

Principles of Management
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Module – 06
Lecture - 27
Concept, Types, Factors, advantages and disadvantages Of Centralisation and Decentralisation

Welcome to Lecture 2 in Module 6. Today, we are going to discuss about the concept of Centralization and Decentralization.

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Concept of Centralization

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.”

The slide features a hand-drawn diagram in red ink. It shows a box labeled 'A' at the top, with an arrow pointing down to a circle labeled 'L-1'. From 'L-1', an arrow points down to another circle labeled 'L-10'. To the right of 'L-1', there is text 'CEO / MD' with an arrow pointing towards 'L-1'. To the right of 'L-10', there is text 'Executives' with an arrow pointing towards 'L-10'. The diagram illustrates a centralized structure where authority is concentrated at the top level (L-1).

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Let us get into the lecture. Now, we will understand the concept of centralization first. You know may be now before we discuss about the concept, everybody would have you know discussed about you know centralization and decentralization, may be at the government level; you know government would have been talking about decentralization, may be at the company level, you would have hearing this term centralization and decentralization. Most often, you would have heard about the term decentralizations.

So, first we will try to learn about the centralization, then we will move on to decentralization and so, that you know we will be able to appreciate you know where this centralization happens, you know what is the concept centralization and how company you know follows and practices the centralization and decentralization practices, ok.

Now, let us try to understand the centralization. So, centralization is defined as a systematic and consistent reservation of authority at central point within the organizations. You know, what is the meaning of this? You know this means the scope of for delegation is very limited as far as possible, the decisions are taken at the executive level precluding thereby to the subordinates for taking the actions and performing the work.

Now, let me explain in a very simple form, what is the centralization, ok. You know centralization always refers to the kind of decision-making power entrusted at the level

of people, ok. So, let me talk about that first. So, here if you now talk about the centralization, let us say you know we are talking about company A ok; this is this company A. Now, I have level 1 till level 10, ok. Now, let me call it level 1 as the people, let me call it CEO or an MD of an organization, ok.

In the centralization, what generally happens is, the decision all made at the top level, meaning that know in the level 1 takes the decision and the implementation and the execution has been you know distributed or you know dedicated to the each of these levels falls to the low levels of employees.

Meaning that, the decision-making power at each of the level is very restricted and the decision generally happens at the top level. This is called the concept of centralization is. We can also see some of the definitions to appreciate this; you know the explanation I have given. So, the Louis has defined, “centralization denotes a majority of the decisions having to do with the work being performed, are not made by the people those doing the job; but at that point higher in the organization.”

As I said, let us say you know decision making at this you know these are the people who are going to execute right, they are the people who are going to execute; whereas, the decisions about this execution actually taken by here. Decisions are always taken at the top level. So, this is the centralization concept.

So, even Henry Fayol has defined “everything that goes to increase the importance of subordinate’s role is decentralization; whereas, everything goes to reduce, it is centralization.” Meaning that you know the execution only execution comes here and decision making is only staying with the people at the top, that is a concept of centralization ok; whereas, the decentralization is absolutely on the other side, where now the responsibility of the decision making actually you know delegated at the lower level.

Because, you know employees are who is actually performing the job or given the authority to take decisions. This is a concept of centralization.

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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.

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Now, let us try to understand the different types of centralization. Henry Fayol has defined you know types of centralization to 4 types; one is little centralization. So, little centralization may be some only few decisions are taken at the you know top level, where in you know you can always see in a smaller organization, not in the you know larger or the bigger organization. So, it is very it happens generally in the small organization now.

More centralization; more centralization happens most of the time on the large and the wide spread organization, because you know the bigger organization what happens you know, decisions are made at the top level and so that the uniformity is maintained. So, only you know top level or the CEOs of the company are taking the decisions and the companies operated multiple locations. They only just follow the decisions or the kind of you know authority, they make right.

Then, effective centralizations; so, the effective centralization happens time to time you know based on the effectiveness right, ok. What kind of you know decisions; how it is actually benefited the company, based on that you know they will take the kind of what kind of decision making, we can go for either we can go for a centralization or decentralization that is an effective centralization.

Now, no centralization; so, no centralization is you know management entries freedom of authority and responsibility. There is you know no centralization nor there is the

distribution of the decision making. There must be a combination of both centralization or complete decentralization after taking into consideration, the nature of organization its size and the operational areas.

See you as an organization when you will be able to decide you know whether I should go for a centralization or decentralization. First you need to know the nature of your organization, what kind of an activities you do, what kind of a product you do. Let us say you know if for example, as a company you likely to have lot of you know volatility and challenges and you need to bound to experience lot of environmental impact on your business.

Then, it is always better to decentralize because you know people working at the each of the levels or the regions, they will be able to understand read the you know situations and then, quickly make decisions and for example, if the repetitive or you know some formulation is being done, then it is always go for a centralization.

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The slide is titled "Types of Centralization" and features a background with various icons like gears, a tree, and a person. It lists three types of centralization:

- Some academicians have classified centralisation in three different ways as:
 - Departmental¹ 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.

At the bottom left, there are logos for IIT Madras and NPTEL. At the bottom right, there is a small video inset of a man in a purple shirt speaking.

