

# CENTRALISATION AND DECENTRALISATION

## AGENDA

concept,

types,

factors affecting,

advantages and disadvantages of centralisation

advantages and disadvantages of decentralisation

# SPAN OF MANAGEMENT

The Span of Management refers to the number of subordinates in an organization who can be managed efficiently by a superior.

Simply, the system in which the manager having the group of subordinates who report him directly is called as the span of management.

Span of control or span of management is a dimension of organizational design measured by the number of subordinates that report directly to a given manager.

The term Span of Management is also referred to as span of control, span of supervision, span of authority or span of responsibility. It indicates the number of subordinates who are under the single reporting authority, like manager or CEO whoever it may be.

## Types of span of management structure

Depending on the number of employees that can be supervised or controlled by managers, there can be two kinds of structures in the organization:

- **Tall structures:** These structures are found in classical bureaucratic organisations. In this structure, a manager can supervise less number of subordinates. He can, therefore, exercise tight control over their activities. This creates large number of levels in the organisation. This is also known as narrow span of control.
- **Flat structures:** These structures have a wide span of control. When superior supervises a larger number of subordinates, flat structure is created with lesser number of hierarchical levels.

# Importance of span of Management

The span of management is varied with the structure of organisation and determining the appropriate span of management is very important. It is because of the following -

- Span of management affects the efficient utilisation of the management and effective performance of their subordinates. More wide of span may mean the managers are overstraining themselves and that their subordinates are receiving very little guidance and control. On the contrary too narrow a span means the managers are underutilized and subordinates are overcontrolled.
- The relationship between span of management and organisational structure. A narrow span of management in tall structured organisation has many supervision between top management and lower level employees. This involves more communication and cost. On the other, a wide span for the same number of employees has limited supervision and cost effective.



# Concept of Centralisation

Centralization has been defined as the “systematic and consistent reservation of authority at central point within the organization.” This means the scope for delegation is limited as far as possible, the decisions are taken at the executive level precluding thereby the subordinates from taking decisions or performing some work.

As stated by Louis A. Allen, “centralization denotes that a majority of the decisions having to do with the work being performed, are not made by those doing the work but at a point higher in the organization.”

Further, Henry Fayol defines it as “everything that goes to increase importance of the subordinate’s role is decentralization, everything which goes to reduce it is centralization.”

# Types of Centralization

Fayol has talked about four types of centralisation. They are -

- **Little centralisation:** Generally found in small organisation.
- **More centralisation:** Generally large and wide spread organisation follow it.
- **Effective centralisation:** Time to time effectiveness are judged.
- **No centralisation:** Management enjoys freedom of authority and responsibility

There must be a combination of both centralisation or complete decentralisation after taking into consideration the nature of organisation, its size and operational areas, etc.

**Some academicians have classified centralisation in three different ways as:**

- **Departmental centralisation-** concentration of specialised activities in a department/unit.
- **Performance based centralisation-** It is mainly geographic or single area based centralization.
- **Centralisation of management –** It means restriction of delegation to make decision.



# Factors affecting Centralization

There are leading factors influencing the centralization. They are as follows-

**Facilitate personal leadership:** Where company's size is not large, personal leadership plays an important role particularly at the early stage of its growth. Under such a form of organization, personal leadership will have a potent influence retaining power of authority and responsibility at the central point.

**Provide integration:** For the accomplishment of operation of the enterprise, it is found by many companies that integration of activities is an essence of operation and its objective can be fulfilled only when there is centralization in the company.

**Promote uniformity of action:** When a company desires that it's all branches must have a uniform policy as regards purchases, sales, advertisements etc. and feels that there should be uniformity in existence, there must be centralization of the appropriate decisions.



**Handle emergencies:** Emergency decisions that are likely to affect all units of the company are made by the central authority to maintain proper equilibrium between executives and subordinates of all different units.

**Environmental influence:** Besides the factors mentioned above, there are environmental factors or external factors that affect the degree of centralization including government regulation of business and tax policies.

# Advantages of Centralization

Centralization of authority and responsibility has the following advantages. Such as-

- (i) **Symbol of prestige:** Because of centralized power, the chief executive of the enterprise will get more power and importance, which is a Prestige Symbol for him.
- (ii) **Uniformity in policies, decisions etc.:** As policies, decisions and practices are made at top level of the enterprise, there will be uniformity in them.
- (iii) **Lower costs:** Few number of specialist staff are required under centralization as they are pooled up centrally and fewer physical resources are required which aims at reduction in operating costs.
- (iv) **Better specialists:** Centralization aims at use of few highly qualified specialists, as the quantum of their work and scope are adequate to support.

