

Answer on Question#40214 – Marketing – Other Assignment

“More centralization and decentralization are not advisable” – Do you agree or disagree? Justify. Suggest when and where these two concepts effectively applied in corporate.

Solution

I agree with the statement.

Centralization refers to the retention of control by the TOP Management in the area of decision-making. Decentralization refers to the participation of employees in the decision-making process. The term centralization and decentralization can also be used to refer the organizational aspects such as administrative process, location of the firm, different functions that are being carried out, and the extent to which authority is delegated.

Since organizations cannot be either completely centralized or decentralized, the challenge for managers is to work out the right balance between these two extremes.

Factors in Relative Centralization/Decentralization

- Highly Centralized Organization Highly Decentralized Organization
- How many decisions are made at lower levels in the hierarchy? Very few, if any Many or most
- How important are the decisions that are made at lower levels (i.e., do they influence organizational success or dollar values)? Not very important Very important
- How many different functions (e.g., production, marketing) rely on lower level decision-making? Very few, if any All or most
- How much does top might monitor or check up on lower level decision-making? A great deal Very little or none

Factors affecting Centralization/Decentralization

1. History and Nature of the Organization: Centralization or decentralization of authority depends on the manner, in which the organization has built up over time i.e., history of the organization. As organization that has been primarily built by an individual's efforts tends to have a highly centralized structure. Organizations that have grown through a number of mergers, amalgamations and consolidations tend to stay decentralized.

2. Availability of Competent Managers: The degree of decentralization in an organization is influenced by the availability of competent managers. Decentralization of authority may not be possible if the managers of the organization are not talented enough, and if they can't handle the problems of decentralized units.

3. Size of the Organization: The size of the organization is another factor that effects decentralization. In a large organization, numerous decisions have to be taken at different places. Therefore, it becomes difficult to coordinate the functions of different departments. To avoid

slow decision-making and to bring down the costs associated with managing a large organization, authority should be decentralized. Decentralization enables the organization to operate as a group of small independent units thus reducing the workload of managers, reducing the amount of paperwork and improving the quality of decisions.

4. **Geographical Dispersion:** Decentralization is effective for the organizations, which have operations in different locations. Top-level executives often find it impossible to keep track of the details of operations in scattered locations. In such cases, the control exercised by the top Management from the headquarters may be ineffective, because they are unlikely to know the local conditions or problems. Therefore, such geographically diverse units can be decentralized and managers from these units made responsible for their operations and profits.

5. **Technical Complexity of Tasks:** Technology has changed rapidly over the years and there is a growing need for specialists who can understand it. Since it is impossible for the top-level Management to keep track of all technological advances and handle technology-related issues, it becomes necessary to delegate authority for carrying out technical projects to experts in the concerned fields. In such cases, organizations need to follow a decentralized approach.

6. **Time frame of Decisions:** In order to survive in a highly competitive environment, every organization has to capitalize on the available opportunities. In a decentralized organization, the authority to make decisions lies with the head of that particular unit. Therefore, decisions can be made faster. The decisions are made closer to the scene of action, and are therefore, timely and accurate.

7. **The Importance of a Decision:** The importance of a decision to an organization is also a crucial factor that influences the decentralization of authority. Generally, decisions, which involve high risks and costs, are made by the top management, while the decisions involving routine and low-risk activities are delegated to the subordinates.

8. **Planning and Control Procedures:** If an organization has clear objectives and a specific plan to achieve them, a superior would be willing to allow subordinates to make decisions independently. The assigning of functions such as organizing, staffing, directing and controlling to managers at different levels depends on the manner in which they have been allocated at the time of designing the organizational plans and also on the extent to which these plans have been implemented. When lower level managers are allowed to participate in the planning process, decentralization is facilitated.

To be effective, decentralization should be supported by a well-defined system of control procedures in order to ensure that the performance at different levels in the organization is in accordance with its plans. The greater the degree of development and use of control techniques, the better are the chances for effective decentralization.

In the absence of good planning system and control procedures, it is difficult for the top management to compare and evaluate the effectiveness of decisions made by subordinates.

9. Views of Subordinates: The willingness of subordinates to take on additional responsibilities is another factor that affects the degree of decentralization. If the subordinates are dynamic and well trained, they will accept any authority delegated to them and take on the responsibility of achieving stated goals. Such subordinates strive to make best use of their abilities in order to achieve the goals. But, if the subordinates are not willing to take up additional responsibilities and prefer to evade responsibility, they may perceive delegation of authority and decentralization as a threat.

10. Environmental Influence: Besides the factors mentioned above, all of which are internal to the organization, there are environmental factors also that affect the degree of decentralization. Government regulation of private business is the most important factor, which affects the extent of decentralization. For instance, organizations whose pricing mechanisms are decided by the government, e.g. fertilizers, cement, etc. do not require managers to spend much time in determining the price structure. In such a case, this function can't be decentralized, as even the top management does not have any authority over it.

BALANCE – THE KEY TO DECENTRALIZATION

There is no simple answer to the question whether centralization or decentralization is the preferable option for an organization. Decentralization is not a panacea (proper solution) for all problems, and centralization is not necessarily bad. The major problem caused by decentralization is, an organization is loss of control. It is not advisable for an organization to decentralize to such an extent that organizational goals are forgotten and the existence of the organization as a unified entity is threatened. Therefore, an organization should strike a balance between centralization and decentralization.

It should opt for centralization in certain major policy areas at the top level such as financing, overall profit goals and budgeting, new product programs, basic personnel policies, development and compensation of managerial personnel, major marketing strategies etc.

The organization can also decide to decentralize routine and monotonous tasks that subordinates at the lower level can carry out without much guidance from superiors. This would enable managers to focus their attention on strategic and important issues.

MERITS & DEMERITS OF DECENTRALISATION

Advantages/Merits of Decentralization

1. Decision can be taken by lower level of managers.
2. Facilitates fast decision-making.
3. Decisions and strategies can be quickly adapted to the competitive environment.
4. Provides autonomy to employees, increases their self-confidence and thus enhances their motivation level.

5. Highly efficient in large and complex organizations where it is difficult for top management situated in the headquarters to study the local conditions and take appropriate decisions.
6. Frees the top management from decisions related to day-to-day operations and allows them to concentrate on strategic issues.

Disadvantages/Demerits of Decentralization

1. Coordination of decentralized units poses a serious challenge to top management.
2. Policies may not be applied uniformly to all the units and this may lead to employee de-motivation.
3. Differences in opinions of top management and unit heads can often lead to conflicts.
4. Competition between various units may be very severe, they may develop hostility toward each other making it difficult to reap benefits such as resource and knowledge sharing.
5. Economics of scale may not be realized as each unit tries to be independent.
6. The success of a unit will depend on the efficiency and capability of its head.