Unit III: Organizing

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Organization is the backbone of management because without an efficient organization no management can perform its functions smoothly.

Organization: Organization is the structural framework of duties and responsibilities required of personnel in performing various functions with a view to achieve business goals through organization. Management tries to combine various business activities to accomplish predetermined goals.

Louis Allen, "Organization is the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."

Koontz and O'Donnell, 'The establishment of authority relationships with provision for co-ordination between them, both vertically and horizontally in the enterprise structure."

George Terry, "Organising is the establishing of effective authority relationships among selected work, persons, and work places in order for the group to work together efficiently"

Nature/Characteristics/Features of Organizing

1. Division of Work: Division of work is the basis of an organization. In other words, there can be no organization without division of work. Under division of work the entire work of business is divided into many departments .The work of every department is further sub-divided into sub works. In this way each individual has to do the saran work repeatedly which gradually makes that person an expert.

2. Systematic arrangement and process: Organizing looks after proper order and arrangement of all the required resources in the organization.

3. Coordination: Under organizing different persons are assigned different works but the aim of all these persons happens to be the some - the attainment of the objectives of the enterprise. Organization ensures that the work of all the **persons depends on each other's** work even though it happens to be different.

4. Group of Persons: Organization is a group of many persons who assemble to fulfill a common purpose. A single individual cannot create an organization.

5. Common Objectives: There are various parts of an organization with different functions to perform but all move in the direction of achieving a general objective.

6. Well-defined Authority and Responsibility: Every individual working in the organization is given some authority for the efficient work performance and it is also decided simultaneously as to what will be the responsibility of that individual in case of unsatisfactory work performance.

7. **Structure of Relationship:** Relationship between persons working on different posts in the organization is decided. In other words, it is decided as to who will be the superior and who will be the subordinate. Leaving the top level post and the lowest level post everybody is somebody's superior and somebody's subordinate.

8. Function & Tool of Management: Organization is considered to be a machine of management because the efficiency of all the functions depends on an effective organization. In the absence of organization no function can be performed in a planned manner.

9. Universal Process: Organization is needed both in business and non businessorganizations. Not only this, organization will be needed where two or mom than two people work jointly. Therefore, organization has the quality of universality.

10. Dynamic/Flexible Process: Organizations are affected by the changes taking place in the business environment. The impact of these changes affect the various functions of the organizations. Organizations have to adopt these changes and act accordingly.

Principles of Organizing

To make every Organization work effectively and smoothly, it requires certain principles to be followed which are as follows:

1. Principle of Specialization/ division of work: Specialization either in the form of function or divisions is seen throughout all business organizations. A particular department specializes in what is assigned to it or a branch of region specializes in things confined to that region. Work is divided so that efficiency could be maintained.

2. Principle of Unity of Objectives/Direction: Every individual or group or functional branches or department in an organization should work on the basis of a central planned goal or objective. All should be focused towards the organizational objective.

3. Principle of Coordination: The work of one department has to perfectly align and complement the work of the other, synchronization or integration of all activities is required.

The objectives of the organisation may be achieved quickly whenever co-ordination exists among the workers. At the same time each work can be done effectively by having co-ordination. The final objective of all organisations is to get smooth and effective co-ordination

4. Principle of Scalar Chain/ Communication: The scalar chain is a very important concept and principle central to Organizing. It is a concept that depicts the hierarchal positioning of all the employees and details who does what and who controls what and who coordinates what and much more.

5. Principle of Unity of Command: This principle states that a subordinate should report to and get orders from one superior/boss, at a time, to avoid confusion and have clarity.

6. Principle of Delegation and Decentralization: Decentralization as the process of distributing power across the organization ensures its healthiness and steadiness and delegation by a superior to a subordinate eases the workload and gets things done.

7. Principle of Efficiency:

Each work can be completed efficiently wherever the climate or the organisational structure facilitates the completion of work. The work should be completed with minimum members, in less time, with minimum resources and within the right time.

8. Principle of Authority & Responsibility:

Authority and responsibility should be in parity with each other. If it is not so, the work cannot be effectively discharged by any officers, whatever his ability may be. At the same time, if authority alone is delegated without responsibility, the authority may be misused. In another sense, if responsibility is delegated without the authority, it is a dangerous one.

9. Principle of Span of Control:

This is also called span of management or span of supervision or levels of organisation. This principle is based on the principle of relationship.

Span of control refers to the maximum number of members effectively supervised by a single individual. The number of members may be increased or decreased according to the nature of work done by the subordinate or the ability of the supervisor. The span of control enables the smooth functioning of the organisation.

10. Principle of Effective Leadership

The organisational set up may be arranged in such a way that the persons with leadership qualities are appointed in key positions. The leadership qualities are honesty, devotion, enthusiasm and inspiration.

11. Principle of Flexibility:

The organisational set up should be flexible to adjust to the changing environment of business. The organisation should avoid the complicated procedures and permit an expansion or contraction of business activities.

Advantages/ Importance of Organizing

1. Facilitates Administration: Without a good organisation, effective administration becomes impossible. Organisation allows delegation of authority. It allows, therefore, management by exception and avoids management by crisis. Jobs are described sharply, and so confusion in the organisation and duplication of efforts are avoided.