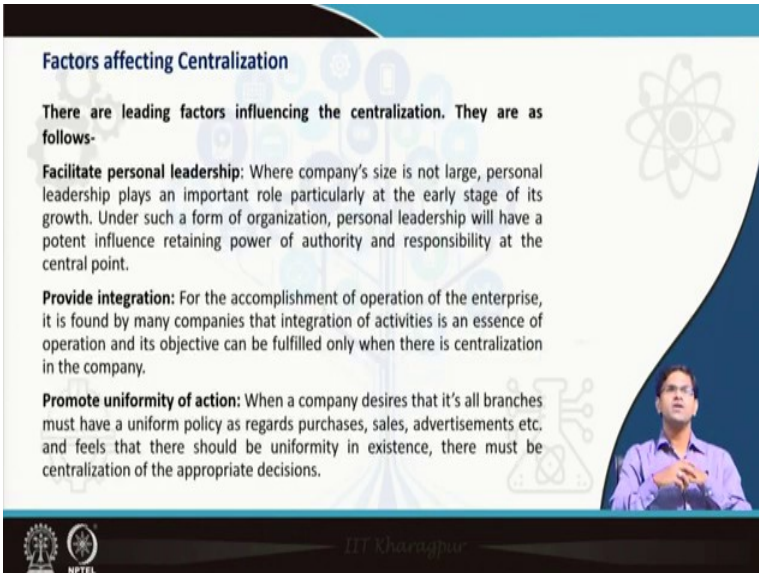
Now, let us try to understand some more type of centralizations, ok. You know departmental centralization. You know concentration specialized activities based on the department and unit, right.

So, the centralization happens based on the functional areas right. Based on each departmental area, you will you have given the authority. Let us say you know decision

for the financial area, the finance you know leader means that departments HOD will be able to take a decision.

Similarly, performance-based centralization, it is again you know related to effective centralization we are talking about. It is mainly based on geographic or single area-based centralization. So, based on the performance, if they are really doing well; then, the centralization is given to make decisions and centralization of management, it means the restriction of delegation to make decisions. So, the management will hold the power to make the decisions, rather they do not delegate to the lower level subordinates, ok.

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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.

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Now, try to understand the what are the factors which are going to cause the centralization, ok. So, we will try to see if the factors which are leading to you know go for centralization as a practice, ok.

Facilitate personal leadership, where company size is not large and personal leadership plays an important role; particularly, the early stage of its company. If in an early stage of the company, what will happen you know, because of the you know individuals, you know expert power or I would say you know the you know experience or the you know expertise that will actually drives.

So, what will happen you know the personal leadership, so people will go for a centralization, they rely on the kind of you know decision made by the powerful people

and authority and responsibility at the central point, that person will actually hold a power to make a decision, so that will actually leads to a centralization decisions because people are dependent on its expertise. So, people will go for a centralization.

And, provide integration, for example for the accomplishment of operation of the enterprise, you know many companies that you know integrate the activities is an essence of operation you know. Its objectives can be fulfilled only when there is a centralization in the company. Let us say many levels and then, you are trying to coordinate and integrate activities, it is always better that you know you go for a centralization.

Because, you know the decision is made at one point and the goals of the organization are decided at the one point and then, you are actually going to integrations. And promote uniformity of action.

When company desires that you know all branches must have a uniform policy, you know with respect to purchase decisions or with respect to sales or advertisements; then, you know in that situations you know to establish a uniformity, it is always better that you know centralization happens.

Because for example, if you let it you know decide on their own, then there will be an inconsistency, right; because each of the branches might decide on their own. For example, let us say you know talk about the chains of restaurants or talk about KFC as a model or the McDonalds are a model; what will happen you know, there is a same structure.

You visit KFC in Chennai and then, if you go and visit the KFC in Delhi, you more or less find very similar, because you know the menus are very similar and the way company operates, the billing cycle or the waiting time, if you look at you know you know if you look at more or less all are similar, right.

There is a consistency, there is a uniformity. For example, if you are making a decentralization, what will happen? Every let us say you know KFC in Chennai and KFC in Delhi are completely different and, but all same company right. So, that is why you know to promote uniformity, it is better that you go for a centralization.

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The slide features a light blue background with a large, faint tree-like graphic in the center. The title 'Factors affecting Centralisation' is at the top left. Below it, two paragraphs of text are provided. The first paragraph, 'Handle emergencies', discusses central authority in crisis. The second, 'Environmental influence', mentions external factors like government regulations. The bottom left has logos for IIT Kharagpur and NPTEL. The bottom right shows a speaker in a purple shirt.

Factors affecting Centralisation

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.

