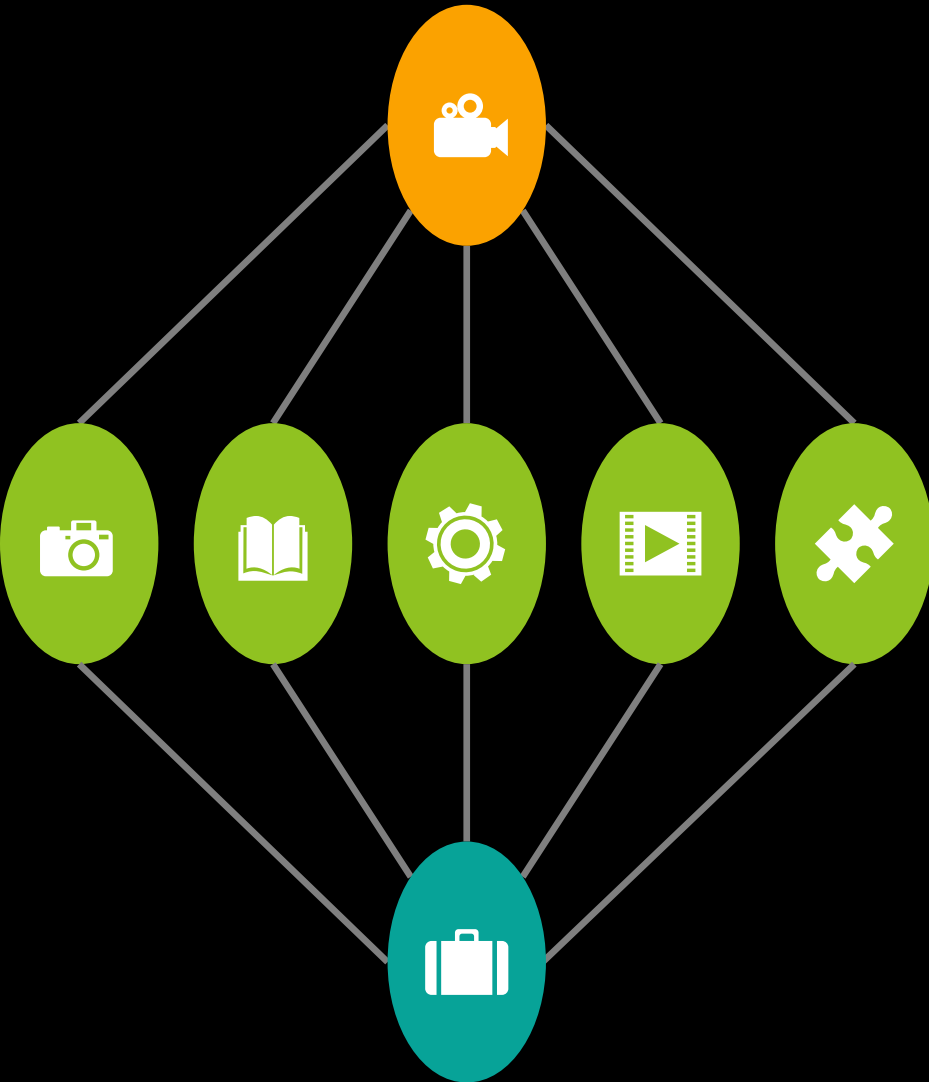


Centralization and Decentralization



Decentralization refers to systematic effort to delegate to the lowest level all authority except that which can be exercised at central points.

Louis Allen

Everything which goes to increase the importance of a subordinate's role is decentralization, everything that goes to reduce it is centralization.

Henri Fayol

- ❖ Centralization and decentralization are relative terms. An organization is centralized when decision-making authority is retained by higher management levels whereas it is decentralized when such authority is delegated.
- ❖ An organization can never be completely centralized or decentralized.
- ❖ As it grows in size and complexity, there is a tendency to move towards decentralized decision making. This is because in large organizations those employees who are directly and closely involved with certain operations tend to have more knowledge about them than the top management which may only be indirectly associated with individual operations.
- ❖ Hence, there is a need for a balance between these co-existing forces. Thus, it can be said that every organization will be characterized by both centralization and decentralization.

IMPORTANCE OF DECENTRALISATION

(i) Develops initiative among subordinates:

Decentralization helps to promote self-reliance and confidence amongst the subordinates. This is because when lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgment. It also keeps them in a state wherein they are constantly challenged and have to develop solutions for the various problems they encounter. A decentralization policy helps to identify those executives who have the necessary potential to become dynamic leaders.

(ii) Develops managerial talent for the future:

Formal training plays an important part in equipping subordinates with skills that help them rise in the organization but equally important is the experience gained by handling assignments independently. Decentralization gives them a chance to prove their abilities and creates a reservoir of qualified manpower who can be considered to fill up more challenging positions through promotions. It also helps to identify those who may not be successful in assuming greater responsibility. Thus, it is a means of management education as well as an opportunity for trained manpower to use its talent in real life situations.



IMPORTANCE OF DECENTRALISATION

Quick decision making:

The management hierarchy can be looked upon as a chain of communication. In centralized organization because every decision is taken by the top management the flow of information is slow as it has to traverse many levels. Response also takes time. This reduces the speed of decision making and makes it difficult for an enterprise to adapt to dynamic operating conditions. In a decentralized organization, however, since decisions are taken at levels which are nearest to the points of action and there is no requirement for approval from many levels, the process is much faster. There are also less chances of information getting distorted because it doesn't have to go through long channels.

Better control:

The extent of achievement of organizational objectives as well as the contribution of each department in meeting the overall objectives can be ascertained. Feedback from all levels helps to analyze variances and improve operations. In decentralization, one of the challenges is the accountability of performance.

As a conclusion, it must be noted that in spite of its benefits decentralization should be applied with caution as it can lead to organizational disintegration if the departments start to operate on their own guidelines which may be contrary to the interest of the organization. Decentralization must always be balanced with centralization in areas of major policy decisions.



IMPORTANCE OF DECENTRALISATION

Relief to top management:

Decentralization diminishes the amount of direct supervision exercised by a superior over the activities of a subordinate because they are given the freedom to act and decide albeit within the limits set by the superior. Also, personal supervision is generally replaced by other forms of control such as return on investment etc. Decentralization also leaves the top management with more time which they can devote to important policy decisions rather than occupying their time with both policy as well as operational decisions.

Facilitates growth:

With each department doing its best in a bid to outdo the other, the productivity levels increase and the organization is able to generate more returns which can be used for expansion purposes.



Basis	Delegation	Decentralisation
Nature	Delegation is a compulsory act because no individual can perform all tasks on his own.	Decentralisation is an optional policy decision. It is done at the discretion of the top management.
Freedom of action	More control by superiors hence less freedom to take own decisions.	Less control over executive's hence greater freedom of action.
Status	It is a process followed to share tasks.	It is the result of the policy decision of the top management.
Scope	It has narrow scope as it is limited to superior and his immediate subordinate.	It has wide scope as it implies extension of delegation to the lowest level of management.
Purpose	To lessen the burden of the manager.	To increase the role of the subordinates in the organisation by giving them more autonomy.