2. Expansion and Growth: When resources are optimally utilized and there exists a proper division of work among departments and employees, management can multiply its strength and undertake more activities. Organizations can easily meet the challenges and can expand their activities in a planned manner.

3. Provides Optimum Utilization of Resources: Proper structure of the organization helps in efficient utilization of all the resources. Restructuring can be done if required. Organizing ensures effective rolejob-fit for every employee in the organization. It helps in avoiding confusion and delays, as well as duplication of work and overlapping of effort.

4. Encourages & Supports Creativity: Orgtanizing gives a fillip to independent, creative thinking and initiative by providing sharp spheres of activity with broad latitude for the development of unconventional and better ways of doing things.

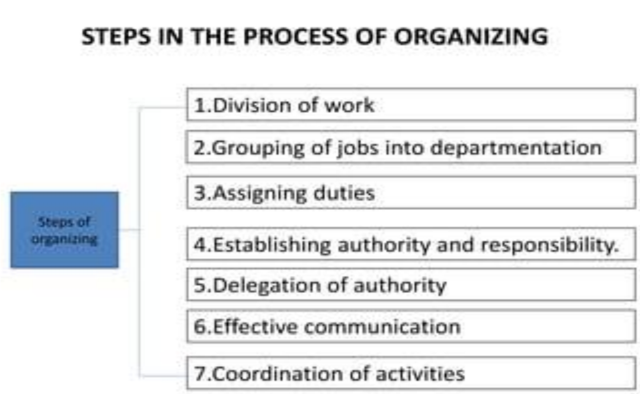
5. Promotes Effective Communication: Organizing is an important means of creating coordination and communication among the various departments of the organization. Different jobs and positions are interrelated by structural relationship. It specifies the channel and mode of communication among different members.

6. Clarity in a Working Relationship: It is a means of creating coordination among different departments of enterprises. It aims at creating clear-cut responsibility, and authority relationships amongst different levels and ensuring cooperation amongst individuals and groups. Harmony of work is brought by the high level of management.

7. Benefits of Specialization: This division of work leads to specialization in various activities of the organization. The entire philosophy of the organisation is based on the concept of division of work into compact jobs. This leads to systematic allocation of jobs amongst staff, which enhances productivity and reduces the workload.

8. **Adaption to Change:** The process of organising allows an organisation to accommodate changes in a business environment. So the organisation structure is suitably modified and the revision of the job position and relationships plan the way for smooth transactions. Thus, organising provide flexibility and stability to an organisation.

Process of Organizing



Step # 1. Determination of Organization's Objectives

While organising it is important to keep in mind the objectives or goals of the organization or department. The objectives must be determined keeping in view the environmental conditions. They must be clear, complete and free from any confusion.

Step # 2. Division of Work into Activities & Sub-activities:

After determining the objectives, the manager must identify the total work involved in achieving them. The total work to be performed should be divided into activities and sub-activities. For example, the total work of a manufacturing organization may be divided into production, finance, personnel, marketing and other activities.

Step # 3. Grouping of Same type of Activities & Forming Departments:

The next step is to group together same type of activities and sub-activities and forming departments. For example, purchasing, machining, assembling may be placed under manufacturing while recruiting, training, job placemnet, compensation may be placed under personnel.

Step # 4. Creating Positions:

Different positions are created in each department as per the requirement. Each position will further take responsibility of the duties assigned. Some of the examples are Marketing Manager, HR Manager, Area Sales Manager, etc.

Step # 5. Assigning Duties & Responsibilities:

After creating positions, duties and responsibilities are assigned to each position. Each position takes up the responsibility and accountability of each and every job.

Step # 6. Delegation of Required Authority:

Proper authority must be delegated to the position holders to enable them to carry out their job. Authority must be at par with responsibility. Authority without responsibility and vice-versa is meaningless and futile.

Step # 7. Creating Organisational Relationships:

Creation of different authority relationships such as line, functional or line and staff is essential for the achievement of the objectives. Everyone in the organisation must know as to whom he is accountable and his relationship with other persons in the organisation should be clearly established.

Step#8. Communication and Co-ordination of Activities:

Communicating the expectations to the employees for accomplishment of the objective and proper co-ordination among all the activities is necessary for efficient performance. It is an integrating function. The performance of all departments has to be integrated to achieve objectives.

Types of Organization Structure

I. On the basis of hierarchy:

I. Formal Organization Structure: The organization structure of jobs and positions, with specified activities and relationships, is known as formal organization structure. It is created by management, to attain the objectives of the company.

Features of Formal organisation:

(1) Created for specific purpose: The formal organisational structure is created intentionally by the process of organising.

(2) Organizational goal: The purpose of formal organisation structure is achievement of organisational goal.

(3) Assignment of Responsibility: In formal organisational structure each individual is assigned a specific job and responsibility.

(4) Delegation of Authority: In formal organisation every individual is assigned a fixed authority or decision-making power.

(5) Developing Relationships: Formal organisational structure results in creation of superior-subordinate relations.

(6) Clear chain of Communication: Formal organisational structure creates a scalar chain of communication in the organisation.

Advantages of Formal Organisation:

1. Systematic Working:

Formal organisation structure results in systematic and smooth functioning of an organisation.

2. Achievement of Organisational Objectives:

Formal organisational structure is established to achieve organisational objectives.