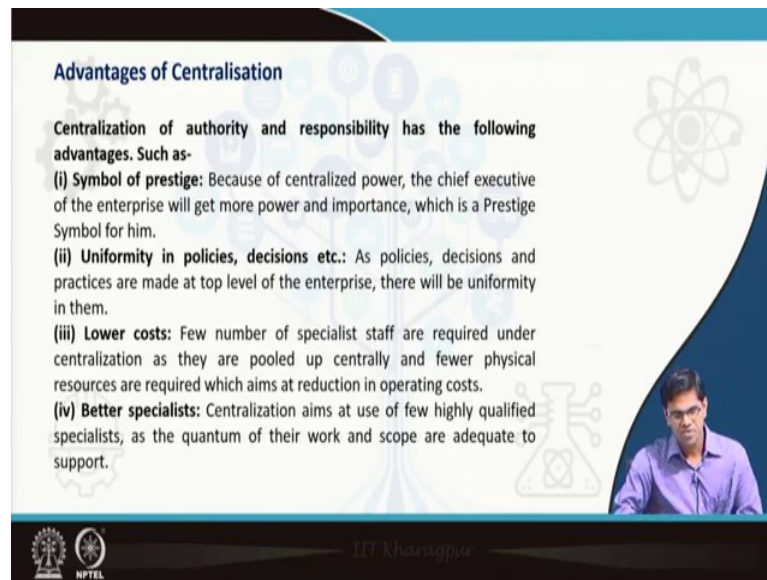
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Then, handle emergency. You know emergency decision there are likely to affect all units of the company are made by the central authority to maintain the proper equilibrium. See for example, you know in emergency situations, if some decision is it is going to impact all unit; then, it is always better that you know the decision-making is held at the one place or at is it a top level, right.

Then, environmental influences beside you know internal factors, we discussed about you know individual personal leadership or we talked about the promoting uniformity or the handling emergencies the environmental factors, there are you know environmental factors are external factors affect the degree of centralization.

You know for example, even including the you know government regulations, policies, tax policies, tax regimes, we are talking about that will also influence a kind of you know you should you know may be driving that company to go for a centralization, ok.

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Advantages of Centralisation

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.

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Now, having understood; what are the factors which are going to impact the company to go for a centralization, now we need to understand the advantages, ok. What are the advantages of being having a centralization? Symbol of prestige; it is very simple, you know where the power is centralized and few people, very few people at the top has hold the authority to make decisions. Then, they will actually feel that is a symbol of prestige.

For example, you create a position called chief executive officer of a company, then as the position is are the you know chief executive officer, you are actually vested some power on it right.

The moment you vested some power on a particular position, it also carries certain decision-making capacity. It creates, it becomes a symbol, right. For example, we are talking about you know Mr. Sundar Pichai being a CEO of Google. So, when the moment if he or she says somebody says CEO of a company that is actually a prestige, right.

Now, the moment you feel as a CEO, then there is a power in you to make decisions. Then, uniformity in policies and decisions, because of the centralization, you always find you know similar functionality or similar way of existence can happen. So, there is a uniform action can happen. So, there is an advantage of being centralization, because otherwise you know what will happen every you know unit will independently re act and

then, you know even you know single supplier serving to multiple units, they find it very awkward or difficult to manage.

Because, you know one unit might behave differently another unit may behave differently. For example, I can give you an example. Let us say you know supplier generally if he supplies and his waiting period is 30 days to get the payment. Let us say you know this company has a multiple unit. Let us now, if there is a uniform activity, all units will pay this particular supplier in 30 days, because there is a uniformity.

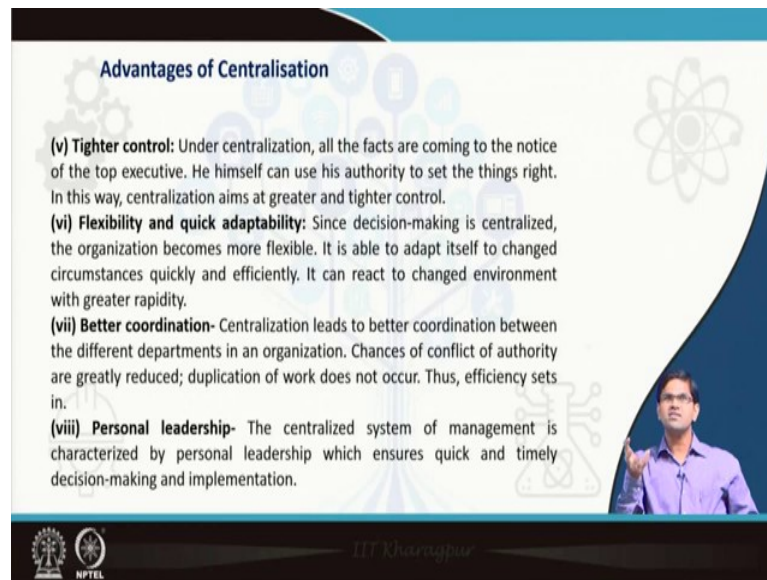
Now, imagine that you know everybody has independently reacting, you know one unit pay in 30 days; one unit in 40 days; one unit in 50 days imagine that there is no consistency, but all in the same company, right. So, the supplier will have a different opinion, then that will have an implication, right.

Then, lower cost; when you have a you know centralization a very few number of specialist staff are required under centralization, because you know the decision making where you can hire few people with you know you can pay more, because you know you are only having people at the top level, who are have to make a decisions.

So, they lower the cost. For example, if you are making a decision of every level, you need to have an expert at every level, right. You know who will be able to understand the process, who will be able to conceive what will happen the, you know in case if the decision is impacting the company performance or the productivity; so, the cost will be higher in the otherwise.

But in this case, the lower cost because you know only few people need to be hired at the top level to make decisions; better specialists because, you know the centralization, the decision is happened only at the one point. So, they will have a better expertise and then, they will have a specialized people to make a you know better decision, they are all qualified to make the decisions, right.

