

CENTRALIZATION

Centralization refers to the process in which activities involving planning and decision-making within an organization. In a centralized organization, the decision-making powers are retained in the head office, and all other offices receive commands from the main office.

Centralization refers to that organizational structure where decision-making power is confined to the top management, and the subordinates need to follow the instructions of their seniors. Centralization of authority is essential for the small-scale organizations which lack resources and finance.

Centralization is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management.

According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization.

Centralization allows on the one hand an unified decision "from the center" on the other hand, limits the autonomy of organizational units and may reduce flexibility of the decision. **Centralization** may concern all decisions and powers, or may be centralized only selected **managerial** functions.

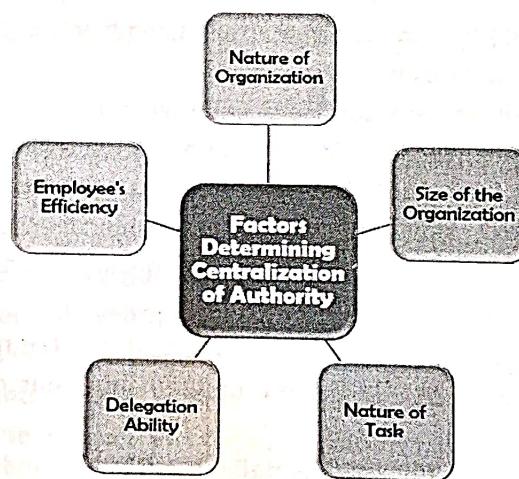
When an organization follows a centralized management structure, it can focus on the fulfillment of its vision with ease. There are clear lines of communication and the senior executive can communicate the organization's vision to employees and guide them toward the achievement of the vision.

In a **centralized** organization, decisions are made by a small group of people and then communicated to the lower-level managers. If lower-level managers are involved in the decision-making process, the process will take longer and conflicts will arise.

Factors Determining Centralization of Authority

In small organizations, the owner or the top management is responsible for making all the business decision solely. Whereas, the delegation of work among the subordinates takes place; therefore, centralization persists in these business units.

The following factors result in the centralization of the organization:

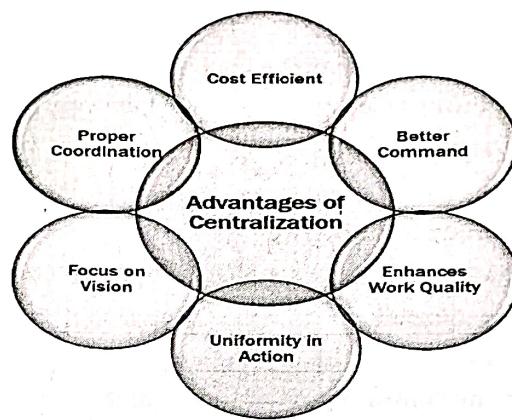


- **Nature of Organization:** When the organization is generally a sole proprietorship or partnership entity with less number of employees to be managed, it can have a centralized system.
- **Size of the Organization:** The organization which are small in size and operating on a small scale can be efficiently managed by the top management hence following a centralized system.
- **Nature of Task:** The organizations engaged in business operations which does not require much expertise or specialization, can be managed through centralization.
- **Delegation Ability:** The capability of the management to delegate the responsibilities to the subordinates while keeping the charge in their hand is another factor determining the organizational structure.

- **Employee's Efficiency:** If the employees lack skills and efficiency to take up the responsibility and accountability of the work to be performed, the management will go for centralization of the organization.

Advantages of Centralization

Centralization and decentralization are equally crucial for a business. The reasons for which some organizations mainly centralizes its structure are as follows:



Cost Efficient: The management need not spend much on the office and administrative expenses in a centralized organization. Even the cost of hiring experts and highly experienced personnel at each level is saved due to the centralized decision-making process.

Better Command: The management can hold a better command over the subordinates and the subordinates also clearly know whom to follow. There is proper control over the subordinate actions, and the management is well aware of the strengths and weaknesses of the subordinates.

Enhances Work Quality: The subordinates are answerable directly to the top management, and therefore they continuously aim at improving the work quality. It also leads to standardization of the process and reduces the wastage.

Uniformity in Action: When the control lies in the hands of few, the methods and techniques used are usually the same throughout all the levels and departments, thus encouraging the subordinates to perform uniformly.

Focus on Vision: The top management clearly defines and better understand the organizational vision. Therefore, it aligns all the resources, subordinates, activities and strategies towards the achievement of the vision.

Proper Coordination: The top management frames a uniform policy for subordinates at different levels, integrate their course of action and ensures coordination among all the subordinates.

Disadvantages of Centralization

Centralization is not suitable for all type of business organizations.

Slows Down Operations: The top management directs the day to day operations, and the subordinates have to report directly to the senior management. At times when there is no managerial staff, the subordinates are unable to take immediate decisions. Thus, resulting in slowing down of business operations.

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Reduces Scope for Specialization
Discourages Initiative
Lacks Adaptability to Change
Overburden on Top Management
Bureaucratic Leadership
Poor Upward Communication

Delays Decision Making: In centralization, the decision-making process slows down since all the decisions are to be taken by the top management. It is not suitable for handling emergencies or unexpected circumstances.

Reduces Scope for Specialization: A person cannot specialize in all the activities alone. Therefore, in a centralized structure where all decisions are taken by the top management, the organization lacks specialized supervision and management.

Discourages Initiative: The subordinates are given instructions which they need to follow without questioning the decisions of the top management. In centralization, the subordinates are intimidated from giving their input or suggestions.

Lacks Adaptability to Change: The centralized organization runs in a conventional manner where the top management is somewhat rigid with its policies, methods and techniques. Thus, it creates a barrier to adopting modern and improved practices for organizational growth.

Overburden on Top Management: All the planning and decision-making work is done at the topmost level of management, they control even the day to day operations. Due to this reason, management becomes overburdened and is unable to concentrate on business expansion and growth.

Bureaucratic Leadership: Centralization can be seen as a dictatorship by some, where the top management plans every course of action and the subordinates follow the instructions. Problem-solving becomes quite difficult in such circumstances since the decision-maker, and the implementer is two different individuals.

Poor Upward Communication: The subordinates are supposed to follow instructions while the least attention is paid towards their suggestions and feedback. All this hinders the upward communication in the organization.