Organisational design

Business

Centralisation and Decentralisation Institute The organisational design challenge for managers is to decide on thecorrect balance between centralisation and decentralisation of decision making. What are the factors that managers should consider in seeking this balance?

The organizational design challenges managers to balance centralisation and decentralisation in making decisions. By nature, some organizations are more centralised and function better when the control is confined within a few departments (if not a single department). On the contrary, the modern business models are mostly based on decentralised framework of decision-making. Noncompetitive businesses and institutions such as government controlled administrations mostly thrive on centralised structures. The managers need to consider if they want to achieve the same results where they follow a rigid work routine then they can comfortably rely on a centralised control system. However, if they seek to get the competitive edge, especially if they are in the technology business, then they need to give more autonomy to respective departments and teams.

"…a routine technology and a stable environment all tend to be associated with organizations that have greater formalization, specialization and centralisation" (Daft, Murphy, & Willmott, 2010, p. 26)

If the managers are in a business that feeds on creative ideas then they need to make their departments autonomous. The tech industry is a prominent example of highly decentralised model because the more innovative and creative their ideas the better their competitive edge.

" Technology tends to be used to further decentralisation within centrally defined parameters" (Daft, Murphy, & Willmott, 2010, p. 326)

Comparing a government operated tax department with a highly mobilized

and competitive firm such as Apple or Samsung would reveal a centralised versus a decentralised business structure. The government department needs to be centralised while tech companies perform better when they are decentralised. Taking the same example a step further where marketing and TV commercials are made for any business. The process needs to be highly decentralised for the initiation of innovative ideas and creative pitch for customers.

" Organic characteristics such as decentralisation and employee freedom are conducive for initiating ideas" (Daft, Murphy, & Willmott, 2010, p. 427)

One thing that bears prime importance in this whole debate is that there are no black and white areas when the managers make a decision. Many organizations usually step on gray areas where there exists a mix of centralised and decentralised chain of command. In fact, decentralised structure poses a paradox for the managers. Giving too much autonomy to a department can be detrimental for the ultimate organizational goals. The head of the business cannot lose control of the department simply because there is a decentralised structure. Therefore a perfect harmony is established to get the competitive edge as well as hold a reasonable control over all departments of the business.

The centralised command system is fraught with delays because every decision needs to be made by the central head of the organization and the process of getting the approval from the authority can take time. In the decentralised organizational design the autonomous department might make certain decisions that would not be coherent with the overall organizational goals. The decision-making model that is frequently practiced is where the senior management gets the input from the lower management (and

employees) in the decision-making process. In theory, this model is close to perfection because it incorporates the factors that the senior management would otherwise consider trivial.

Reference

Daft, R. L., Murphy, J. & Willmott, H. 2010. Organization Theory and Design. South-Western/Cengage Learning.