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Advantages of Centralisation

- (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.

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Then, tighter control; under centralization all facts are coming to the notice of the top executive. You know they these top executives will take decisions; they always ensure that the things are falling in a right place, ok. This way centralization aims a greater and tighter control. You know centralization, what will happen? Because they take the decision, they will have a lot of control and they direct what has to be done to their subordinates.

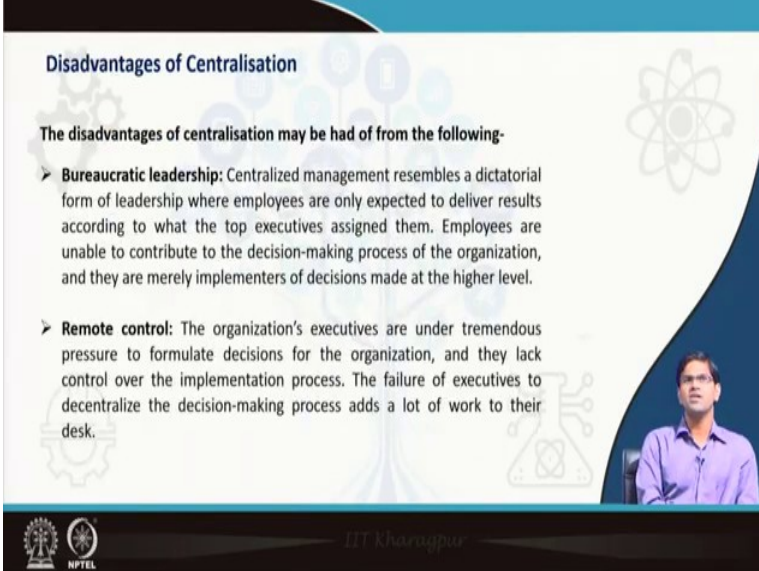
Because, as I said in the first beginning of the session, that they are only going to be executed; there is a tight control come from the top. Flexibility and quick adaptability; so, if the decision making is centralized, the organization becomes more flexible. It is able to adapt itself to changed circumstances quickly and efficiently, because you know it is only few sets of people have to take a decision.

So, there are very quick in responding to the you know environmental changes or the you know other you know changes, we are expecting. Better coordination; so, centralization leads to better coordination between different departments in the organization, because you know decision made at one level and then, it is been simply communicated. So, the chances of conflict of the authority are greatly reduced, because you know nobody holds the authority to make decisions, it is only one person take the decision.

The duplication of work does not occur, because it is very clearly defined the coordination happens smoothly. Then, personal leadership; so, the centralized system of

management is characterized by personal leadership, as I said in the now previous slides also, we have seen that you know personal leadership which ensures the quick and timely decision making and implementation, ok.

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Disadvantages of Centralisation

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.

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Now, though we talked about centralization of advantages, but there are disadvantages as well. The major one being a bureaucratic leadership. It becomes more of a dictatorship. So, they dictate what you have to do and you need to blindly execute it, though you have better opinions and ideas to make; but you know it become a dictator, where employees only expected to deliver rather, they do not have any opinion to participate in the decision-making process.

So, it is more of a bureaucratic authority leadership. So, you are just on other subordinate that become an implemented, they feel you know less ownership will be on the kind of activities they do or a kind of decision making they owe, they will have very less ownership on it, ok.

Then, remote control; so, the organizations executives are under tremendous pressure to formulate decisions for the organization and they lack control over the implementation process, because they make the decision and they say come on go implement and then, they you know control over the implementation processes, the failure of executives to decentralize the decision making process adds a lot of work to their desk right.

Because every time decision has to be you know made at the top level what will happen. So, for even a small decision making, it will come to the top because you know the decision-making capacity only lies with the top management. So, their work load will be very huge, because so many decisions have to be made.

You know in an organization you always in every day so many decisions have supposed to be made. If you are not decentralizing to department level or the lower level, so the burden actually comes back to the top management to respond to every decision, ok.

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Disadvantages of Centralisation

- **Delays in work:** Centralization results in delays in work as records are sent to and from the head office. Employees rely on the information communicated to them from the top, and there will be a loss in man-hours if there are delays in relaying the records.
- **Lack of employee loyalty:** Employees become loyal to an organization when they are allowed personal initiatives in the work they do. They can introduce their creativity and suggest ways of performing certain tasks. However, in centralization, there is no initiative in work because employees perform tasks conceptualized by top executives.

The slide features a blue and white color scheme with decorative icons of gears, a lightbulb, and a network diagram. A small video inset in the bottom right corner shows a man in a purple shirt speaking. The NPTEL logo is visible in the bottom left corner.

There of course, there can be a delay in work, because you know as we said you know every decision has to be made on the top. What will happen you know everything has to go and then, there can be you can expect lot of delay. Let us say you know sometimes there is some input is required or information is required, the information has to flow from the top, it actually delays the process.

And, lack of employee loyalty, because you know no delegation of authority or the responsibility of is been shared with the company means with the subordinates, then what will happen? You know the employees do not own the kind of you know decisions.