3. No Overlapping of Work:

In formal organisation structure work is systematically divided among various departments and employees. So there is no chance of duplication or overlapping of work.

4. Co-ordination:

Formal organisational structure results in coordinating the activities of various departments.

5. Creation of Chain of Command:

Formal organisational structure clearly defines superior subordinate relationship, i.e., who reports to whom.

6. More Emphasis on Work:

Formal organisational structure lays more emphasis on work than interpersonal relations.

Disadvantages of Formal Organisation*:*

1. Delay in Action:

While following scalar chain and chain of command actions get delayed in formal structure.

2. Ignores Social Needs of Employees:

Formal organisational structure does not give importance to psychological and social need of employees which may lead to demotivation of employees.

3. Emphasis on Work only:

Formal organisational structure gives importance to work only; it ignores human relations, creativity, talents, etc.

II. Informal Organisation:

In the formal organisational structure individuals are assigned various job positions. While working at those job positions, the individuals interact with each other and develop some social and friendly groups in the organisation. This network of social and friendly groups forms another structure in the organisation which is called informal organisational structure.

Features of informal organisation:

(1) Created Automatically: Informal organisational structure gets created automatically without any intended efforts of managers.

(2) Psychological satisfaction: Informal organisational structure is formed by the employees to get psychological and social satisfaction.

(3) No fixed flow of communication: Informal organisational structure does not follow any fixed path of flow of authority or communication. Message is not restricted to any fixed level or formal structure.

(4) Source not easily identified: Source of information cannot be known under informal structure as any person can communicate with anyone in the organisation.

(5) Emerges from formal organization: The existence of informal organisational structure depends on the formal organisation structure.

Advantages of Informal Organisation:

1. Fast Communication:

Informal structure does not follow scalar chain so there can be faster spread of communication.

2. Fulfills Social Needs:

Informal communication gives due importance to psychological and social need of employees which motivate the employees.

3. Correct Feedback:

Through informal structure the top level managers can know the real feedback of employees on various policies and plans.

Strategic Use of Informal Organisation. Informal organisation can be used to get benefits in the formal organisation in the following way:

1. The knowledge of informal group can be used to gather support of employees and improve their performance.

2. Through grapevine important information can be transmitted quickly.

3. By cooperating with the informal groups the managers can skillfully take the advantage of both formal and informal organisations.

Disadvantages of Informal organisation*:*

1. Spread Rumours:

According to a survey 70% of information spread through informal organisational structure are rumors which may mislead the employees.

2. No Systematic Working:

Informal structure does not form a structure for smooth working of an organisation.

3. May Bring Negative Results:

If informal organisation opposes the policies and changes of management, then it becomes very difficult to implement them in organisation.

4. More Emphasis to Individual Interest:

Informal structure gives more importance to satisfaction of individual interest as compared to organisational interest.

III. On the basis of functions to be performed:

1. **Line Organization**: Line organization is the oldest and simplest pattern of orgnization, wherein the supervisor has outright supervision over the subordinate. The flow of authority is from the top level executive to the person at the lowest level of the organization's echelon.

This type of organisation is also known as departmental or military type of organisation.

In this type of organisation business activities are divided into three groups, namely finance and accounts, production and sales. Each of this department is sub-divided into certain self-contained departments, i.e., sections.

Each departmental head has sole control over his section and has full authority to select his labour, staff, purchase of raw materials, stores and to set the standards of output, etc. Foreman of each shop trains new men and supervises the quality of output.

Advantages*:*

1. A clear-cut division of authority and responsibility, hence no scope of shifting the responsibility.

2. Strong in discipline.

3. It permits quick decisions.

4. As responsibility of each individual is fixed, hence faults can be easily and quickly known.

5. Everybody from top to bottom remains busy like a machine and hence total cost of product will be less.

6. It is simple to understand.

7. Flexible and able to extend or contract.

Disadvantages:

1. It requires different departmental heads to be expert in their respective functions, hence lack of specialisation.

2. Departmental heads are over-burdened with various routine jobs, hence no time for further expansion and planning.

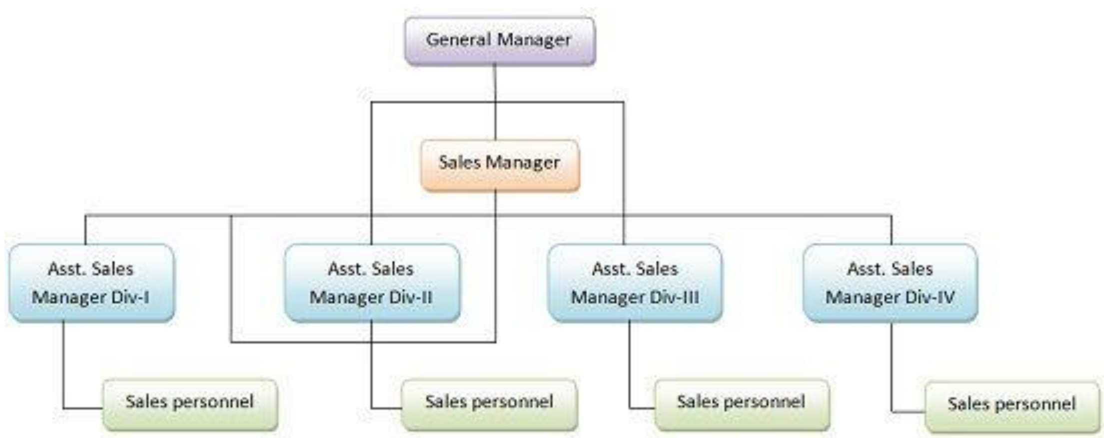
3. Certain people become key points and they are loaded maximum with work.

