

## 1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 03 (Class XII, Semester - 1)
Module Name/Title	Organising – Decentralization: concept and importance: Part – 5
Module Id	Lebs_10505
Pre-requisites	Knowledge about meaning and importance of decentralisation
Objectives	After going through this lesson, the learners will be able to understand the following: <ol style="list-style-type: none"><li>1. Meaning of decentralisation</li><li>2. Difference between centralisation and decentralisation</li><li>3. Importance of decentralisation</li></ol>
Keywords	Organising – Decentralization: concept and importance

## 2. Development team

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## **Decentralization**

### **Introduction**

In many organisations the top management plays an active role in taking all decisions while there are others in which this power is given to even the lower levels of management. Those organisations in which decision making authority lies with the top management are termed as centralised organisations whereas those in which such authority is shared with lower levels are decentralised organisations.

### **Meaning**

Decentralisation of authority means dispersal of authority to take decisions throughout the organization, up to the lower levels.

Decentralisation refers to delegation of authority throughout all the levels of the organisation.

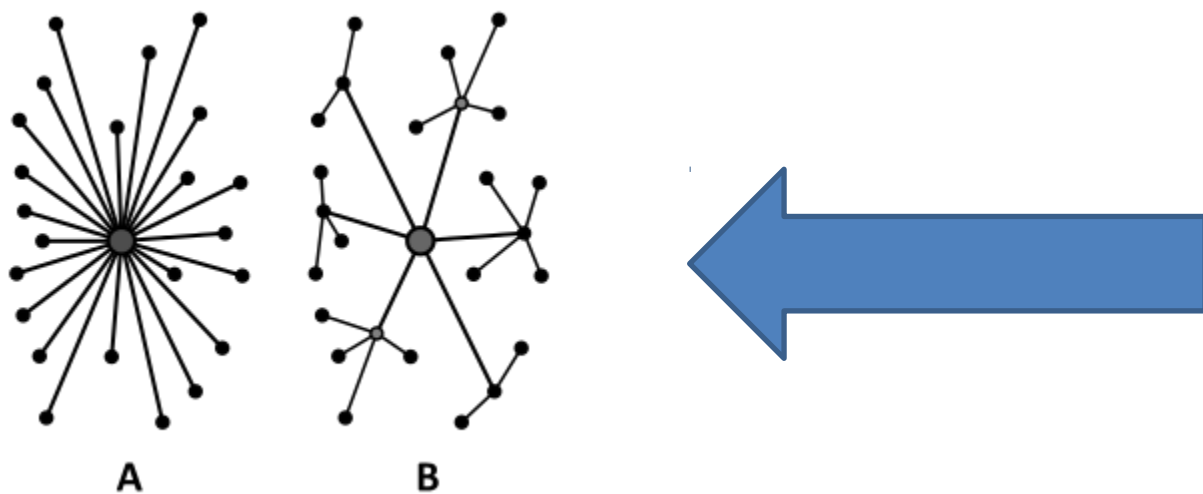
Under this decision making authority is shared with lower levels and is consequently placed nearest to the points of action. In other words decision making authority is pushed down the chain of command.

It implies reservation of some authority with the top level management and transferring rest of the authority to the lower levels of the organization. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels.

According to Allen, ‘ *Decentralisation refers to systematic efforts to delegate to the lowest level, all authority except the one which can be exercised at central points.* ’

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## Centralization and Decentralization



Source:[https://en.wikipedia.org/wiki/Decentralization#/media/File:Decentralization\\_diagram.svg](https://en.wikipedia.org/wiki/Decentralization#/media/File:Decentralization_diagram.svg)

An organisation is **centralised** when decision-making authority is retained by higher management levels whereas it is **decentralised** when such authority is systematically delegated at all levels and in all departments of a firm.

- **Complete centralisation** would imply concentration of all decision making functions at the apex of the management hierarchy. Such a scenario would obviate the need for a management hierarchy.
- **Complete decentralisation** would imply the delegation of all decision making functions to the lower level of the hierarchy and this would obviate the need for higher managerial positions.

Both the scenarios are unrealistic. An organisation can never be completely centralised or decentralised. As it grows in size and complexity, there is a tendency to move towards decentralised decision making. This is because in large organisations those employees who are directly and closely involved with certain operations tend to have more knowledge about them than the top management which may only be indirectly associated with individual operations.

### Conclusion

Hence, there is a need for a balance between these co-existing forces. Thus, it can be said that every organisation will be characterised by both centralisation and decentralisation. Firm needs to balance the two.