They do not relate with the kind of activities they do, because you know they have not participated in the decision making, they have not given you know authority to make any decisions. So, they employee loyalty will be low, because you know they feel like you

know the company leadership only takes the decision; we are not even included or not even inclusive with the loyalty will be very low, ok.

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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.

Handwritten notes in red:
AA Product Investment
LV 1
LV 10
Vital Activities

The slide also features a video inset of a man in a purple shirt and the NPTEL logo at the bottom left.

Then, now we discussed about the centralisation. Now, we are going to decentralisation. So, decentralisation is defined as a situation in which ultimate authority to command an ultimate responsibility for result is localized as far down in the organization as efficient management of organisation permits, ok. It is you know carried out by creating under a central organization and number of autonomous units and mandates to operate as an independent unit. You know it is very simple.

You know let us try to understand the decentralization also in a similar way how we understood the you know centralisation. So, decentralization is a systematic effort made for delegating authority to the lowest level in the organisation. Let me go back to the same example as I given. So, in a company A, I gave right; the same example, I am going to take. Level 1 and you have till level 10, ok.

So, whereas, in the centralization what has happened the decision was actually made here, right. So, now, what has happened? In the decentralization, this level 1, they are actually delegating their responsibility of certain decision making of each of this level.

Each level, passes on some amount of freedom or authority to make decisions. So, whatever the activities pertaining to level 11. Now, let us say work activities work activities related to level 10, all the decisions are made at level 10 itself.

So, this is called the concept of decentralization comes in. So, there is a systematically made an effort to delegate the authority. So, actually they are sharing their decision-making authority to a distributing to each of these levels, right. So, this level will pass on this and this level will pass on this means, whatever the activities belonging to each of these levels that level decisions are all made at this each of these levels.

Now, people at this level will be able to take decision for themselves. So, they are able to own that leadership decision making and you know the right to make decisions vital matters will remain with, of course, you know key decisions like for example product, what product to make or investment decisions. So, that will you know still stays with the top level; but whereas, in the you know it to the affairs related to you know daily affairs, you know managing the you know levels it all goes with each of the level.

Each of the level will manage their responsibilities, the decision making is allowed at this each level. So, that is the concept of decentralization ok; whereas, in the centralization, we have seen that you know almost all the decisions are only done at the top level or the lower level people are just simply an implemented; whereas, in this case, so the decision making authority is actually given at the lower level and people can actually take decisions. This is the concept of decentralisation.

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Types of Decentralisation

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.

The slide features a hand-drawn diagram in the top right corner consisting of four boxes labeled P₁, P₂, P₃, and P₄ arranged in a row, with an 'X' above them. A small inset video of a presenter is visible in the bottom right corner of the slide.

Now, there are we will try to understand the different types of decentralisation. One is functional decentralisation. So, from the beginning of the you know course, we are learning that you know every company has lot of functional areas. So, we talked about human resources, we talked about marketing, we talked about finance and production or operations. So, this type of decentralization occurs when the specialized departments are delegated in decision making authority.

So, what is actually happens? So, whatever the decision with respect to human resources will be done by the human resources department. Let us say how many employees are required for this whole year; all early say how many employees required for a particular project that is been decided at the human resource level, because looking at the data or information they have, they will make a decision.

So, the decision of the functional areas is vested at the functional levels as a functional level decentralization, not the CEO will make a decision. It is only the head of this, you know HR department, they will take the you know decisions. Now, federal decentralization, this occurs when authority is divided between the different product lines of the business.

For example, let us say you know vehicle manufacturer could have separate truck, you know let us say you know they have you know truck as one business unit and then, car

and bus divisions are different units. So, each of the divisions will make the decision for their own divisions, right. So, that is a federal decentralisation.

Now, regional decentralization; so, this happens for a multi-national company, where you are operating at different regions and different countries, then you know every country has given an authority to manage their own operations.

So, it is a you know regional decentralization. Let us say you know you have an operation in multiple locations within the country and based on regionalization, you know we classify the regions of country in to north, you know central part of India, then you say east and then west and southern part of India.

So, its region can manage their own operations; then that is a regional decentralization. The power is vested based on the region or the location. So, you can manage your own operations. Now, decentralisation by project; let us say you know company has a multiple project, ok. So, when a company has a multiple project, let us say company X, they have project 1, project 2, project 3 and project 4. Here, what happen?

Here, the you know power has been distributed for each product line you know. For each product, power is been given to them to make decision about their own operations. So, all decision making with respect to all of these products, product 1, product 2, product 3, product 4, they make their own decision and they you know do whatever they wanted to do. Then, that is called a product you know decentralization by projects right, ok.

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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.

Handwritten notes in red: Decentralize, LV 10, [A-Z]

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Then, what are the criteria's which will actually important when you are making a decision for a decentralization, ok. So, Bhattacharyya has listed has referred to Earnest Dale and listed only following criteria for decentralization, when you will be able to go for a decentralization, when organization can actually decide to decentralize their power. Now, first is number of decisions. See, now the greater the number of decisions made down the management hierarchy, the more is the decentralization in a very simple form.

Let us say you know if the decision making you know there are so many decisions at the lower level. Let us say you know level 10; we will again talk about the level 10. So, many decisions have to be taken at this level. It is better you know decision A to Z, then then it is so many decisions, it is better that you know you decentralize, ok. When the number of decisions made at the you know lower level is more, it is better to go for a decentralisation.