4. Chances of accidents, wastage of material and labour are more because of insufficient knowledge of all the work by one man.

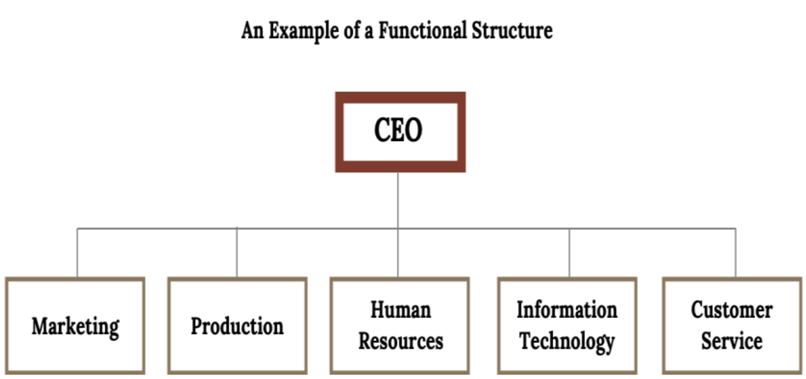
5. Chances of delay in reaching the orders of General Manager or any other departmental head upto the workers and, therefore, possibility of distortion, due to long channel.

6. Over-burdened foreman may not be able to give sufficient time for each job and will cause wastage and error.

7. It has no means of rewarding good workers.



2. **Functional Organization**: As the name suggests, functional organization structure is one in which the thorough task of managing and directicting the employees, is grouped as per the functions or type of work involved.



Advantages:

1. Due to specialisation quality of work is better.

2. This system provides more specialised knowledge and guidance to individual workers through experts.

3. It helps mass production by standardisation and specialisation.

4. If any operation needs improvement, it can be improved even upto the last moment.

5.Considerable expansion of the factory is possible.

6. Since for every operation expert guidance is there, hence wastage of material will be minimum which will reduce prime cost.

7. Unnecessary overloading of responsibilities will not be there, as was in the case of line organisation.

8. No special knowledge of workers is required as the instructions are supplied by drawing and experts.

Disadvantages:

1. It is complicated from control point of view as every functionalized expert feels himself to be superior than the other and there is no one-man control over the workers. Therefore, it makes discipline problem difficult to solve among lower level.

2. By employing high waged experts, the total cost of job may become high.

3. As line workers will not be using their skill, their initiative cannot be utilised.

4. Shifting of responsibility is possible.

5. The failure of any of the expert will largely affect the production because, if any expert tells wrong operation, there is no other body to correct him. This will result in large wastage of material.

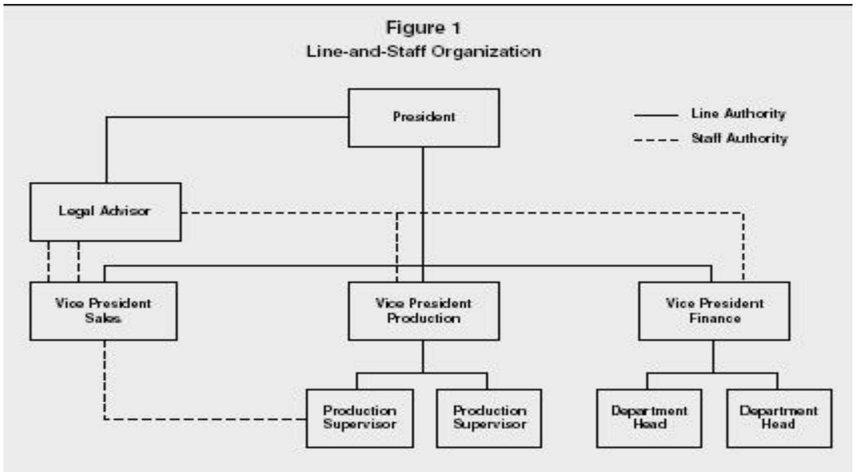
6. Proper co-ordination of the work of different departments is required but it is difficult to maintain as everybody is working individually.

3.Line and Staff Organization: This type of organization structure is an improvement over the traditional line organization. In line and staff organization primary and supportive activities are related to the line of supervision by appointing supervisor and specialist, who are linked to line authority.

In a firm of large size operating on big scale, managers cannot give careful attention to every part of management. They are unable to think and plan. They are busy with ordinary task of production and selling. Hence ‘Some Staff is deputed to do other works like investigation, research, recording, planning and advising to managers.

Thus staff brings specialisation by assisting the line officers. The line maintains discipline and stability. Staff provides expert information and helps to improve the overall efficiency. Thus the staffs are ‘thinkers’ while lines are ‘doers’.

A staff man usually controls one function of business of which he is an expert. Usually the staff has no administrative authority, but an expert in some phase of operation. He reports to the executive and gives the advice on the subject of his specialty.



