Support Function Centralization:
How Organizations are Creating Cost-Efficient Structures

Centralization is more than a structural choice—it's a strategic imperative. Many health systems are reassessing organizational design in the face of evolving labor challenges, rising costs, and ongoing consolidation. By adopting centralized functions, organizations can address these issues more effectively.

Centralization enables better alignment of skill sets to patient needs, streamlines operations, and supports financial sustainability. This strategy isn't limited to system-wide changes; it can also be applied regionally or within specific departments or entities. Careful design consideration, implementation planning, and a thoughtful rollout strategy is can help ensure to positive outcomes.

While centralization of certain sub-functions may be beneficial, a balanced approach is required when considering how to design and deploy the team optimally. A given job family or function may have parts of it centralized with others deployed locally.

Why it Matters: Centralization can significantly **enhance cost efficiency and the overall efficacy of operations**. As systems navigate mergers, acquisitions, strategic shifts, and growth, the need for centralization becomes pivotal. Not only can it reduce costs, but it can also enable organizations to respond to the needs of their business units in a consistent, system-driven manner.

How Health Systems are Centralizing

Centralization requires a significant amount of time dedicated to planning, design, and implementation. Conducting an assessment to benchmark current levels of centralization within your organization is a good place to start.

Bringing People Together
Individuals performing similar jobs are part of an **integrated team with clear roles and decision-making processes**, collaborating and working together toward a common outcome
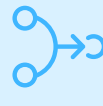
Consolidating Reporting Relationships
Many of the jobs in a centralized function **report up to a single leader**, allowing strategic and operational alignment within the function

Standardizing Processes, Decision-Making and Operational Parameters
Centralized teams have a **consistent and efficient approach** within their operating model to solve problems and respond to business needs

Sharing Technology and Information
Common technologies and data sources are used, team members share knowledge and best practices, and continuous learning and improvement are part of the culture

Benefits of Centralization

This information is based on comparative data between centralized and decentralized health systems in our database.

The benefits of centralization can take time to realize due to many factors and may also be the result of continuous improvement over time.

15.5% smaller management teams

Management Teams
Centralized functions within centralized organizations have the leanest management teams as compared to decentralized teams or decentralized organizations

15.3% savings per on job family base payroll cost

Cost Efficiency
Centralized structures show **significant cost savings** at $14.47 per $1,000 of total organization base payroll as compared to $17.07 per $1,000 in decentralized structures

➕ Workforce Costs
Increasing centralization in shared services can significantly **reduce workforce costs**

➕ Executive Span of Control
Centralized functions within centralized organizations report fewer direct reports per executive – leading to **improved oversight and accountability**

➕ Operational Efficiency
With effective implementation of functional centralization, health systems can **streamline operations and optimize workflows** – allowing them to react to changes and execute plans more quickly

Headcount Distribution by Career Stage

Centralized functions operating within a centralized organization have a **total management team structure that is 15.5% smaller** than decentralized functions within a decentralized organization

Illustrative Example:
Percent of Total Workforce Headcount

| Career Stage	Centralized Function / Centralized Organization	Decentralized Function / Decentralized Organization
Management	19.3%	22.9%
Individual Contributor	80.7%	77.1%
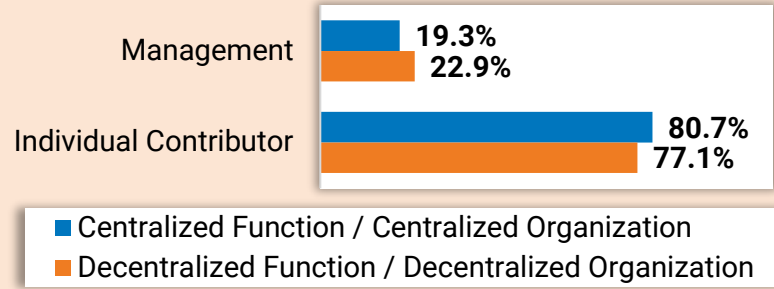
Span of Control

Executive span of control is lower for centralized functions operating within centralized organizations with Leader span comparable and Manager and Individual Contributors increasing significantly.