Then, what will happen? Important significance of decision; the more important and costlier decisions are made down the management hierarchy, the more degree of decentralization important.

For example, you know let me talk about an example is you know everybody would have heard about you know Mahatma Gandhi National Rural Employment Guarantee Act; it is you know 100 days of job, right. So, MGNREGA in this you know decentralization is a

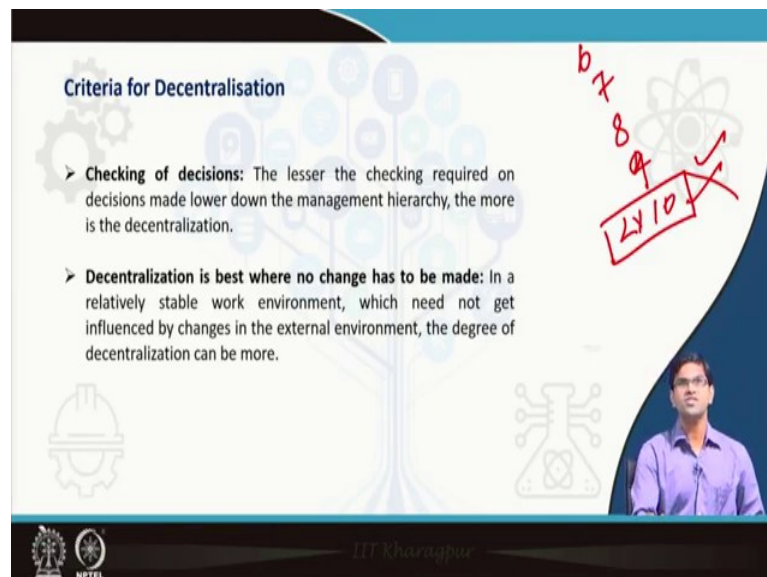
as a concept, it is been implemented, because you know each village will decide what kind of an activity they can do for their own village.

So, the decentralization has action up actually decided upon the local level. So, decentralization happened, it is not the state or the district level; they decide, it is only at the village level they decide what kind of an activity they can do. Similarly, in a company if you take you know if the important decision has to be made at the local and you know I mean the lower level, then it is better to go for a decentralization, ok.

Then, effects of decisions; if more functions are affected by the decisions made at the lower levels, in turn affect the organization structure, the greater is the degree of, degree of centralization, decentralization. This is very simple. You know if there is a decision made at the lower level, it is going to impact you know the law organization structure and then, the you know organization itself; it is better to go for a decentralization.

Because you know that its decision has to be taken at the lower level. So, then, it should be decentralized. If the top management decides for the lower level, then it is not actually a better way; you should go for a decentralisation.

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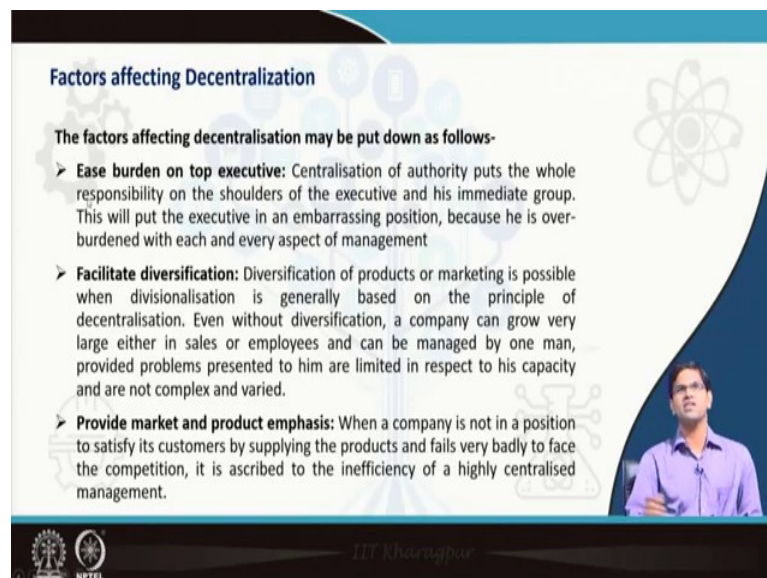
Then, next second is checking for checking of decisions. The lesser checking required on decisions made lower down the management hierarchy, more decentralization is required. It is in a simple form.

How do I explain it, see let us say you know whatever the decisions you made and if that decision may decision made, it does not require you know so many people approval or you know need to access the impact of these decisions? Then, it is you can go for a decentralisation. For example, if any say you know decision you made, it has to go to different level to get the approval. Then, it is not to go for decentralization, better go for a centralization.

Let us say you know in a simple form. Let us say you know you are taking a decision, if you are taking a decision at you know level 10, if it can be just approved, if it needs an approval of level 9, 8, 7, 6; in this case, it is better not to go for decentralization, you cancel this decentralization, just go for a centralization. If that does not require many checks you know checking for the decision, you can go for a decentralization, ok.

Now, so, decentralization is best when no change has to be made. You know whatever you know relatively stable environment, you know which need not get you know influenced by the changes in the external factors or whatever we are talking about. Then, it you can go for a decentralisation. Because you know there is no changes has to be made, then you can go for a decentralisation.

