**Term Paper**

**Of**

**Principal and Practices of Management**

**Topic: Benefits of Centralization and Decentralizations of a Company.**

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**Introduction**

A Decentralized Organization Is One in Which Decision Making Is Not Confined to a Few Top Executives but Rather Is Throughout the Organization, With Managers at Various Levels Making Key Operating Decisions Relating to Their Sphere of Responsibility. At One Extreme, A Strongly Decentralized Organization Is One in Which Even the Lowest-Level Managers and Employees Are Empowered to Make Decisions. At the Other Extreme, In a Strongly Decentralized Organization, Lower-Level Managers Have Little Freedom to Make Decisions.

Situation in Which Decision-Making Power Is at the Top of an Organization and There Is Little Delegation of Authority. It Is the Opposite of Decentralization. Centralization and Decentralization Are Really a Matter of Degree. Full Centralization Means Minimum Autonomy and Maximum Restrictions On Operations of Subunits of the Organization.

This Issue of Centralization and Decentralization Is a Fascinating One. But You Should Talk About It Only in Particular Cases, Of Particular Organizations and Particular Kinds of Decisions.

Decentralization Will Not Work Unless You Really Delegate Both Responsibility and Authority. This Means That the Final Decisions Must Be Made at That Lower Level. Two Things Stand in the Way of This Working. One Is That the People Who Now Have the Authority May Not Let Go of It. The Other Is That the People at Lower Levels May Not Want to Accept It. And, At the Beginning, Some of These People May Not Be Strong Enough to Handle It. The Process Is Not As Difficult As It May Sound. You Start at the Top, By Asking “what Is There That Could Be Decided Just As Well by Somebody Other Than Me?” And Then You Keep Working This Question Down the Ladder. You Really Have to Beware of the ‘father Knows Best’ Attitude.

You Just Can’t Beat a Decentralized System. It Gets Decisions Closest to the Level Where the Action Really Is. Education Should Have an Advantage in Moving Into It, Because Your Locations and Your People Are Already Physically Dispersed.

And It Really Does Something for People. The Executives Are Now Essentially Running Businesses of Their Own. The Company has Confirmed Their Authority by Making It Very Clear It Will Not Let People Dissatisfied with Their Decisions ‘jump’ Over to the Home Office. Decisions Are More Rapid, Too. Most of the Company’s New Executives Are Coming Up Out of This System.

It Avoids the Evils of Bureaucracy. Business Is Afflicted with This, Just Like Government. When Decisions Have to Go to the Top It’s Not Just a Question of Talking with the Chief. His Time Is Limited. So All Kinds of Other People Up There . . . Staff People . . . Start to Look at the Question Too. I’ve Never Been Convinced That More People Make a Better Decision. It’s Ok to Say to One Individual, “you Make the Decision, And I’ll Live with It.”.

**Decentralization**

**Decentralization Is the Process of Dispersing Decision-Making Governance Closer to the People. It Includes the Dispersal of Administration or Governance in Sectors or Areas Like Engineering, Management Science, Political Science, Political Economy, Sociology and Economics. Decentralization Is Also Possible in the Dispersal of Population and Employment. Law, Science and Technological Advancements Lead to Highly Decentralized Human Endeavors.**

Decentralization:—the Transfer of Authority and Responsibility for Public Functions From the Central Government to Subordinate or Quasi-Independent Government Organizations and Core the Private Sector Is a Complex and Multifaceted Concept. It Embraces a Variety of Concepts. Different Types of Decentralization Shows Different Characteristics, Policy Implications, And Conditions for Success.

**Why Decentralization?**

In Centralization, A Limited Amount of Authority Is Delegated. In Decentralization, A Significant Amount of Authority Is Delegated to Lower Levels.

