of paternalism
- Efficiency (*sometimes*)

**Decentralize**
- Relatively inexpensive technology
- Responsiveness to immediate needs
- Control – local
  - With some degree of ego
- Effectiveness (*sometimes*)
Doing Things Right and Doing the Right Things

- **Efficiency**
  - Doing things right
  - Lots & lots of fads

- **Effectiveness**
  - Doing the right things
  - Linking multiple perspectives together
Simple reasons to choose Centralization or Decentralization

**Centralize**
- Leveling of peaks and valleys of demand
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- Efficiency (*sometimes*)
- Economies of Scale

**Decentralize**
- Responsiveness to immediate needs
- Control – local
  - With some degree of ego
- Effectiveness (*sometimes*)
- Economies of Scope
Why they both are the “right” choice
Teece, (1980)

Economies of Scale
Centralization:
Bigger = Better

Diseconomies of Scale
Centralization:
Bigger = Worse

Average costs
What the literature has shown about the debate

• Quality of Managers
  – (Sah & Stiglitz, 1991)
  – Findings:
    • In a more centralized structure, there is greater variability of the quality of managers
    • i.e., “highly capable decisions-makers have greater beneficial effects”
    • “highly incapable managers placed in the same position have greater deleterious effects”
  – So, choose the management of the central core wisely
More Literature

• The impact on innovation
  – Chang & Harrington jr (2000)

• Findings (for retail stores)
  – Finding 1
    • Centralization better with similar demands
    • Decentralization better with dissimilar demands
  – Finding 2
    • Centralization outperforms in the short term
    • Decentralization outperforms in the long term
  – Finding 3
    • Centralization outperforms where there is large “market fluctuations”
    • Decentralization outperforms when “market fluctuations” are small

• So,
  – Know the nature of the (1) customer’s needs, (2) time horizon, and (3) size of fluctuations
Centralization to Decentralization

and back again

IBM 360, 1965

IBM PC, 1983

IBM z13, 2015; “cloud”

IBM Thinkpad, 2005
The Centralization / Decentralization Cycle in Software

- Schuff & St. Louis (2001)

- Any centralized system must have sufficient bandwidth (i.e., capacity, including management capacity) to satisfy customers
Value-Based Structures

• Don’t simply look at short term costs
  – What is of value to your customers?
  – Example: Apple stuff
  – Example: leadership versus core manager’s perceptions
Internal Alignment: Between Clients and Cores

Strategic Focus

- Leadership Focus
- Operational Excellence
- Customer Intimacy

Competitive Dimensions

- Quality / Speed
- Knowledge / Reputation
- Access / Adaptability
- Capabilities / Technologies
- Value / Incentives

Red: what the client wants
Blue: what the core thinks

Mission & Strategy

Dilts, DM; Peters, C; Cheng, SK; Stadum, S. “Where You Stand Depends on Where You Sit: Alignment of Quality Measures To Strategic Intentions. ASCO Quality Symposium 2012.”
Value-Based Structures

• Don’t simply look at short term costs
  – What is of value to your customers?
  – Example: Apple stuff

• Know the “dangers” inherent in both centralization & decentralization

• Look to break the cycle
  – Lather, rinse, repeat

• Another question:
  – How does the organizational structure support the customer value needs?
Example of Value-based Centralization

- High complexity
- Low local differentiation
- Highly complex external environment
- What value you see in a local payroll system?
  - Compared to the headaches
- “Any color you want, so long as it is black”
- What color is your iPhone?

Amazon
Example of Value-Based Decentralization

- High local variability
- Low need for central control
- But, need for visibility

- Decentralization of General Motors lead to massive innovation
- Beneficial Competition – And then lost it
- Increase in motivation & creativity
Example of the Best of Both

• Trained customers
  – When to buy from Zara?

• Centralized
  – Design
  – Distribution
  – Communication

• Trained managers
  – Both at corporate & locally

• Decentralized
  – Store management
  – Pricing
  – Supply chain
So, when choosing

• Understand what “incentivizes” your customers
  – i.e., what is of most value
• Understand that the customer may not value your “added expertise”
  – The awareness issue
• Understand the customer needs and the timing of the needs
  – Behavioral need for control
• Understand that volume does not equal better
  – Too much means less bandwidth
• Be aware of “work-arounds” and “shadow systems”
  – Evidence of poor systems
• Management, outreach, education and understanding are the key to success
These linkages doesn’t come “naturally”
Thank you

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