

Governing Energy

Centralized—Decentralized

Volume 1 Number 6—April 16, 2012

If one boils down the political hyperbole to its essence, elected officials, their surrogates and pundits are arguing the merits of a strong centralized governance genre versus more decentralized models. This discussion dates back to the earliest efforts to create societies of more than one village or tribe. While the debate will most likely continue well in to the future, this discussion about governance models is also applicable to modern global and culturally diverse commercial organizations.

In the United States of America, the definition of Congressional “enumerated powers” has undergone an ebb and flow since the founding of the republic.ⁱ The latest tension at this margin is most dramatically unfolding as the Supreme Court decides on the constitutionality of The Patient Protection and Affordable Care Act.

Another high profile test case is on the other side of the Atlantic as the fate of the European social model is being decided. The Nobel Prize winning economist, Frederick Hayek comes down strongly on the side of a more limited centralized model. He contends that local communities are best able to deal with many social and economic concerns. Using this logic, a recent article in the Wall Street Journal claims the strong form of centralized governance practiced in the European Economic Union is at the point of failure.ⁱⁱ

A “level” of centralized governance and stakeholder transparency is a reasonable model and has been well vetted throughout history. Those powers that are not enumerated to the central authority reside with other entities in the federation. Difficulties occur when the balance between the two is inconsistent with core tenets of the entity.

Corporations are not countries much less societies. However, they are organized and managed by a diverse set of increasingly cross cultural men and women tasked with their firm’s successful operation. Corporate “culture” is common rhetoric and generally refers to the mores of a given organization as opposed to others in or out of the industry sector.

However, it would be a major mistake to assume global organizational cultural homogeneity. Parties’ RELATIONSHIPS, parties’ BEHAVIOURS, and influencing CONDITIONS (RBC) are well understood aspects of international dealings. Implicit in this model is the recognition that cultural distinctions can vary widely (even inside major cultural groups) and these differences must be recognized and adequately addressed.ⁱⁱⁱ

At times of organizational stress there is a tendency to hold power at the top. In recessionary periods, for example, budget spending authorization is often temporarily curtailed requiring more senior

commitments. Signature authority often reverts back once the economy improves. Sometimes, such as compliance with Sarbanes-Oxley, specific long standing processes and authorizations are demanded.

This balance continuously fluctuates and is a function of organizational culture, statutory requirements and current situational awareness. For most firms, variations around the centralized—decentralized set point will be small. Wide pendulum shifts are generally not desirable.

Does your organization have the appropriate balance—an enumerated centralized governance that allows the diverse divisions' competitive flexibility?

About the Author

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End Notes

ⁱ <http://law2.umkc.edu/faculty/projects/ftrials/conlaw/congpowers.htm>

ⁱⁱ <http://online.wsj.com/article/SB10001424052702304636404577299471982641512.html>

ⁱⁱⁱ <http://www.scribd.com/doc/12392990/Cross-Culture-Negotiations>