Advantages:

1. It is a planned specialised system.
2. Quality of product will be better.
3. Wastage will be less.
4. Expert knowledge is available.
5. Sufficient time is available to general manager for future planning and expansion.
6. Discipline problem is solved because of line relationship.

Disadvantages:

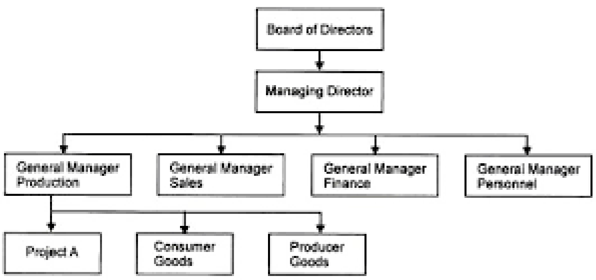
1. Sufficient expert knowledge and guidance is not available as compared with functional type.
2. Lack of responsibility among higher levels and hence the discipline as a whole will be poor.
3. The overhead cost of product may rise, because of high salaried staff.
4. The slackness of any section or department will largely affect whole working.

4. Committee Organisation:

A committee is a group of persons formed for the purpose of giving advice on certain important problems, which cannot usually be solved by an individual. It helps by pooling the thoughts of several persons on problems involving several functions and offered for criticism. Therefore, now-a-days many large companies add a network of committees to the line and staff organisation.

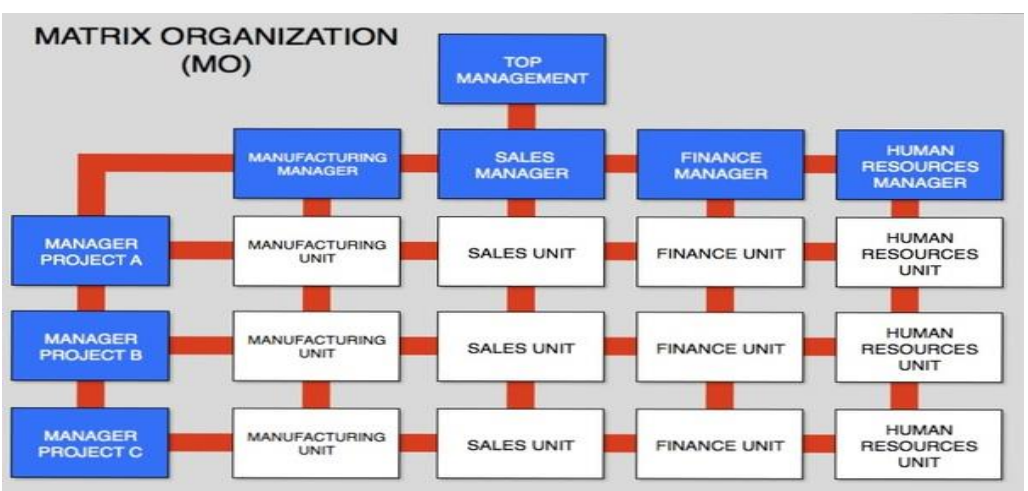
These committees may be either “Permanent” sometimes referred to as standing committees or they may be organised to serve a temporary function only. Examples of committees are Research Committee, Co-ordination, and Advisory Committee, Purchase Committee, Education Committee etc.

5. **Project Management Organization**: Project Organization is not an independent organization, like the organization structure discussed above. Instead it is a set up within an organization, so as to accomplish a project or firm's objectives. It is led by project manager, who is responsible for project objectives.

