

The Rise of the Decentralized Organization

Companies are increasingly moving to decentralize their structures. Here's why.

The Drive to Decentralize

How organizational structure is shifting.

Why Decentralize Corporate Structure?

Corporate structure is shifting with the changing times.

[Around the world](#), hierarchy has long been known as the standard organizational structure.



[Image source](#)

However, organizations from startups to multinational corporations are coming to view [flatter, more egalitarian structures](#) as much more effective than hierarchies.

In today's increasingly fast-paced business environment, companies are experimenting with a variety of decentralized structures. In some cases, decentralization represents the full culmination of the organization's vision; in others, it's a response to changing times.

What Decentralization Looks Like

Centralized organizations have a clear chain of command that travels through the levels of their hierarchy. While decentralized organizations may have a hierarchy, they delegate decision-making to individual teams, empowering them to take action on their own. In a decentralized organization, decision making happens as low on the chain of command as possible, explain O. C. Ferrell, John Fraedrich, and Linda Ferrell in *Business Ethics 2009 Update: Ethical Decision Making and Cases*.



[Image source](#)

The teams still need to make sure their actions align with an agreed-upon vision and broader plan. However, they might make up their own rules and determine their individual processes, reaching consensus on them as a team.

Divisions of a decentralized company might independently handle all aspects of their operations or only particular ones, say Carl S. Warren, James M. Reeve, and Jonathan Duchac in *Accounting*. They might exist in the same building or over a broad geographical space.

No company is fully centralized or decentralized, asserts Andrew J. DuBrin in *Essentials of Management*. Instead, there are degrees of both. The degree of decentralization that's right for a company depends on its size, culture, and strategy.

Franchises embody a combination of centralization and decentralization, says DuBrin. For example, Subway gives local stores control over hiring, but a centralized headquarters makes decisions about things like menu and marketing, he explains.

Johnson & Johnson, well-known for its decentralized structure, has over 200 units that function autonomously. Some focus on particular components of a product, requiring cooperation between such units.

A more extreme level of decentralization that aims to eliminate hierarchy altogether usually won't work for a massive corporation, [according to Forbes](#). Often called a "flat" structure, this tends to work best for smaller startups and medium-size companies. The [gaming company Valve](#) has embraced this structure, eliminating job titles and allowing employees to work on or initiate any project they choose. Such a structure might germinate a great deal of creativity within a young company, but it will probably need to be adapted as the company grows.



[Image source](#)

Roots of Decentralization

The dominant societal institutions – namely, the government, the military, and the church – have long had a centralized structure, so it's only natural that corporations followed suit by embracing centralization as the standard.

As the team-based approach has gained prevalence in the corporate world, companies have worked to create more egalitarian structures that model values of teamwork and individual empowerment.

The military's own movements toward decentralization of combat units have also provided lessons for the corporate world. In the Iraq war, when Al-Qaeda forces were winning battles, the U.S. Army [moved to empower](#) highly trained combat units to make their own decisions in real time. Their increased agility paid off, along with their connection to a centralized information hub.

However, decentralization is hardly a new concept. According to BusinessNews Publishing, industries tend to move back and forth between being more centralized and more decentralized depending on an array of societal forces.

Early railroad companies in the U.S. were largely decentralized, and this structure worked quite well for them, Gerrit Broekstra explains in *Building High-Performance, High-Trust Organizations*. Still, this didn't last too long. According to Broekstra, the banking industry's focus on centralized structure would largely eradicate decentralization from American industry by the end of the nineteenth century.



[Image source](#)

Vision and Benefits

Taking steps toward decentralization can produce major results when a company pinpoints the right level of decentralization for its operations.

Flexibility: Decentralized organizations have a great deal of flexibility compared to centralized ones. They can adapt to change or make decisions quickly, instead of putting every decision through a rigorous bureaucratic review. Nowadays, change [happens too fast](#) for hierarchical organizations to respond to it.

Information-processing ability: New and emerging systems constantly aggregate vast amounts of user data and information on company performance. Centralized management simply [can't respond effectively](#) to such information in a timely manner. Specialized teams with narrow areas of focus are much more agile.

- **Increased morale:** Decentralizing provides more employees with the opportunity to step into leadership roles, giving them a sense of empowerment. In turn, the organization can benefit from having a plethora of empowered leaders rather than a select few.

Development of expertise: As a result of this narrow focus, managers in divisions of a decentralized corporation have expertise in managing within a particular area of operations.

Error mitigation: [According to William Weldon](#), former chair and CEO of Johnson & Johnson, "The problem with centralization is if one person makes one mistake, it can cripple the whole organization." In a decentralized company, he asserts, "you don't have to worry about making that one big mistake."