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Each Form has It's Advantages and Disadvantages and Is Affected by a Number of Factors, Such As Size of Organization and the Amount of Geographic Dispersion. If the Organization Is Very Large, Diversified the Limitations of Expertise and Personal Resources Will Generally Lead to Decentralization of Authority to the Heads of These Different Businesses. Innovative, Where Speed and Adaptability to Change Are Characteristics of the Business, Tend Towards Decentralization.

**Decentralized Systems:**

Decentralization Gives Individual Business Units Autonomy Over Their Own It Resources Other Units Unless It Is Essential to the Overall Organization Policy. The Main Traits of a Decentralized Approach Include Flexibility, Empowerment of Individual Business Units and Service Orientation. Decentralized Approaches Tend to Be Just As Efficient As Centralized Ones in Regard to Meeting Individuals Needs.

**Organizational Theory**

Decentralization Also Called Departmentalization Is the Policy of Delegating Decision-Making Authority Down to the Lower Levels in an Organization, Relatively Away From and Lowers in a Central Authority. A Decentralized Organization Shows Fewer Tiers in the Organizational Structure, Wider Span of Control, And a Bottom-To-Top Flow of Decision-Making and Flow of Ideas.

In a Centralized Organization, The Decisions Are Made by Top Order or On the Basis of Pre Set Policies. These Decisions or Policies Are Then Enforced Through Several Tiers of the Organization After Gradually Broadening the Span of Control Until It Reaches the Bottom Tier.

In a Decentralized Organization, The Top Executives Delegate Much of Their Decision-Making Authority to Lower Tiers of the Organizational Structure. As a Correlation, The Organization Is Likely to Run On Less Rigid Policies and Wider Spans of Control Among Each Officer of the Organization. One Advantage of This Structure If the Correct Controls Are in Place Will Be the Bottom to Top Flow of Information, Allowing All Decisions Among Any Official of the Organization to Be Well Informed About Lower Tier Operations. For Example, An Experienced Technician at the Lowest Tier of an Organization Might Know How to Increase the Efficiency of the Production, The Bottom to Top Flow of Information Can Allow for This Knowledge to Pass Up to the Executive Officers.

**Decentralized Governance:**

Decentralization—the Transfer of Authority and Responsibility for Public Functions From the Central Government to Subordinate or Quasi-Independent Government Organizations and the Private Sector Is a Complex and Multifaceted Concept. It Embraces a Variety of Concepts. A Different Type of Decentralization Shows Different Characteristics, Policy Implications, And Conditions for Success.

Typologies of Decentralization Have Flourished. For Example, Political, Administrative, Fiscal, And Market Decentralization Are the Types of Decentralization. Drawing Distinctions Between These Various Concepts Is Useful for Highlighting the Many Dimensions of Successful Decentralization and the Need for Coordination Among Them. Nevertheless, There Is Clearly Overlap in Defining These Terms and the Precise Definitions Are Not As Important As the Need for a Comprehensive Approach. Political, Administrative, Fiscal and Market Decentralization Can Also Appear in Different Forms and Combinations Across Countries, Within Countries and Even Within Sectors.

**Administrative Decentralization**

Administrative Decentralization Seeks to Redistribute Authority, Responsibility and Financial Resources for Providing Public Services Among Different Levels of Governance. It Is the Transfer of Responsibility for the Planning, Financing and Management of Public Functions From the Central Government or Regional Governments and It's Agencies to Local Governments. The Three Major Forms of Administrative Decentralization -- Deconcentration, Delegation, And Devolution -- Each Have Different Characteristics.

**Deconcentration**

Deconcentration Is the Weakest Form of Decentralization and Is Used Most Frequently in Unitary States Redistributes Decision Making Authority and Financial and Management Responsibilities Among Different Levels of the National Government. It Can Merely Shift Responsibilities From Central Government Officials in the Capital City to Those Working in Regions, Districts, It Can Create Strong Field Administration or Local Administrative Capacity Under the Supervision of Central Government Ministries.