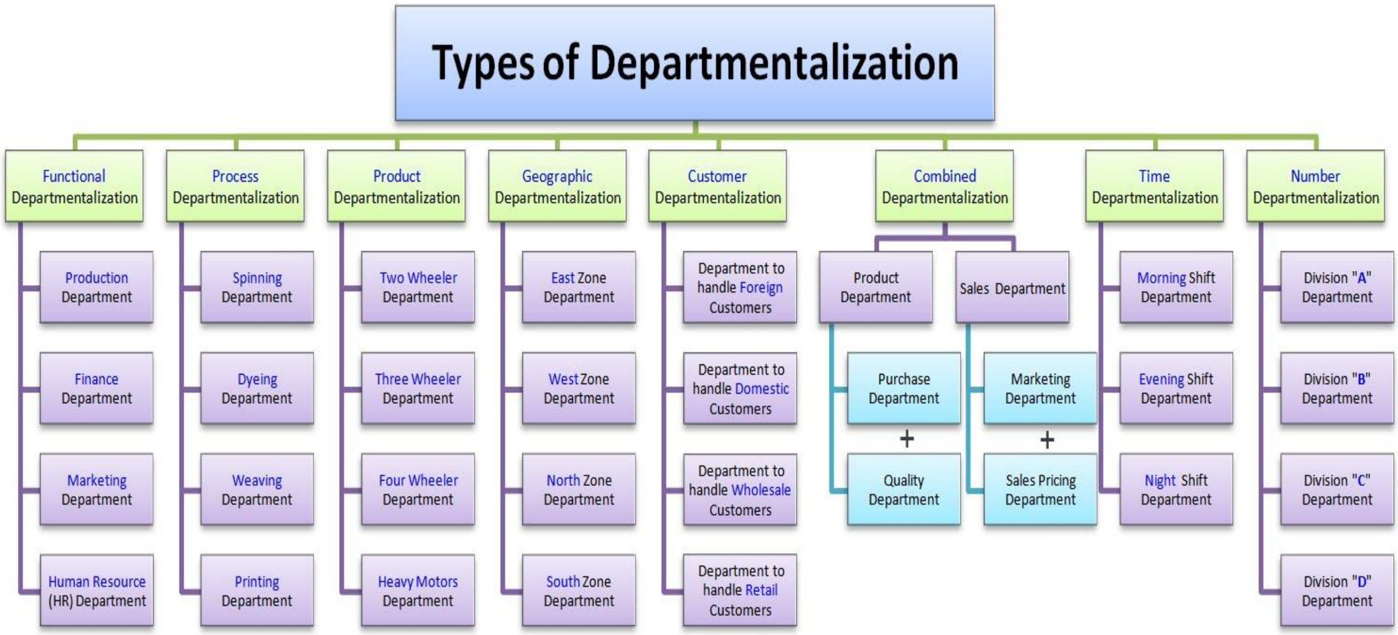


Pure Project Organisation Structure

6. **Matrix Organization**: Matrix organization is the emerging structure of the organization, which is a combination of functional organization and project organization. In such an organization, the functional departments such as production, accounting, marketing, human resource, etc. constitute a vertical chain of command, while project division consitute horizontal line of authority.



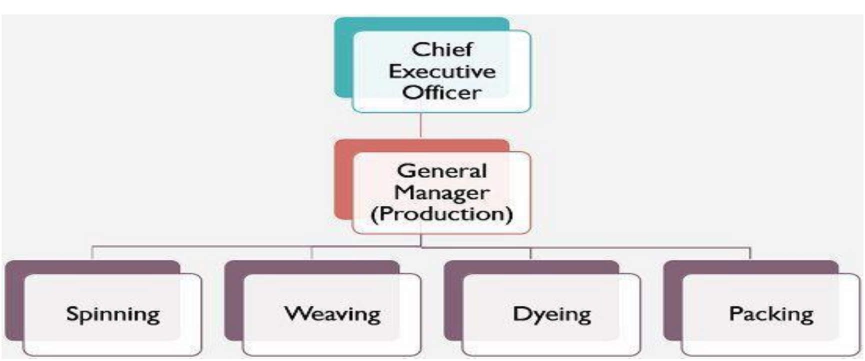
Departmentation



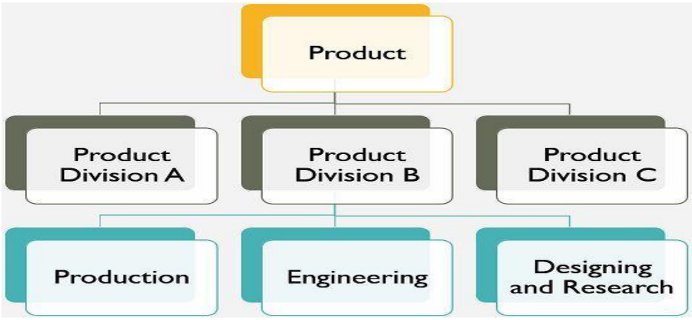
Methods/Bases of Departmentalization

1. **Departmentalization by Function**: When the creation of department is on the basis of specified functions, such as production, marketing, purchase, finance etc. In this method, all the activities related to a function or which are of similar nature are combined in a single unit, to give proper directions to the entire group in one go.

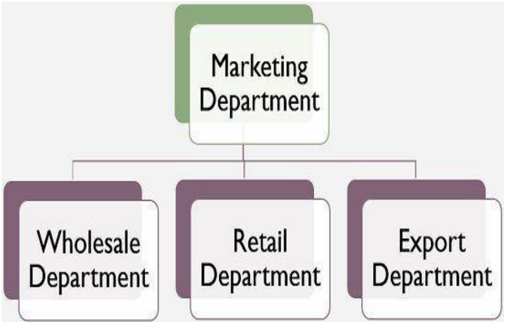
Departmentalization by Process: In departmentation by the process, the activities are grouped as per the production processes. These departments require manpower and material so as to carryout opoperations.



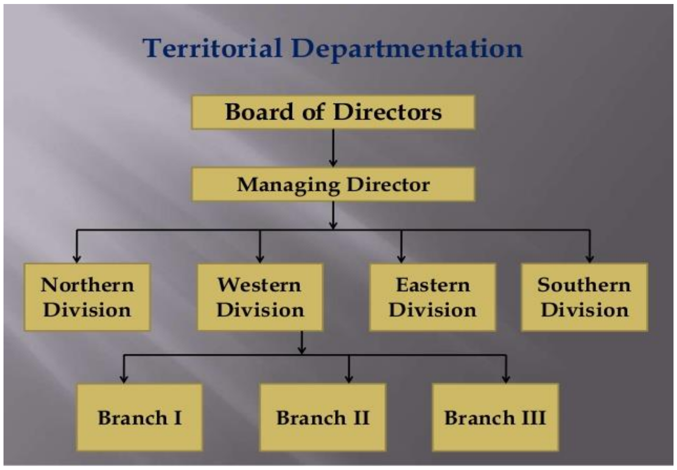
2. **Departmentalization by Product**: When the activities related to product development and delivery are combined into a particular division, it is called as product departmentalization. It is appropriate for large-scale multi-productenterprises.