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## **Importance of Decentralization:**

### **1. Develops initiative among subordinates**

- Decentralisation helps to promote self-reliance and confidence amongst the subordinates.
- Because when lower managerial levels are given freedom to take their own decisions, they learn to depend on their own judgment & feel constantly challenged to develop solutions for the problems they encounter.
- It also helps to identify those executives who have the necessary potential to become dynamic leaders.

### **2. Develops managerial talent for the future**

- Decentralisation gives the employees a chance to prove their abilities. They learn how to decide and develop managerial skills.
- It also helps to create a reservoir of qualified manpower who have the necessary potential to become dynamic leaders and who can be considered to fill up more challenging positions.
- Thus, it is a means of management education as well as an opportunity for trained manpower to use its talent in real life situations.

### **3. Quick decision making**

- Under decentralisation, authority to make decisions is placed in the hands of those who are well aware of the realities of the situation and are responsible for executing the decisions.
- As a result more accurate and faster decisions can be taken. There are also lesser chances of information getting distorted because it does not have to go through long channels.

### **4. Relief to top management**

- Decentralisation helps to reduce the workload of the top executives. They can devote greater time and attention to important policy matters by decentralizing authority for routine operational decisions.
- It reduces the need for direct supervision by the superior over the subordinates.

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## 5. Facilitates growth

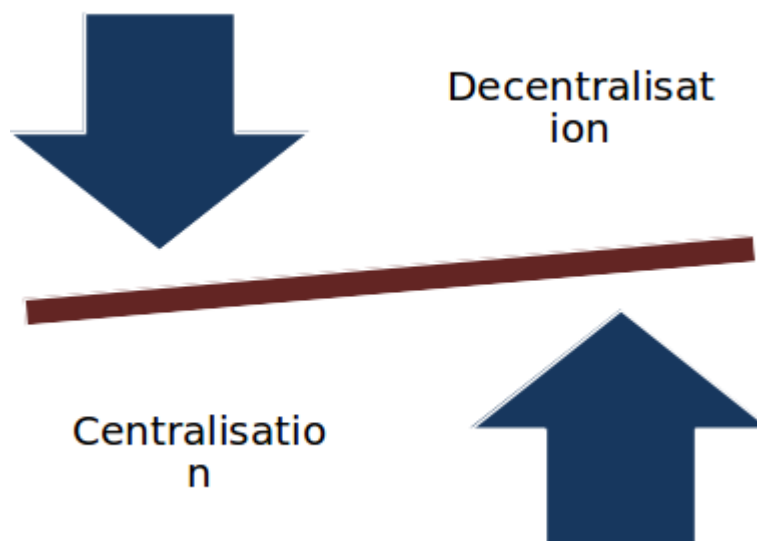
- Decentralisation facilitates the growth and diversification of the enterprise. Each department or product division is given sufficient autonomy for innovations and creativity.
- Also a sense of competition can be created among different departments or divisions and the top management can extend overall leadership over a giant enterprise.

## 6. Better control

- Managers at all levels have adequate authority to make changes in work assignment, to change production schedules, to recommend supervision and to take disciplinary actions. Therefore more effective supervision can be exercised.
- Control can be made effective by the evaluating the performance of each decentralized unit in the light of clear and pre-determined standards.

As a conclusion, it must be noted that in spite of its benefits decentralisation should be applied with caution as it can lead to organisational disintegration if the departments start to operate on their own guidelines which may be contrary to the interest of the organisation.

**Decentralisation must always be balanced with centralisation in areas of major policy decisions.**



## Difference between and Delegation Decentralisation

Basic		Delegation	Decentralization
1	<b>Meaning</b>	It refers to entrustment of responsibility and authority from a superior to his Subordinate. This is <b>individualistic</b> .	It refers to systematic delegation of authority to the lower levels in the organization. <b>This is totalistic</b> .
2	<b>Purpose</b>	To lessen the burden of the manager	To increase the role of the subordinates in the organization by giving them more autonomy
3	<b>Scope/Parties involved</b>	It has <b>narrow scope</b> as it is limited to superior and his immediate subordinate	It has a <b>wide scope</b> as it implies extension of delegation to the lowest level of management
4	<b>Status</b>	It is a process followed to share tasks	It is the result of the policy decision of the top management
5	<b>Nature</b>	It is <b>compulsory</b> because no individual can perform all tasks on his own	It is <b>optional</b> because it is done at the discretion of the top management.
6	<b>Freedom of action</b>	<b>More control</b> by superiors hence less freedom to take own decisions.	<b>Less control</b> over executives hence greater freedom of action.
7	<b>Withdrawal of authority</b>	Delegated authority can be withdrawn by the delegator. It is the individual officer's will to continue or withdraw.	Decentralisation authority cannot be withdrawn easily. These authorities can be withdrawn only when the decision is taken to discontinue decentralization