**Delegation**

Delegation Is a More Extensive Form of Decentralization. Through Delegation Central Governments Transfer Responsibility for Decision-Making and Administration of Public Functions to Semi-Autonomous Organizations Not Wholly Controlled by the Central Government, But Ultimately Accountable to It. Governments Delegate Responsibilities When They Create Public Enterprises or Corporations, Housing Authorities, Transportation Authorities, Special Service Districts, Semi-Autonomous School Districts, Regional Development Corporations, Or Special Project Implementation Units. Usually These Organizations Have a Great Deal of Discretion in Decision-Making. They May Be Exempted From Constraints On Regular Civil Service Personnel and May Be Able to Charge Users Directly for Services.

**Why Delegate?**

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In an Increasingly Complex Business Environment, With All the Trends Affecting Business Today, Such As Globalization, The Information Technology Explosion, Strategic Alliances, Increased Mergers and Acquisitions, Heightened Competition, It Just Isn't Possible to Still Be That One Person in Control of Everything. Bringing in Others to Manage Is an Absolute Necessity for Survival Now.

Owners and Managers Should Concentrate On the Activities They Do That Bring the Most Value to Their Organization. You Must Perform Only "Essential Activities" That Give the Company It's Competitive Advantage Over Other Companies in the Industry.

**Devolution**

Devolution Is an Administrative Type of Decentralization. When Governments Devolve Functions, They Transfer Authority for Decision-Making, Finance, And Management. Devolution Usually Transfers Responsibilities for Services to Local Governments That Elect Their Own Elected Functionaries and Councils, Raise Their Own Revenues, And Have Independent Authority to Make Investment Decisions. In a Devolved System, Local Governments Have Clear and Legally Recognized Geographical Boundaries Over Which They Exercise Authority and Within Which They Perform Public Functions. Administrative Decentralization Always Underlies Most Cases of Political Decentralization.

**Economic Decentralization**

Privatization and Deregulation Shift Responsibility for Functions From the Public to the Private Sector and Is Another Type of Decentralization. Privatization and Deregulation Are Usually, But Not Always, Accompanied by Economic Liberalization and Market Development Policies. They Allow Functions That Had Been Primarily or Exclusively the Responsibility of Government to Be Carried Out by Businesses, Cooperatives, Private Voluntary Associations.

**Privatization**

Privatization Can Range in Scope From Leaving the Provision of Goods and Services Entirely to the Free Operation of the Market in Which Government and the Private Sector Cooperate to Provide Services or Infrastructure. Privatization Can Include:-

* Contracting Out the Provision or Management of Public Services or Facilities to Commercial Enterprises Indeed, There Is a Wide Range of Possible Ways in Which Function Can Be Organized and Many Examples of Within Public Sector and Public-Private Institutional Forms, Particularly in Infrastructure;
* Financing Public Sector Programs Through the Capital and Allowing Private Organizations to Participate; And
* Transferring Responsibility for Providing Services From the Public to the Private Sector Through the Divestiture of State-Owned Enterprises.

**Silent Decentralization:**

An Often Ignored Dimension of Decentralization Is Whether It Emerged Explicitly by Policies, Or Not. Decentralization in the Absence of Reforms Is Also Referred to As “silent Decentralization.” Consequently, It Distinguishes Itself Mainly by It's Potential Origins: Network Changes, Initiative Shifts, Policy Emphasis Developments, Or Resource Availability Alterations.

**Measuring Decentralization**

Where As Variety in Degree of Decentralization Across the World Is a Fact However There Is No Consensus in the Empirical Literature Over the Questions Like ‘which Country Is More Decentralized?’ This Is Because Decentralization Is Defined and Measured Differently in Different Studies

"On the Source of ‘decentralization Instrument’ There Are Two Strands in the Writing That Argue for Two Different Approaches to Measure Fiscal Autonomy. One Gives More Weightage to Devolution of Tax Authority As an Instrument of Decentralization and Hold It Crucial for Sub Nationwide Autonomy, The Other Gives More Weight to the Nature of Intergovernmental Transfers As an Instrument Impacting Upon the Sub National Behavior and Effecting Their Autonomy and Accountability. Thus Former Choose to Focus On Fiscal Policy .