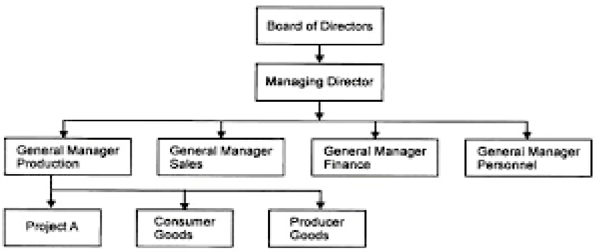
3. **Departmentalization by Customer**: The grouping of the organization according to the different classes of customer or clients. It focuses on special customer needs.



4. **Departmentalization by Territory**: When the division is based on the geographical area, it is called as territorial departmentalization. This is suitable for the organizations, that have widespread operations at different locations.



5. **Departmentalization by Project**: In project departmentalization, the organizational activities are classified by differentiated or special ventures or activities. The choice of departmentalization basis is influenced by the factors such as the degree of specialization, coordination, control, cost consideration, adequate attention to key areas, etc.



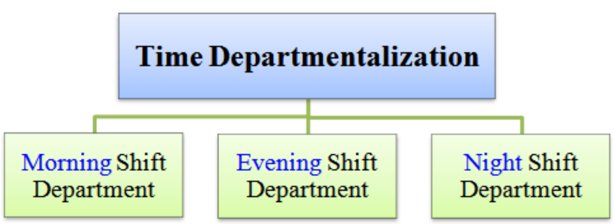
Pure Project Organisation Structure

6. Departmentation by Time:

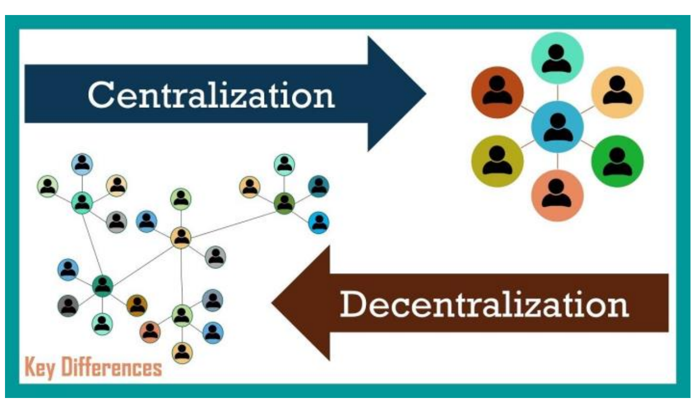
This method is one of the oldest forms of departmentation and is used at the lower levels of management. It involves the grouping of activities on the basis of the time of their performance. For example, the use of shifts is very common in many manufacturing concern and to look after the work relating to each shift, a separate department may be created. Generally, this type of the departmentation is found in the production function of the enterprise.

***8.* Departmentation by Numbers:**

In the case of departmentation by numbers, the persons who are to perform the same duties are divided into small groups and then each group is placed under the control of a supervisor or officer. For example, in the army, troops are grouped into squads, battalions, brigades and regiments on the basis of the number of men prescribed for each unit. In the industrial world, this method of departmentation is not used.



Centralization & Decentralization



Meaning of Centralization

Centralization is a form of organizational structure where the decision making capability rests with the top management. The boss doesn't delegate authority to take decisions.

In a centralized organisation, the top management sets rules and procedures which are then communicated to the lower-level employees, who are expected to carry out the same without questioning the authority.

The advantage of such a structure is, it allows employees to have a well-defined framework within which all work needs to carried out.

The disadvantage of such a structure is that it increases the time taken to arrive at a decision. As decision-making authority lies with selected people from top management, it may result in biased decision making.

Factors determining Centralization of Authority

The management of an enterprise can centralize decision-making due to the reasons listed below:

1. The nature of the company

The character of an organization is an important aspect in deciding whether it is best to centralize its management or not. This could be more beneficial for an organization with a small number of employees or one that is a sole proprietorship or a partnership company. These types of organizations have a limited number of activities that can be effectively and easily controlled by the management team at the top. In larger organizations with a large number of employees and multiple services, centralizing the company can be a difficult task.

2. The size of the company

The scale of operations is a crucial factor in determining the strategy for the business of an organization. Centralized authorities can effectively manage small companies with only a few personnel and operations. However, this could be difficult for companies that have multiple branches and bigger operations.

3. The nature of the work

A centralized work structure is most efficient in situations where the business's activities don't require a high level of concentration. If an organization is in an industry where every aspect of its work requires specific attention, then a team or a single person may not be able to effectively monitor the activities. This usually leads to the passing of power to the next level.

4. Effectiveness of the employees

The ability of employees to be accountable is a key element in the organization's management system. If employees lack the necessary skills and are not accountable for their conduct, management cannot grant employees the power to take decisions. In such organizations, the top authorities have the power of decision-making and also give directives to teams of the lower levels.

5. The ability to delegate work

The ability of a manager to delegate tasks affects the structure of an organization. If managers aren't able to delegate tasks effectively to subordinates, it may be difficult to achieve the goals of the organization. In these situations, it is essential for higher-level authorities to assign tasks to themselves.

