

Centralize or Standardize – What Makes Sense for Your Business?

Business structures its organization around core functions such as marketing, information technology, operations, finance and human resources. This centralized model by expertise makes it simple for anyone to identify where to take their issue for resolution.

Over the years, we have seen corporations switch between a centralized and a distributed model for selected functions. The drivers for moving away from a centralized model include:

- Response time is unsatisfactory;
- Inadequate support;
- Quality of work not meeting expectations.

On the other hand, drivers for abandoning a distributed model include:

- Disparate practices;
- Runaway costs;
- Lack of knowledge sharing.

These are valid justifications for change. The following diagram shows the outcomes of a distributed and a centralized model.

Management Effectiveness	High	Duplication	Coherence
	Low	Chaos	Inefficient
		Distributed	Centralized

Structure

A poorly managed distributed model results in chaos because each department or business unit operates differently. The disparate practices create conflicts and confusion for customers and employees. The problems amplify as the business grows.

Conversely, a distributed model could be effective when it is well-managed. Business benefits from the autonomy it offers. The response time is generally good as resources are managed locally and decision-making is quick. However, duplication of functions makes this a costly structure. There are the disadvantages of varying practices, not leveraging the benefits associated with economies of scale and risk of siloed operations.

For a poorly managed centralized model, one of the common complaints is poor response time. It is attributed to different opinions on priorities and often, lack of resources. Another challenge is that the central pool of resources does not have the in-depth knowledge of business needs. This presents an issue when devising a solution. As a result, the cycle time is longer. These factors make the model inefficient.

A well-managed centralized organization presents a coherent model. The consistent business rules and guidelines, systems, language and approaches make it easier to support. It also provides a common, scalable framework for growth. The resourcing and planning necessary for a sound centralized model is critical for satisfying customer's needs effectively. Politics will undermine a centralized model and render it ineffective if it is not managed properly.

The question then is which model is better. My opinion is that centralize as much as you could and provide autonomy where it makes sense to optimize results. In the event that centralization is not viable, standardize. The rationale for standardization is:

- Common language – minimizes variances and misinterpretation
- Standard practices – reduces variation in administration and support
- Uniform systems – minimizes the need to duplicate data entry and reconcile data
- Moderate change efforts – simplifies change initiatives
- Mobile workforce – offers added flexibility for staff to transition into other positions

A key factor to successfully maintain a standardized or centralized approach is a transparent governance model. The governance body oversees needs and makes decisions. The governance model must have:

- Representation from key areas comprises senior decision makers who are trusted leaders in the organization.
- A clear process for decision making that is fair and transparent. The process needs to be well communicated so that you have commitment to comply.
- A collaborative approach to optimize outcome and be objective in prioritization of needs.
- Periodic reviews of its effectiveness and the will to proactively modify approach.

The last point is particularly important because organizations implement decision making models and seldom review whether the model is still effective as the business evolves. Does the model continue to have the right representation? Are needs addressed in an expedited manner? Could there be any improvements? Failure to recognize inadequacies creates the excuse to implement alternative solutions on the side. When that happens, similar activities will permeate throughout the organization quickly as trust and credibility are hampered.

To conclude, there is no one-size-fits-all structure. The effectiveness of the model varies with the nature of your business and the particular function you are looking at. The key to its endured success is proactive monitoring of results and make adjustments so as to serve the customers the best you could. It takes strong leadership to steer the course and maintain the intent and integrity of the model that you choose to use.