When It Comes to the Measurement of Fiscal Decentralization ‘the Share of Sub National Expenditures and Revenues’ Is Considered the Best Indicator. This Is Because Fiscal Instruments Are Easier to Measure While Regulatory and Financial Instruments Are Extremely Complex and Difficult to Measure Statistically Because Nowhere Transfers Remain Strictly Confined to the Technical Objectives.

**Advantage of Decentralization:**

Decentralization has Many Advantages, Including:

1. Top Management Is Relieved of Much Day to Day Problem Solving and Is Left Free to Concentrate On Strategy, On Higher Level Decision Making, And Coordinating Activities.
2. Decentralization Provides Lower Level Managers with Vital Experience in Making Decisions. Without Such Experience, They Would Be Ill-Prepared to Make Decisions When They Are Promoted Into Higher Level Positions.
3. Added Responsibility and Decision Making Authority Often Result in Increased Job Satisfaction. Responsibility and the Authority, That Goes with It Makes the Job More Interesting and Provides Greater Incentives for People to Put Out Their Best Efforts.
4. Lower Level Managers Generally Have More Detailed and Up to Date Information About Local Conditions Than Top Managers. Therefore the Decisions of Lower Level Management Are Often Based On Better Information.
5. It Is Difficult to Evaluate a Manager's Performance If the Manager Is Not Given Much Latitude in What He or She Can Do.

**Disadvantages of Decentralization:**

Decentralization has Four Major Disadvantages:

1. Lower Level Managers May Make Decisions Without Fully Understanding the Big Picture. While Top Level Managers Typically Have Less Detailed Information About Local Operations Than the Lower Level Managers, They Usually Have More Information About the Company As a Whole and Should Have a Better Understanding of the Company's Strategy.
2. In a Truly Decentralized Organization, There May Be a Lack of Coordination Among Autonomous Managers. This Problem Can Be Reduced by Clearly Defining the Company's Strategy and Communicating It Effectively Throughout the Organization.
3. Lower-Level Managers May Have Objectives That Are Different From the Objectives of the Entire Organization. For Example, Some Managers May Be More Interested in Increasing the Sizes of Their Departments Than in Increasing the Profits of the Company. To Some Degree, This Problem Can Be Overcome by Designing Performance Evaluation System That Motivates Managers to Make Decisions That Are in the Best Interests of the Organization.
4. In a Strongly Decentralized Organization It May Be More Difficult to Effectively Spread Innovative Ideas. Someone in One Part of the Organization May Have a Traffic Idea That Would Benefit Other Parts of the Organizations.

**Strengths of Decentralization Characteristics**

* Emphasis On: Bottom-Up, Political, Cultural and Learning Dynamics.
* Decision-Making: Democratic, Participative, And Detailed.
* Organizational Change: Emerging From Interactions, Organizational Dynamics.

# Centralization:

**Centralizations Is the Process by Which the Activities of an Organisation, Particularly Those Regarding Planning Decision-Making, Become Concentrated Within a Particular Location and Group. In Political Science, This Refers to the Concentration of a Government's Power - Both Geographically and Politically, Into a Government. In Business Studies Centralization and Decentralization Is About Where Decisions Are Taken in the Chain of Command.**

Centralized System:

A Centralized, System Is One in Which Most Communications Are Routed Through One or More Major Central Hubs. Such a System Allows Certain Functions to Be Concentrated in the System's Hubs. Another Benefit of Centralization Is the Ease of Maintaining Accurately Updated Lists of Data That Can Be Easily Accessed From All Points. Centralization Weaknesses Are Centered On the Systems Heavy Reliance On a Few Central Components; If the System's Hubs Are Put Out of Operation, Either Accidentally or Through Hostile Action, The System and It's Peripheral Components Are Severely Affected.

