

C. CENTRALISATION/DECENTRALISATION

No organisation can be totally centralised or totally decentralised. With complete centralisation no-one, other than a small group of senior managers, could make any decisions – the result would be that the organisation would be paralysed and unable to function. At the other extreme, complete decentralisation would deprive an organisation of the overall planning, decision-making, co-ordination and control that are the functions of top management – the organisation would fall apart.

There thus has to be an equilibrium between centralisation and decentralisation that allows both centralised and decentralised authority to perform useful functions for the organisation.

Functions of Centralisation

(a) **Integration**

A strong central authority serves to hold together various parts of the organisation; it serves as a figurehead to which all departments, divisions, etc. of the organisation can relate. Senior management can be seen as the leaders ensuring that the various parts of the organisation perform as a team. In the event of disputes between departments or divisions, central authority takes on the role of a referee by making the decisions which resolve such conflicts.

(b) **Making Informed Decisions**

Top management can make important decisions because they have access to the whole range of information generated and collected by the organisation. At lower levels information is often partial so decision-making would be flawed.

(c) **Standardising Procedures**

If an organisation requires all its parts to behave in a similar way then it needs a strong centralised structure, so centralisation encourages a unity of style and purpose when this is desirable.

(d) **Economies of Scale**

Centralisation can endow a firm with economic benefits by drawing together certain of its activities, e.g. centralised buying can enable a firm to obtain higher discounts, or centralised administration may cut some costs.

(e) **Crisis Management**

When organisations face sudden serious emergencies, strong central authority can take swift, decisive action which will be effective throughout the organisation.

(f) **Establishing New Ventures**

At the outset of a new firm or a new venture, strong centralised authority can provide the leadership and vision required for success in getting established.

Functions of Decentralisation

(a) **Reducing Pressure on Top Management**

Running a highly centralised organisation places heavy burdens on top managers. If some authority can be allocated to subordinates, this will ease pressures on senior management. The reduction of stress may result in more effective and efficient performances by top managers.

(b) **Encouraging Growth and Diversification**

Just as centralisation is functional for a new enterprise, so decentralisation may be useful for a growing or diversifying organisation because new products or different markets may present a variety of problems which are better coped with by the decentralisation of authority levels.

(c) **Developing Specialised Groups**

Some organisations require small groups of people sharing particular expertise who need authority to make certain decisions themselves.

Advantages of Decentralisation

Current management thinking approaches the centralisation/decentralisation debate by analysing the potential advantages and disadvantages of decentralisation and then asking how they would apply to a given organisation at a given time. The advantages of decentralisation include:

- Decentralised decision-making avoids the delay involved in having to refer problems to higher authority, so **swift decisions** can be made.
- **Initiative** is encouraged, in that people who are given responsibilities have to solve problems and make decisions for themselves.
- By allowing staff at lower levels of the organisation to make decisions, their **jobs become more stimulating**.
- When we break down an organisation into various parts and levels and give them authority, it is easier to **assess** how well these levels and parts are performing.
- When decisions are taken by those who have an intimate knowledge of a particular work situation and are well acquainted with the sorts of problems that can arise, the decisions made are more likely to be **acceptable** to the workers in that situation.
- When decision-making is allocated to lower levels in an organisation, employees learn the problems which are encountered when making decisions and are thus **prepared for promotion**.
- Wider allocation of authority **improves morale**, and workers feel they are being involved in the organisation.

Disadvantages of Decentralisation

- When authority is allocated to lower levels of an organisation there is a tendency for **top management to lose touch** with various parts of the organisation.
- A decentralised organisation needs a **more talented management** because more people are taking management decisions.
- Decentralisation requires lower levels of an organisation to take on authority, which they may feel to be properly the work of top management.
- Top management feel their importance diminished by allocating authority downwards.

Factors Influencing Centralisation/Decentralisation

The decision on where to strike a balance between centralisation and decentralisation in a given organisation will depend on a number of factors. It is crucially important that an organisation selects the optimum equilibrium point, because research shows the clear link between organisational structure and performance.