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Factors affecting Decentralization

The factors affecting decentralisation may be put down as follows-

- **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 overburdened 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.
- **Provide market and product emphasis:** When a company is not in a position to satisfy its customers by supplying the products and fails very badly to face the competition, it is ascribed to the inefficiency of a highly centralised management.

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Now, what are the factors which affect the decentralisation? So, a factor affecting decentralization are one is ease burden on top executive. Now, what does happen in a centralization, where the top management take the decision? Actually, in the you know

decentralization, what is happening actually? They actually delegating their authority and responsibility to the lower level or it is you know immediate group.

So, this actually you know put the executive in an embracing position because he is overburdened with each and every aspect of the management, ok. Now, facilitate diversification. Diversification of products or marketing is possible, when divisionalisation is generally based on principles of decentralization.

If you are able to decentralize based on the product or the you know different divisions, so you know then it is easier, without these diversifications, the company can grow very large either in sales or you know employees and can be managed by one man and it become difficult. Then, provide market and product emphasis.

So, when a company is not in a position to satisfy its customers by supplying the products and fails very badly to face the competition, inefficiency of highly centralized management. So, it is always better that know you if you are able to provide decentralisation. So, that you know every product line or every you know divisions, they will be able to address their customers in a better way and that will bring lot of you know a positivity for the company.

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Factors affecting Decentralization

- **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.

The slide features a blue and white color scheme with decorative icons of gears and a network diagram. A small video inset in the bottom right corner shows a man in a blue shirt speaking. The NPTEL logo is visible in the bottom left corner.

And, encourage development of a manager. You know if you are you know management is centralized then hardly one or two chance to take decisions on vital matters. So,

actually you know when you are really centralized, you know you are not actually giving an opportunity for him to groom somebody as a leader.

But in the decentralization, in the other way around what is actually happening the decentralization actually you know empowers the people at each level and then, they are able to engage in their decision-making process and then, they are able to do in turn able to contribute towards making the decision and improve motivations.

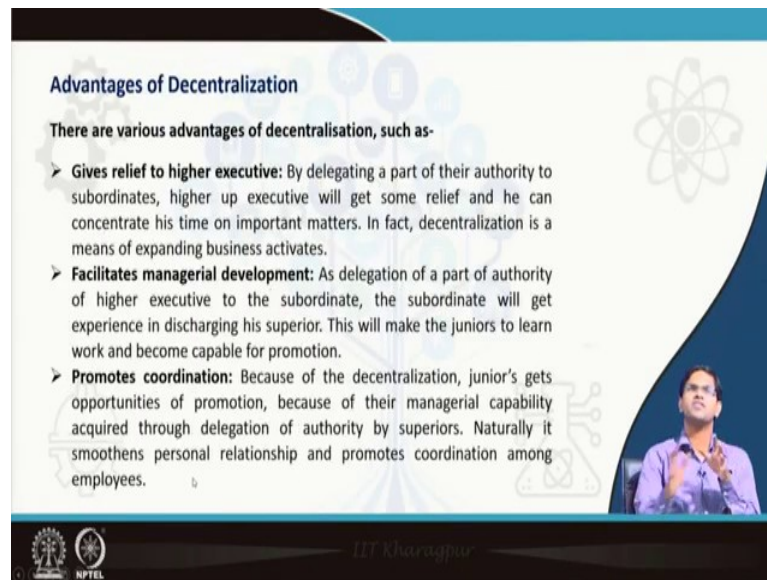
The moment, it is decentralized you know people actually whatever the decision made, they own the decisions, right. So, there was the moment they own their decision, they have they will be highly motivated, because you know they are been participated and they are also able to contribute towards the decision-making process and then, there is a high motivation.

Then, importance of decision; so, importance of timely decision making is crucial, because the decentralization what happens you know the decisions are made at each level. So, it is being quicker, right.

So, some important decision, if it is there is delayed decision making that is actually going to you know impact the business and also, it is if the centralization it takes lot of time to you know take decision of top level; where the decentralization, you can make a quickly decisions and then important decisions can be made it quickly. And then, size of the organization; so, size of the organization is also another factor that will affect the decentralization.

If the size of the organization is very large, sometimes you know it is very difficult to you know go for a decentralization, because as we discussed in the uniformity factor comes into picture. So, company has to go for a centralisation.

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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.

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Now, advantages of decentralization. It actually gives relief to higher executive. By delegating the authority, you know what happens? You know there is a less load of decision making at the top level, because they are actually delegated to each subordinate levels. So, each subordinate level, they are taking a decision. So, you know actually you know it gives more time for them to think on the important matters rather than the managing the day to day routines and it may facilitate managerial development.

Because, you know the moment you delegate certain responsibility and they become accountable and now they follow all the you know process of the management, they become conscious about you know any decision, they make, they explore, they you know they take you know they completely collect information's, data; they process it, they make decisions. They are actually helping them to develop some of the managerial skills.

And, it promotes coordination. The moment you have lot of decentralisation. So, juniors get opportunities of promotions because of their managerial capability you know occur through the delegation of authority by superiors and it actually smoothens the relationship between you know managers and the supervisors and it also, promotes coordination among employees.