**The Advantages of Centralized Information Systems:**

The Main Advantages of Centralized Systems Are That They Provide Centralized Control Using Established Technology and Vendor’s .They Thus Involves Less Technical Risks. Information Systems Professionals Providing Highly Reliable Operation Maintain Such Systems. There Should Be No Confusion Over Responsibilities and the Software and Hardware Used Should Interface Easily. Duplication of Effort, Resources and Expertise Is Also Reduced, Saving Cost and Time.

**The Disadvantages of Centralized Information Systems:**

Centralized Systems Entail a High Initial Cost Disadvantage. Furthermore, The Information Systems Professionals Who Install and Operate Such Systems Are Also Expensive. Due to One Central System Carrying Out All the Requested Tasks, This System Is Obviously Going to Be Much Slower Than a Decentralized Arrangement Where Each Business Unit has It's Own Autonomous System for Local Tasks .Similarly, Local, Independent Processing Is Not Allowed and the Entire Information System Is Dependent On the One Cpu. If the Cpu Fails, The Entire System Is Inoperable.

**Strengths of Centralization Characteristics**.

* Philosophy Emphasis On: Top-Down Control, Leadership, Vision, Strategy.
* Decision-Making: Strong, Authoritarian, Visionary, Charismatic.
* Organizational Change: Shaped by Top, Vision of Leader.
* Execution: Decisive, Fast, Coordinated. Able to Respond Quickly to Major Issues and Changes.
* Uniformity. Low Risk of Dissent or Conflicts Between Parts of the Organization.

**Factors Determining Degree of Decentralization:**

Basic Question That Arises While Designing the Organization Structure Is How Much to Decentralization the Authority . Managers Cannot Ordinarily Be for Against Decentralization of Authority .Most of These Factor May Be Beyond the Control of Individual Managers Such Factor Are of the Following:

**1. Size of Organization**

.Decentralization Depends On the Size of the Organization. The Larger the Size of an Organization, The More Urgent Is the Need for Decentralization .In an Large Organization, More Decision Are to Be Made at the More Places .

**2.History of the Organization**

Decentralization of Authority Depends On the Way the Organization has Been Built Up Over the Period of Time Those Organization Which Expand From Within the Direction of Owner Founder Show a Marked Tendency to Keep Authority Centeralised.

**3.Mnagment Philosophy**

The Management Philosophy of Top Level Managers has Considerable Influence On the Extent to Which Authority Is Decentralized .In Fact Decentralization Is a Kind of Management Philosophy to Regulate Organizational Process Including Decision Making .

**4. Availability of Managers**

Availability of Managers Directly Affects the Degree of Decentralization Because Exercise of Authority Requires Competence On the Part of Those Who Exercise Authority.

**Absolute Decentralization:**

**Centralization and Decentralization Refer to the Extent to Which Managerial Authority Is Concentrated at the Higher Levels of Management, Or Distributed Down the Organizational Hierarchy.**

In a Centralized Organization Power and Authority Is Concentrated at Higher Levels of Management. Managers at Higher Levels Take Decisions Even in Minor Matters, While Managers at Lower Levels Just Follow Instructions. In Comparison, Decentralized Organizations Have Authority and Power Delegated More Widely. The Top Management Takes Only the Major Decisions Such As Overall Objectives, Targets, Budgets, Resource Allocation and the Like. Lower Level Managers Have Substantial Discretion and Flexibility to Decide Details of Their Actions Within the Overall the Limits of Higher Management Decisions. For Example, In a Decentralized Organization, A Traveling Salesman May Be Free to Plan His Day to Day Schedule of Sales Call Provided He Is Able to Meet His Target of Total Number and Types of Sales Calls to Be Made Every Week.