Ability to pinpoint strengths and weaknesses: Decentralization also helps companies pinpoint where mistakes and successes occur. In 1999, [Forbes wrote](#) about a highly successful decentralized company called Illinois Tool Works. Split into an array of units each handling a different function, the company would split up units even further if they started greatly outperforming or falling behind the competition. Decentralization allowed the company to pinpoint exactly what was working and what wasn't based on the successes and failures of particular units.

Reliance on local insight: Decentralization makes sense in a globalized world because local talent has more insight on how to market to and manage their own people. In Japan, local businesspeople run Johnson & Johnson’s operations for this very reason.

Ability to cope with adversity: Decentralized companies are more “recession-proof,” according to a [recent study](#). Rather than a centralized CEO making aggressive job cuts and plant closures, local staff buckle down and find ways to boost productivity.



[Image source](#)

Challenges of Decentralization

Companies working to decentralize should negotiate the following challenges:

Implementing change: Implementing organizational changes in a decentralized company may take a long time as there may not be a fast, clear, or accepted system for making such changes.

[Coordination between teams](#): This poses a primary challenge for decentralized organizations. In such companies, teams can become information silos. Developing individuals' ability to collaborate across teams is the solution.

Redundancy of roles: Additionally, decentralization can lead to redundancy of roles across divisions. Different sales or customer service staff might be hired for different divisions as opposed to one set of staff to fulfilling this function. That's not necessarily a problem if they're more effective than one centralized set of staff, but a company must evaluate whether avoiding such overlap is beneficial.

Social impacts: Ferrell, Fraedrich, and Ferrell point out potential implications of decentralization on corporate social responsibility. It's possible that lower-level teams that are authorized to make decisions about something impacting the community won't make the most ethical or informed decisions, which impacts the reputation of the whole company. Oversight of such decisions or having people with the relevant expertise on such teams can potentially remedy this issue.

Decentralized Autonomous Organizations

Decentralization can go a step further: [decentralized autonomous organizations](#). Such an organization is a vast system (or a system with the potential to become vast) that adapts to user needs, tracks spending and preferences, and dispurses profits without the need for centralized oversight.

In such organizations, something called "[blockchain technology](#)" allows the system to function entirely without centralized management. The system has a mechanism for generating [feedback loops](#) about user preferences so that it can adapt products, services, or even system rules according to their needs.

Blockchain technologies also have the ability to safeguard users' privacy, as no centralized authority needs to have their information.

These technologies keep an electronic record of user data and transactions that requires no centralized accounting. Bitcoin is one of the best examples. The currency functions wholly [without a centralized bank](#), automatically tracking what all users send and receive.

Such organizations may distribute profits to users throughout the network rather than to a centralized hub, [as stated by Forbes](#).

These systems are still in the experimental stages, but some companies partially follow such a framework – [Uber](#) is one example.

[Evolutionary theory](#) can be considered as forming the basis of these organizations. Through the selection of members, a product or service evolves over time; it's never seen as "finished."

Does Decentralization Work for Both Existing Companies and Startups?

Decentralizing a long-standing company might take perseverance, as hierarchical structures are [deeply entrenched](#) in the corporate world. However, many corporations have successfully made bold moves toward decentralizing their operations. Ultimately, as such organizations tend to have many experienced employees ready to take on greater leadership roles, decentralization can significantly boost their morale and capacity.

Corporations should carefully evaluate the degree of decentralization that will work for their size. Extreme decentralization is not necessarily better.

Zappos, for instance, made a move toward something called [holacracy](#), which gets rid of centralized hierarchy by eliminating titles and bosses. However, employees began leaving in droves (taking the company up on its buyout option) because of confusion and dwindling motivation – after all, there was

no career ladder to climb, [reports The Atlantic](#). Whether the tide will turn for Zappos' experiment with holacracy remains to be seen.

Creating and empowering smaller divisions with decision-making authority while retaining centralized corporate oversight may be a wiser move for most large companies.



[Image source](#)

For instance, Unilever decentralized as it expanded, with its divisions throughout the world acting as “[self-sufficient units](#)” that could respond effectively to local market conditions. However, it hasn't done away with headquarters and job titles quite yet.

Startups might be too small to have much to decentralize, but it's never too soon to start planning how the structure will evolve as the company grows. Putting a plan in place before the company expands will ensure those tough decisions don't have to be made just when business is booming and new hires are coming on board. It's crucial to know where they fit in before they arrive.

If you're considering changing your organizational structure, ask yourself how it should look as your company continues to expand. Imagine how it might shift five or ten years down the road. You'll be more agile and able to seize opportunities when you're prepared to delegate well.