- Centralized Function / Centralized Organization
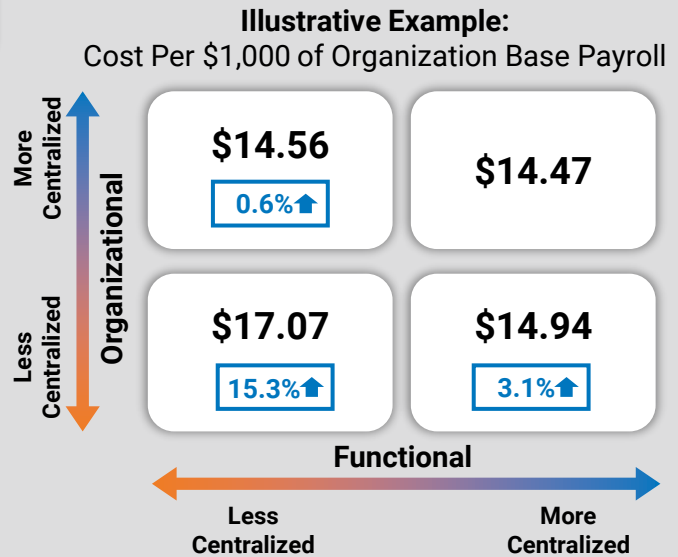- Decentralized Function / Decentralized Organization

Illustrative Example:
Average Number of Direct Reports by Career Stage

	Total	Individual Contributor	Manager	Leader	Executive
Decentralized	5.5	1.5	4.8	5.5	6.0
Centralized	6.4	3.8	8.3	5.8	4.7
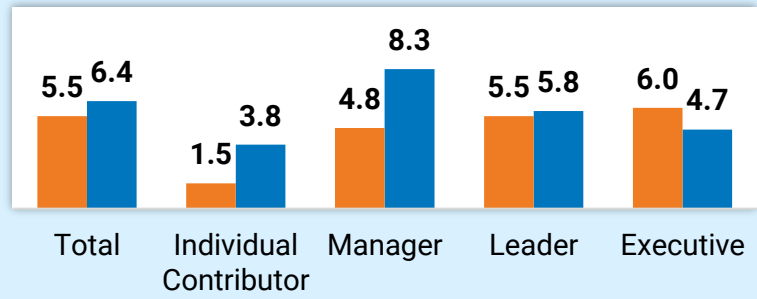
Base Payroll Cost

- In the example to the right, the **most cost-efficient structure** is to be centralized within a centralized organization at an average cost of **$14.47 per $1,000 of base payroll**
- The **least cost-efficient structure** is to be decentralized within a decentralized organization at an average cost of **$17.07 per $1,000 of base payroll**
- Data indicate that the **level of centralization** across the organization has a significant impact on the **cost model**
- Even when a function is centralized, **costs will increase if the rest of the organization is decentralized**

Illustrative Example:
Cost Per $1,000 of Organization Base Payroll

Organizational	Functional Less Centralized	Functional More Centralized
More Centralized	$14.56 (0.6%⬆)	$14.47
Less Centralized	$17.07 (15.3%⬆)	$14.94 (3.1%⬆)

Considerations

While the case for centralization is strong, there are many factors to consider. Organizations that centralize must do so carefully and thoughtfully. Some areas of a sub-function may have a small, centralized team focused on building capability, establishing standard processes, and providing governance and oversight – but have a larger team deployed in a decentralized manner.

For example, a more decentralized Talent Acquisition or Employee Relationships team may make sense for the following reasons:

Reduce Bottlenecks
Decentralization prevents slowdowns caused by over-reliance on central decision-making structures (critical in hiring to move quickly).

Enhanced Customer Focus
Localized decision-making allows for better tailoring of approach and responsiveness to specific customer/ facility preferences.

Increased Innovation
Teams close to the problem can experiment more freely, driving creativity and improving quality of solutions to local problems.

Consult with the experts at SullivanCotter!

Understand how to design and implement these changes effectively and transform your health care organization's operating model.

Contact Us!

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