



## Centralized vs. Decentralized Organizational Structure

Sherry Rahbar, Partner, CFO Edge, LLC

When they first start a new business, entrepreneurs often create a centralized organizational structure. The authority in such a structure is top-down, which makes it easy for the owner and his or her key managers to make important decisions and keep tight control over all aspects of the organization.

As the business grows, it's not uncommon for owners to gradually transition into a more decentralized structure. Here, decision-making authority trickles down to other employees who are no longer dependent on "the boss" to make all the decisions and dictate direction for every area of the company. More layers of management are added to the company hierarchy, which gets more people involved in helping set the strategic direction for the company — but also can add to the complexity of decision making.

### The Basic Business Framework

The type of organizational structure utilized — whether centralized or decentralized — is important because it forms the basic framework for a business and how decisions will be made. Following are a few common characteristics of centralized and decentralized organizations, as well as some of the advantages and drawbacks of each:

#### Characteristics and Advantages of Centralized Organizations

- Top-down authority establishes a specific chain of command, with owners or executives/managers making all the key decisions with little or no input from rank-and-file employees. This consolidates decision-making authority and holds specific individuals responsible for the outcomes.
- Owners or executives/managers develop and set the company's goals and objectives, so these are uniform across the organization.
- A standard set of policies and procedures is followed by all employees, which can reduce costs and ensure consistency company-wide.

#### Characteristics and Advantages of Decentralized Organizations

- Multiple individuals, including rank-and-file employees, can make important decisions and set policies and procedures that guide how the business is run.
- A team environment is created throughout the business, which results in a broader range of input that can generate more solutions and ideas.
- Employees at all levels of the organization are empowered to make decisions, often with little or no input from owners or executives/managers (with some limits).

#### Potential Drawbacks of Centralized Organizations

- Decision-making may be slow, which can disrupt the workflow and employees' momentum.
- Employees may feel that they are just "a cog in the machine" rather than valued members of a team.

- Employees may feel less motivated to do their best work if they feel they don't have a voice for sharing their ideas on how to improve the business.

### **Potential Drawbacks of Decentralized Organizations**

- Owners or executives/managers will have less control and thus need to rely more on employees beneath them to carry out the company's mission and goals. This process of "letting go" may be difficult for some entrepreneurs.
- Decentralization may promote unhealthy competition among managers who previously worked together under a centralized structure, but are now working in different departments or divisions.
- A decentralized structure sometimes doesn't work well in companies during the early stages of development that have not yet built a solid infrastructure.

As you can see, the stage of a company's development is a big factor in determining which type of organizational structure is best. An outsourced CFO services provider can help you determine the best structure for your company based on an analysis of your current stage of development, the makeup of your employee base, the strengths and weaknesses of your management team, and the best practices followed by other companies in your industry, among other factors.

### **Concluding Thoughts**

There are two main organizational structures utilized by companies: centralized and decentralized. Entrepreneurs often create a centralized structure when they first start a new business and then transition into a more decentralized structure as the business grows. There are advantages and drawbacks to each type of structure. An outsourced CFO services provider can help you determine the best structure for your company.

### **About CFO Edge**

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit [www.cfoedge.com](http://www.cfoedge.com) or call 800.276.1750 Ext 101.

This publication has been prepared for general information on matters of interest only, and does not constitute professional advice on facts and circumstances specific to any person or entity. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. The information contained in this material was not intended or written to be used, and cannot be used, for purposes of avoiding penalties or sanctions imposed by any government or other regulatory body. CFO Edge, LLC, its members, employees and agents shall not be responsible for any loss sustained by any person or entity who relies on this publication.