6. Uniformity of actions

The majority of organizations use a centralized structure to ensure that there is a uniformity of approach within their divisions. They take the decision taken from the top all the way down to the bottom. If the units take their decisions on their own, they might not be able to achieve uniformity in their actions. In these situations, centralization is an effective method.

7. Facilitation of integration

Companies that want to accomplish common goals frequently facilitate the integration of their actions. Centralized management can make this process easier by establishing plans and common programs for every team. Since the top officials oversee operations, it becomes easy to keep track of the progress and make adjustments at the time needed.

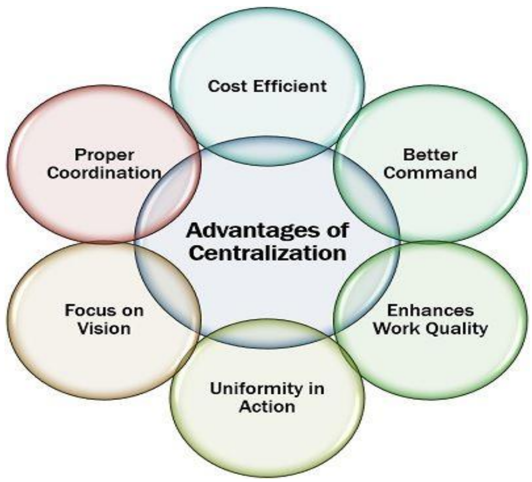
8. The management of emergencies

Small businesses' health could be in danger in situations of emergency caused by environmental or social elements. In these uncertain times, it is crucial to make quick decisions to minimize losses. Centralized authority permits the decision-making power to be shared with only a handful of members, which allows for rapid adjustments. This can affect the short-term and long-term performance of the company.

9. Promotion of personal leadership and growth

In a centralized environment, the success and growth of an organization are dependent on the manager. They are the ones who make decisions that impact how the business performs on the market and expands. This level of accountability lets the manager grow as a leader and advance in their profession. As they acquire more expertise, it allows them to think of new ideas and swiftly respond in case of an emergency.

Advantages of Centralization:



Meaning of Decentralization

Decentralization is another form of organizational structure that functions by delegating authority for decision-making.

In such type of organization, most of the planning, strategy and decision to implement them are taken by the people in the middle and lower level of management.

The advantage of decentralization is that the employees are empowered to make their own decisions that will benefit the organization, which results in a high level of employee satisfaction and boosts the productivity of an organization.

Decentralization enables low-level employees to gain leadership skills, which can contribute to the growth of the organization in the long run.

The following are the advantages and disadvantages of decentralization

Advantages:

It reduces the burden on the top management.

It enables faster decision making

It helps in evaluating the performance of different sections of the company.

It helps in better supervision and control.

Disadvantages:

There is a lack of uniformity in the policies followed.

There will be a problem of coordination

It will require hiring of trained and qualified personnel

It will increase the financial burden on the organisation

It can create conflict among the managers of different divisions

Management's Philosophy: In the organizations where the top management wants its employees to take some of the decisions, a decentralized system is formed.

However, if the mindset of the administration is such that they solely prefer to make all the business-related decisions, they won't go for decentralization.

Employees' Efficiency and Competence: If the organization has efficient and skilled resources which it can rely on, it opts for decentralization. Whereas in the absence of capable managers, the top management prefers to retain the power of decision making.

Organization's Nature and Size: If the organization is a sole proprietorship or partnership business, running on a narrow scale with a limited number of employees, there is no need for decentralization.

However, for the corporates running on a vast scale, a decentralized system is necessary for the smooth functioning of the business.

Diversification: For an organization which is engaged in the production of a whole range of different products, centralization becomes difficult. Thus, the delegation of authority and division of work is essential for the organizations involved in a diversified product line.

Geographical Dispersion: The organizations which expand over a vast geographic area, having branches in different locations need decentralization. Since the management cannot function and take all operational decisions solely in such cases.

Technical Complexity: While introducing new technology into the organization, the top management has to shift some authority and responsibility to the experts in the area, i.e. the managers. They know all the in and outs of the business operations and the new technology.

Cost and Importance of the Decisions: The top management analyzes the impact and importance of the decisions before delegating the authority of such decision making to the managers. Mostly, the decisions related to business operations are entrusted to the managers.

Willingness of the Subordinates: Decentralization is also influenced by the desire and initiative of the subordinates to take responsibility for their decisions, along with its authority.

Let us look at the most crucial points of difference between centralization and decentralization in the following table.

Decentralization	**Centralization**
Definition	
Decision-making capabilities delegated across multiple levels	Decision-making capability rests with the top management
Flow of Information	
Open and free	Vertical
Ideal for	
Decentralization is ideal for large-sized organizations	Centralization is ideal for small-sized organizations
Decision-making speed	
Significantly faster	Comparatively slow
People Involved	
In decentralization, a higher number of people from each level are involved in the decision-	In centralization, only a few handpicked people

making process	are involved in the decision-making process
Employee Motivation	
Highly motivated employee	Demotivated employee
Conflict in Decision	
Most likely to occur	Least likely to occur
Burden	
The burden gets shared among many levels	Only one group is carrying the burden
Stability	
Prone to instability due to multiple conflicting decisions	Relatively stable as decisions are made by a central authority sharing a common ideology