

7.6: Degree of Centralization

How can the degree of centralization/decentralization be altered to make an organization more successful?

The optimal span of control is determined by the following five factors:

1. *Nature of the task.* The more complex the task, the narrower the span of control.
2. *Location of the workers.* The more locations, the narrower the span of control.
3. *Ability of the manager to delegate responsibility.* The greater the ability to delegate, the wider the span of control.
4. *Amount of interaction and feedback between the workers and the manager.* The more feedback and interaction required, the narrower the span of control.
5. *Level of skill and motivation of the workers.* The higher the skill level and motivation, the wider the span of control.

The final component in building an effective organizational structure is deciding at what level in the organization decisions should be made. **Centralization** is the degree to which formal authority is concentrated in one area or level of the organization. In a highly centralized structure, top management makes most of the key decisions in the organization, with very little input from lower-level employees. Centralization lets top managers develop a broad view of operations and exercise tight financial controls. It can also help to reduce costs by eliminating redundancy in the organization. But centralization may also mean that lower-level personnel don't get a chance to develop their decision-making and leadership skills and that the organization is less able to respond quickly to customer demands.

Decentralization is the process of pushing decision-making authority down the organizational hierarchy, giving lower-level personnel more responsibility and power to make and implement decisions. Benefits of decentralization can include quicker decision-making, increased levels of innovation and creativity, greater organizational flexibility, faster development of lower-level managers, and increased levels of job satisfaction and employee commitment. But decentralization can also be risky. If lower-level personnel don't have the necessary skills and training to perform effectively, they may make costly mistakes. Additionally, decentralization may increase the likelihood of inefficient lines of communication, competing objectives, and duplication of effort.

Several factors must be considered when deciding how much decision-making authority to delegate throughout the organization. These factors include the size of the organization, the speed of change in its environment, managers' willingness to give up authority, employees' willingness to accept more authority, and the organization's geographic dispersion.

Decentralization is usually desirable when the following conditions are met:

- The organization is very large, like ExxonMobil, Ford, or General Electric.
- The firm is in a dynamic environment where quick, local decisions must be made, as in many high-tech industries.
- Managers are willing to share power with their subordinates.
- Employees are willing and able to take more responsibility.
- The company is spread out geographically, such as Nordstrom, Caterpillar, or Ford.

As organizations grow and change, they continually reevaluate their structure to determine whether it is helping the company to achieve its goals.

CONCEPT CHECK

1. What are the characteristics of a centralized organization?
2. What are the benefits of a decentralized organization?
3. What factors should be considered when choosing the degree of centralization?

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