**(v) Tighter control:** Under centralization, all the facts are coming to the notice of the top executive. He himself can use his authority to set the things right. In this way, centralization aims at greater and tighter control.

**(vi) Flexibility and quick adaptability:** Since decision-making is centralized, the organization becomes more flexible. It is able to adapt itself to changed circumstances quickly and efficiently. It can react to changed environment with greater rapidity.

**(vii) Better coordination-** Centralization leads to better coordination between the different departments in an organization. Chances of conflict of authority are greatly reduced; duplication of work does not occur. Thus, efficiency sets in.

**(viii) Personal leadership-** The centralized system of management is characterized by personal leadership which ensures quick and timely decision-making and implementation.



# Disadvantages of Centralization

The disadvantages of centralisation may be had of from the following-

- **Bureaucratic leadership:** Centralized management resembles a dictatorial form of leadership where employees are only expected to deliver results according to what the top executives assigned them. Employees are unable to contribute to the decision-making process of the organization, and they are merely implementers of decisions made at the higher level.
- **Remote control:** The organization's executives are under tremendous pressure to formulate decisions for the organization, and they lack control over the implementation process. The failure of executives to decentralize the decision-making process adds a lot of work to their desk.

# Concept of Decentralisation

Decentralisation may be defined as- a situation in which ultimate authority to command and ultimate responsibility for results is localised as far down in the organisation as efficient management of the organisation, permits. It is carried out by creating; under a central organisation, a number of autonomous units with mandates to operate as independent units.

From the definition it is clear that -

- Decentralisation is a systematic effort made for delegating authority to the lowest levels in the organisation.
- The right to take decisions on vital matters will remain with the central authority. But when the lowest levels receive orders, they receive them with necessary amount of responsibility and authority.

# TYPES of Decentralization

**There are four different types of decentralisation:**

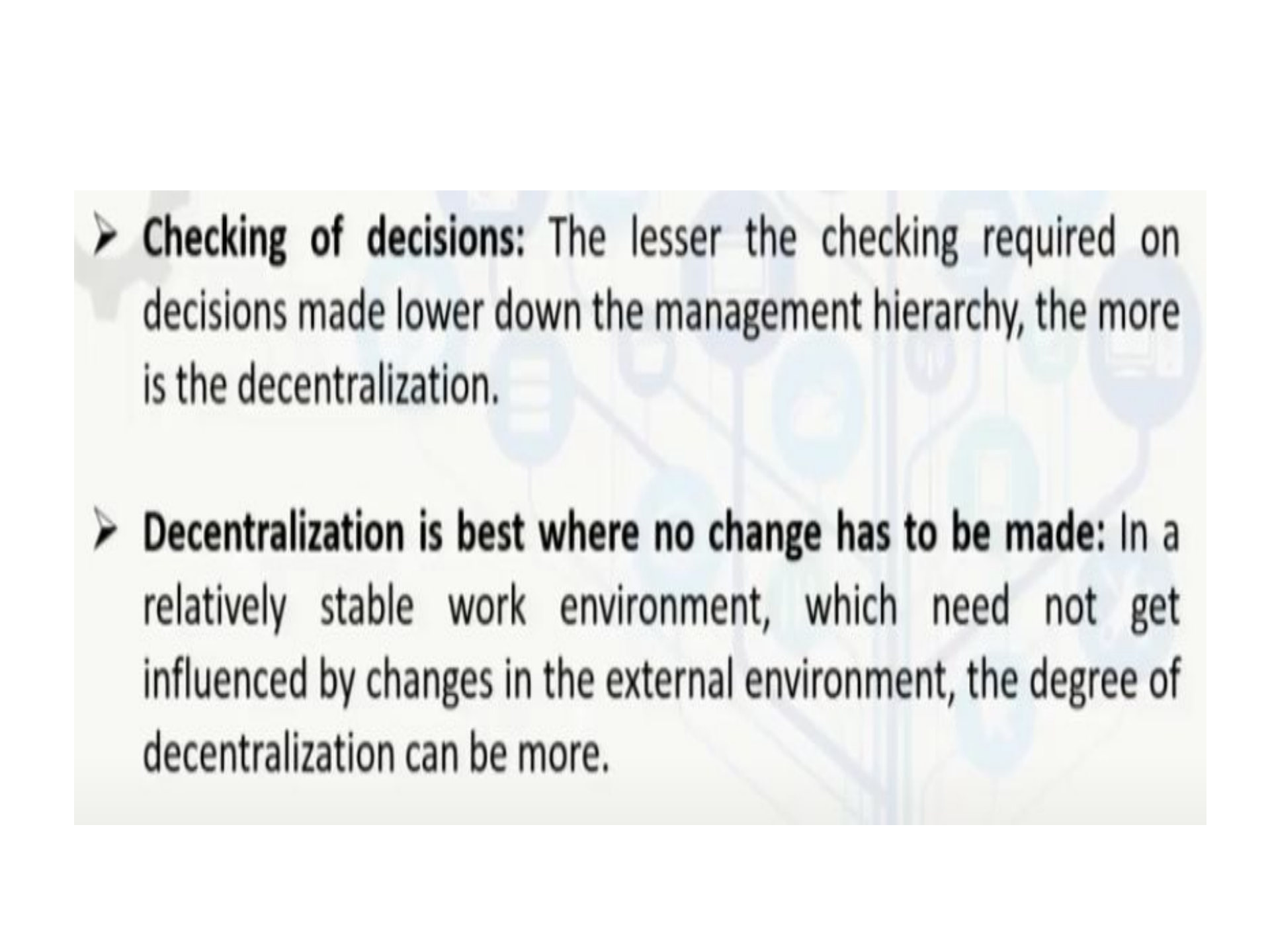
- 1. Functional Decentralisation:** This type of decentralisation occurs when specialist departments are delegated in decision-making authority. Most common departments are- Human Resources, Marketing, Finance and Production.
- 2. Federal decentralisation:** This occurs when authority is divided between (among) the different product lines of the business. For example, a vehicle manufacturer could have separate truck, car and bus divisions.
- 3. Regional decentralisation:** This happens when a business, such as a multinational, has bases in many different regions or countries. Each one has authority over its own operations.
- 4. Decentralisation by project:** This occurs when a particular project, for example, the design of a new aircraft, is given to a team involving people from all functional areas.



