

**Decisiveness in Empowerment:
The Crucial Element of Decentralized Decision Making**

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In a world that is being made smaller and more complex by the process of globalization and advancements in communication technology, organizations must re-invent their own systems of management while acclimating to changes.

Communication, in the 21st century, is so sophisticated that worldwide organizational activity can be centrally managed from the headquarters unit. Just as easily, management can be “decentralized” so that maximum efficiency can be won with the careful delegation of responsibility. The question that presents itself, when globalization and advanced methods of communication leave top decision makers within an organization with more options than ever before, is, “What are the benefits of centralized and decentralized management?”

This paper is intended to show that there are advantages associated with both centralized and decentralized systems of management, and that decentralization is more complex. Decentralization must occur with certain decisiveness if it is to be beneficial rather than harmful. The necessary decisiveness, specifically, is the ability to pass down not only responsibility, but also real authority, to managers at the various divisions within a diversified, decentralized firm. Top management might be willing to delegate responsibility, but giving up authority is more difficult. With regard to topics such as

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corporate culture, leadership, internal control, and organizational structure, the nature of decentralization will be explained.

Centralized Management vs. Decentralized Management

The advantage of the decentralized system is that it enables top decision makers to concentrate on the “big picture” while day-to-day operations are tended by division managers. The advantage of the centralized system is that top decision makers are able to retain maximum control over operations. As long as responsibilities are delegated correctly, decentralization can enable top decision makers to concentrate on “the making of overall, long-range policy. Moreover, in carrying out this role they can rely on expert advice and data from the central staff.”¹

The correct way to delegate responsibility is to recognize that authority must be delegated along with it. The alternative to empowering division managers with elevated authority is to hold them responsible for processes that they are not actually able to control. This leads to a dysfunctional system of partially decentralized management. History has shown that a system that is partially centralized and partially decentralized often leads to difficulty and inefficiency.² When responsibility is re-allocated, priorities and practices must change for everyone involved. Moreover, a decentralized system of decision making can interfere with the necessary synergy that existed in the centralized system. In order to avoid the loss of synergy, decision makers at the headquarters must

¹ Warner, 2001, p. 147.

² Warner, 2001.

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fully entrust responsibility to those managers within the divisions of the company. In this way, responsibility can be exchanged neatly, and the necessary authority can be passed down as well.

The Influence of Corporate Culture

Corporate culture has been defined as “a set of norms and values that are widely shared and strongly held throughout the organization [. . .] appropriate attitudes and behaviors for organizational members (how to feel and behave).”³ The significance of corporate culture to the system of management is that strong corporate culture makes employees more prepared to take responsibility. In an organization with strong culture, employees are perhaps more resistant to change, but they also take greater pride in their work within the organization.

Strong organizational culture serves to “provide group members with a way of giving meaning to their daily lives, setting guidelines and rules for how to behave, and, most important, reducing and containing the anxiety of dealing with an unpredictable and uncertain environment.”⁴ In a company with strong corporate culture, teams often welcome additional responsibility, but weak organizational culture might be better suited for centralized management. A system of centralized management involves individual teams that are not as independent. “The staff in a centralized company still has an important role in coordinating the activities of the different divisions, but it does this

³ O'Reilly and Chatman, 1996, p. 166.

⁴ Schein, 1991, p. 15.

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purely on an advisory basis, acting as a channel of communication between the different operating units and between each unit and the central management office.”⁵

Leadership

Decentralization might also be more appropriate for one company than another because of the actual people involved. It is possible that managers within various branches of the company are simply more competent than top management, or more prepared for making decisions regarding their division of the company because of their location at that division. On the other hand, the opposite scenario could unfold within a company—it could be that managers within the various divisions of the company are ill prepared to “see the big picture.” In that case, management would need to remain centralized

Research by Sah & Stiglitz (1991) suggests that, although the system of management (centralized or decentralized) does not directly determine the quality, it seems to affect the consistency of quality. The researchers conducted this study with the intention of determining the effects of centralized and decentralized systems on the quality of decision making within the organization. Their findings show that:

There is a greater variability (over time) in the steady-state quality of managers in a more centralized economy. This is because highly capable decision-makers have greater beneficial effects on the managerial choices in a more centralized economy. By the same token, highly incapable

⁵ Warner, 2001, p. 146.

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managers placed in the same positions have greater deleterious effects.

The overall effect of a greater centralization, therefore, is to induce a greater variability in the economy's managerial quality.⁶

It is worth repeating that effectiveness, in a decentralized system, is a matter of decisiveness. Top decision makers should not be tentative about delegating responsibility, delegating responsibility without actually delegating the necessary authority. About this need for decisiveness in decentralization, Hubbs observes, “Decentralization will no work unless you really delegate both responsibility and authority. That means that the final decisions must be made at the lower level.”⁷

Organizational Structure and Internal Control

Organizational structure must be considered while deciding whether decentralization is right for a company. In order to keep change as painless as possible at all levels of management, the top decision makers must assess the readiness of managers and work teams at the various divisions of a diversified firm. They also must assess the relationship of each team to the organization itself. Tata et al (2004) writes, “Work teams change the way people interact and work in organizations. The implementation of teams is context-dependent, the success of which can depend on the alignment between team-level and organizational-level structural factors.”⁸

⁶ Sah & Stiglitz, 1991, p. 290.

⁷ Ron Hubbs qtd in Kolderie, T. “The Case for Decentralized Management.”

⁸ Tata et al, 2004, p. 249.

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Ron Hubbs explains that the issue of centralization vs. decentralization can really only be discussed in terms of particular cases.⁹ That is to say, neither can be said to be the more effective system overall, because too many factors are at work in any given situation. For a simple example, decentralized management becomes desirable or even necessary when a large company spreads out across the borders of the globalizing world, whereas centralized management might be most appropriate for a smaller company with fewer employees. Complicating the matter even more, the smaller organization might decentralize certain aspects of management in order to increase efficiency. Likewise, the top decision makers within a decentralized system of management might reserve certain key aspects of management for themselves.

Authority must accompany responsibility when decision making is decentralized within an organization. If managers are made responsible for effectiveness without being given the authority to manage the processes for which they are responsible, an impossible situation is created. Trouble arises among managers within the various divisions and the decision makers at the headquarters, because of what could be said to be a major communication problem. Warner writes, “The reason seems to be because the role and function of the top managers and the headquarters staff are not the same for a centralized as for a decentralized organization. In the large centralized firm the staff is more concerned with coordinating and inspecting the work of the different departments and less with providing specialized services and advice.”¹⁰

⁹ Ron Hubbs qtd in Kolderie, T. “The Case for Decentralized Management,” no date.

¹⁰ Warner, 2001, p. 146.

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Conclusion

In an organization that tries to employ a system of decentralized management, a manager must use his or her own discretion and make decisions based on the authority and responsibility assigned to him or her by top decision makers. To share responsibility with division managers without also sharing authority is like skittishly walking half way across a bust street. Some decisiveness is necessary, because responsibility is easier to share than authority.

With matters pertaining to organizational culture and structure, leadership, and internal control, the process of decision making must be wholeheartedly and fearlessly decentralized in order to avoid problems. Authority and responsibility must go together, and top decision makers within a company must therefore take the “leap of faith” necessary to achieve the heightened efficiency associated with the decentralized system of management.

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