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Advantages of Decentralization

- **Boosts the moral and efficiency of managers:** Because of decentralization the divisional managers performing the superior's duty with greater care, this will enhance the performance of his department or division. The department's achievements may be measured in terms of benefits to the enterprise from the divisions to recognize the efficiency of divisional manager and necessary award may be given to the division.
- **Promotes greater motivation:** By delegating greater decision making power on managers down the line, initiative is prompted and they are motivated to higher performance.

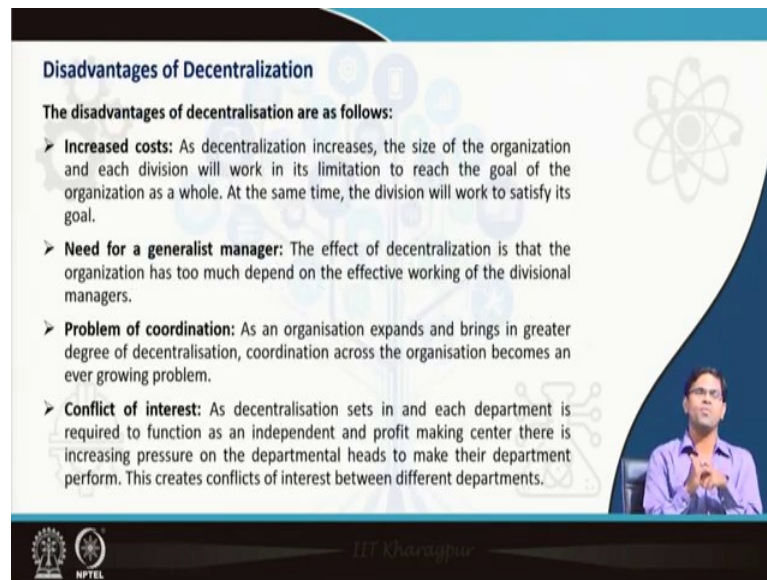
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Then, it boosts the moral and efficiency of the manager, because of the decentralization the divisional managers performing the superior's duty with a great care and we this will enhance the performance of department or the divisions, ok. So, the moment the decentralization actually empowers the people it actually increases the efficiency of the managers.

Because you know the decisions are made quicker and then, subordinate participants the decision-making process and it also boots their moral. And, promotes greater motivation; by delegating the greater decision-making power on managers down the line you know actually you know it; you know it is actually motivating their higher performance because you know they been feeling you know privileged, because you know they have given authority to make decisions. It will give lot of motivations.

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Disadvantages of Decentralization

The disadvantages of decentralisation are as follows:

- **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.

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Now, though we talked about lot of advantages being the decentralization, now even many companies go for decentralization decision making because you know the decision made at the central level may not be applicable in some of the divisions or some employees may refuse or unhappy about the decision company promote their decentralization approach. But though decentralization is growing, but of course, there are disadvantages.

Because you know organization has to you know act in tandem with the betterment of the company not rather than just going with a kind of decision-making process. So, the some of the disadvantages are increased cost. Now, decentralization increases you know cost being increased, because the size of the organization, each division will work in its limitation to reach the goal of organization has a whole.

So, because you know when we say it you know in the principles of management course, we are actually saying you know study that you know it is always we are talking about an organization goal.

Every activity has to align with the organization goal, but you know sometimes what will happen you know, the multiple different units if take the decisions if it is not aligning and fitting, there is a huge cost involved in you know making the division is to satisfies some of its goals. And then, bringing them the alignment will be organization goal.

And, need for a generalist manager; so, what happens you know in a decentralization, the organization has too much depend on the effective working of the divisional managers, right. Because, you know since the you know decentralization has empowered the division level manager to make decisions. So, organization has to depend too much on the effective working of the divisional manager. If the you know divisional manager failed, because it will impact the company.

Problem of coordination; as organization expands and brings in greater degree of decentralization coordination across organization becomes an ever-growing problem. Because you know you delegated the responsibility to make decisions and each of these decisions may rise at each level, if there is no aligning. And, there are you know inconsistency between the decisions it is not you know fitting into the decisions with different levels, then it creates a problem of coordination because as finally, we need to achieve the organization goal.

If the incompatibility between the different levels, it will actually increase the cost and it will not actually help the company to grow. Then, conflict of interest; now, decentralization sets each department is required to function as an independent and profit making centre, there is an increasing pressure on the departmental heads to make the department perform.

So, we have seen right now when a decentralization happens, they started to think every unit has their different organizations. They think that you know we need to outperform other department, we need to be superior, we need to be better than the other department is actually creates the lot of conflicts, one of between the departments and different departments, ok.

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CONCLUSION

In this lecture session, the concept, types, factors affecting, advantages and disadvantages of centralisation and decentralisation have been discussed in details. The learners will be able to have knowledge about various issues of centralisation and decentralisation and they will be able to replicate the concept in their management practice

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So, these are the references. Today, we learnt about the concept of centralization and decentralisation. So, now, we extensively discussed about the advantages and the disadvantages of the both centralization and decentralisation.

Again, you know it is the kind of what kind of organization you can go for either a centralization or decentralization is always depending on analyzing what kind of a company you are; what kind of a structure you have and what kind of a product you have

and what kind of a customers you deliver. Based on these factors, organization has to decide for the effective functioning of their organizations.

Thank you.