# Criteria for Decentralisation

Bhattacharyya, D.K. has referred to Earnest Dale (1965) who has listed the following criteria for decentralization:

- **The number of decisions:** The greater the number of decisions made down the management hierarchy, the more is the decentralization.
- **Importance and significance of the decision:** The more important and costlier the decision made down the management hierarchy, the more is the degree of decentralization.
- **Effects of decisions:** The more functions are affected by decisions made at the lower levels and, in turn, affect the organization structure, the greater is the degree of decentralization.

- 
- **Checking of decisions:** The lesser the checking required on decisions made lower down the management hierarchy, the more is the decentralization.
  - **Decentralization is best where no change has to be made:** In a relatively stable work environment, which need not get influenced by changes in the external environment, the degree of decentralization can be more.

## Factors affecting Decentralization

- **Ease burden on top executive:** Centralisation of authority puts the whole responsibility on the shoulders of the executive and his immediate group. This will put the executive in an embarrassing position, because he is over-burdened with each and every aspect of management
- **Facilitate diversification:** Diversification of products or marketing is possible when divisionalisation is generally based on the principle of decentralisation. Even without diversification, a company can grow very large either in sales or employees and can be managed by one man, provided problems presented to him are limited in respect to his capacity and are not complex and varied.



- **Encourage development of managers:** If management is centralised, hardly one or two a chance to take decisions on vital matters. This method provides no opportunity to others either at the middle or lower level management to develop their thinking power nor gives them a chance to show their ability, skill or efficiency in handling matters independently.
- **Improve motivation:** It has been observed that organisation structure can influence the motivation of people within the company. If the organisation structure is based on sound principles, it also motivates managers to the highest productivity.
- **Importance of decision:** The importance of timely decision making is a crucial factor that influence the decentralisation of the authority.
- **Size of the organisation:** The size of the organisation is another factor that affect decentralisation.

# Advantages of Decentralization

There are various advantages of decentralisation, such as-

- **Gives relief to higher executive:** By delegating a part of their authority to subordinates, higher up executive will get some relief and he can concentrate his time on important matters. In fact, decentralization is a means of expanding business activities.
- **Facilitates managerial development:** As delegation of a part of authority of higher executive to the subordinate, the subordinate will get experience in discharging his superior. This will make the juniors to learn work and become capable for promotion.
- **Promotes coordination:** Because of the decentralization, junior's gets opportunities of promotion, because of their managerial capability acquired through delegation of authority by superiors. Naturally it smoothens personal relationship and promotes coordination among employees.

# Disadvantages of Decentralization

- **Increased costs:** As decentralization increases, the size of the organization and each division will work in its limitation to reach the goal of the organization as a whole. At the same time, the division will work to satisfy its goal.
- **Need for a generalist manager:** The effect of decentralization is that the organization has too much depend on the effective working of the divisional managers.
- **Problem of coordination:** As an organisation expands and brings in greater degree of decentralisation, coordination across the organisation becomes an ever growing problem.
- **Conflict of interest:** As decentralisation sets in and each department is required to function as an independent and profit making center there is increasing pressure on the departmental heads to make their department perform. This creates conflicts of interest between different departments.