(a) Importance of the Decision

What determines the importance of a decision will vary from one organisation to another, but in every organisation there is an area of decision-making that is seen as vital to its well-being. This key area of decision-making is usually reserved for the top people, and only the less important decisions are allocated to lower levels. Normally importance is related to cost, i.e. how much would it cost the organisation (in money or prestige or efficiency) if an unwise decision were made? High potential-cost decisions are not usually allocated downwards.

(b) Size of the Organisation

As organisations grow in size they tend to make greater use of delegation. The proprietor of a small firm may take all the major decisions himself. However, as the firm grows he has to delegate authority because he just does not have the time to make considered decisions on every issue. In large organisations we find different types of decision being taken at different levels of authority; these range from high potential-cost decisions taken by top people, to less important decisions taken by middle and lower levels of control.

(c) Willingness of Top People to Delegate

The amount of decentralisation in an organisation will also depend on the willingness of senior people to allocate authority to those below them. Some top managements are autocratic and wish to give all the orders themselves – they believe in tight control over their subordinates. On the other hand, some high level managements are democratic and believe in spreading decision-making as widely as possible throughout the organisation.

(d) Willingness of Employees to Accept Responsibility

Not only does authority have to be **allocated** by those above, but it also has to be **accepted** by those below if decentralised decision-making is to come into being. This calls for a spirit of co-operation within the organisation.

(e) Availability of Management Talent

It is not enough for employees to be willing to take decisions; they must also be capable of using this authority wisely. This calls for well-trained and experienced employees at the lower levels and in the various divisions of an organisation.

(f) Rate of Growth

Where organisations are growing rapidly we are likely to find decentralisation and rapid promotion through the levels of management. In a growing organisation, new divisions, departments and levels of management spring up and the existing top management becomes overloaded with decision-making problems; hence they are likely to allocate authority downwards.

In contrast, a static or slow-growing organisation will continue to centralise its decisions at the top. There are no new areas calling for attention, so the existing management is unlikely to allocate any further authority to lower levels.

We can compare organisations with differing degrees of centralisation in Table 5.1.

Table 1.1: Characteristics of centralised and decentralised organisations

High Degree of Decentralisation	Low Degree of Centralisation
Large organisation	Small organisation
Top people willing to delegate authority	Top people unwilling to delegate authority
Employees willing to accept responsibility	Employees unwilling to accept responsibility
Large number of divisions and departments	Few divisions or departments
High availability of management talent	Low availability of management talent
Fast-growing organisation	Slow-growing or static organisation

Federal Decentralisation

In an effort to maximise the benefits of both centralisation and decentralisation, management experts have put forward the concept of federal decentralisation.

The federal approach is described by **Peter Drucker** as an organisation which has **both strong parts and a strong centre**. The federal idea takes account of the way in which many modern organisations are expanding and divisionalising by products, customers or geographic areas. If these divisions are to operate effectively they must have a degree of autonomy.

Federalism argues that each division should be seen as a **profit centre** and have its own **functional departments** – this is what is meant by strong parts. In federal decentralisation each division is responsible for the day-to-day running of its own affairs, thus maximising the advantages of decentralisation. However, the strong centre of the organisation has its part to play. Drucker describes it thus: “*strong guidance from the centre through the setting of clear, meaningful and high objectives for the whole*”. The strong centre is also ultimately responsible for seeing that each division achieves the objectives set for it – **how** these objectives are achieved is a matter for the divisions themselves.

In a federally decentralisation organisation the functions of head office (the strong centre) are as follows:

- To issue policies and set organisational objectives.
- To approve objectives suggested by the next-lower level.
- To undertake long-term planning, in particular any closures and major capital spending.
- To make senior appointments at the next-lower level.
- To provide those technical services where the advantages of scale and centralisation are clear (e.g. computers, legal advice, research).
- To develop the company image and ethos so that employees in all divisions feel they are valued members of the company.