Every Organization, To Be Effective, Must Have a Appropriate Balance Between Centralization. No Organization Can Become Effective by Adopting Extremes of Either Centralization or Decentralization. In Fact, It Is Impossible to Have an Organization with Either Absolute Centralization or Absolute Decentralization. Absolute Centralization Implies That All Decisions Are Taken by Just One Person at the Top of the Organizational Hierarchy. No Other Person in the Organization has Any Discretion to Make Any Decision. Further, This Will Mean Heavily Under Utilizing the Brain Power of Human Beings. Finally, Human Beings Do Not Like to Work Under Such Restricting Conditions, And It Will Be Almost Impossible O Find Suitable Persons to Work in Such Organization.

An Absolutely Decentralized Organization Also Cannot Exist in Reality. Such an Organization Implies That Everyone Working in the Organization Is Totally Free to Act in Any Manner He or She Choose.

The Following Factors Influence the Design of the Extent and Type of Decentralization in Any Organization.

A) Complexity of Task.

B) Subordinate Training.

C) Subordinate Motivation.

D) manager Capability.

**Centralization Vs. Decentralization**

The Advantages and Disadvantages of Centralized Versus Decentralized Organizational Structures Lies Greatly in the Inherent Qualities and Effects of the Structures Themselves. Robbins and Coulter Describe This Very Well, "If Top Managers Make the Organization's Key Decisions with Little or No Input From Below, Then the Organization Is Centralized." Companies Which Wish to Consolidate Power and Decision-Making Abilities at the Top of the Organizational Chart, Tend to Be Centralized Organizations. If the Ceo of a Corporation has a Particular Vision. As the Textbook States, This Is Helpful for Companies Who Need to Be Stable or Are Facing a Crisis and Need One Source of Decision-Making to Lead Them. These Sorts of Organizations Are Becoming Rarer, As Employees Become Smarter and Organizations Become Larger, However a Few Do Still Exist. Consider the Oakland Raiders, A Team Which Is Widely Acknowledged As Being Run Completely by It's Owner, Al Davis or a Monarchy Such As Saudi Arabia, Or an Absolute Theocracy, Such As the Vatican City. Centralized Structures Are Becoming Rare Because of Their Many Disadvantages. Due to Power Being Consolidated at the Top of the Organization, Risk Is Great If the Top of the Organization Becomes Incapable of Leading the Organization. Employees Also Will Feel Less Motivated to Perform for the Organization As They Will Not Have an Avenue for Sharing Their Ideas On How to Improve the Organization.

Decentralized Organizations Are Becoming More Popular As the Ability for Organizations to Decentralize Increases. Decentralization Allows Organizations to Take Advantage of Division of Labor by Sharing Decision-Making Across the Organization.. Another Advantage of Decentralization Is Allowing for the Managers of Business Areas to Actually Use Their First Hand Knowledge and Experience to Improve Their Areas. By Trusting the Individuals Within the Organization to Obtain Accurate Information and Use Their Minds to Provide Appropriate Analysis.

**Conclusions:**

Decentralization and Centralization Should Not Be the Confused Because of the Tendency of Using Opposite Is Expected to Go On Stream.

The Term Paper Opportunities Provided to Know the How Decentralization and Centralization the and Help a Good Management System in the Industry in Potential Geographical Location and Convincing Them to Attract More Customers so That New Business Opportunities of the Firm Can Be Explored. Through This Term Paper, It Could Be Concluded That People Are Not Much Aware About the Various Way of Management System. Services Was Considered As Unsought Good Which Require Hard Core Selling, But in Changing Trend in Income and People Becoming Finally Literate, The Demand for Decentralization and Centralization System of Management Is Increasing Day by Day.

So, At Last the Conclusion Is That There Is Tough Competition Ahead for the Company so If Management System Is Better Companies’ Position Is Better. Last but Not the Least I Would Like to Thank for Giving Me an Opportunity to Work On This Topic of Decentralization and Centralization and Operation.

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