

Centralization versus Decentralization- A Discussion

What do we mean by centralized and decentralized?

- **Centralized:** When a function is managed through the central office – typically the headquarters.
- **Decentralized:** When a function is managed at the local level – an office or department outside of central management.

An organizational **function**, which is anything that the organization performs repeatedly or in an ongoing manner, can be centralized or decentralized. Some common organizational functions are IT support, engineering, scheduling, research and development, marketing, finance, sales, development, human resources, operations, and manufacturing.

What parts of the function get centralized or decentralized?

Every function has two parts: decision-making and execution. Each part can be centralized or decentralized.

- 1. Decision-making** – Determining how the work gets done, processes to follow, budget allocations, schedule, quality, and other factors specific to the function.
- 2. Execution** – Completing the work, which often means receiving the resources (monetary and personnel) to do so.

Six categories to consider when deciding about centralization/decentralization:

1. Accessibility – if you want something accessible to all- centralize but you will have to balance general accessibility with immediate accessibility-
2. Cost – assumption (often correct) that centralized systems will be characterized by economies, and decentralized will have many duplications.
3. Efficiency- administrative efficiency tends to favor centralization-
4. Adequacy – centralized systems have to address the needs of many and may have to sacrifice the unique interests of the few.
5. Use – will use be impacted if locally there is no ownership?
6. Interrelation of subject fields – more likely to get multidisciplinary work when individuals have to interact in a centralized system.

	Advantages	Disadvantages
Centralized Structure	<ul style="list-style-type: none"> -focused vision -fast execution -reduced conflict -reduced cost -uniformity of action -improved quality -better coordination across units -control and accountability 	<ul style="list-style-type: none"> -delays in work -difficulty in tailoring or unique situations
Decentralized Structure	<ul style="list-style-type: none"> -empowering employees -relieving the burden -increased motivation and morale -greater output -diversification of activities -preparing for emergencies -more efficient decision-making -ease of expansion -ease of adaptation 	<ul style="list-style-type: none"> -more cost -no uniform action/duplication -uneven distribution of work

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Centralize if

- 1) You want to enforce something,
- 2) You want to keep all levels focused on one vision or purpose,
- 3) You need unity to leverage cooperation or efficiency,
- 4) You need to support collective learning,
- 5) You need consistency in communication or practice,
- 6) Units don't have core strength,
- 7) Efficiencies will save money, or
- 8) Units' goals might adversely affect college or university central goals.

Decentralize if

- 1) Local needs vary greatly,
- 2) You want to stimulate growth,
- 3) You need to expedite decision-making,
- 4) Local ownership will lead to innovation, or
- 5) Sub-units are autonomous and can be independently measured.

Mixed Model considerations:

- 1) Define all central unit responsibilities (at a high level) – what are they responsible for enforcing?
- 2) Determine the level of resources needed to deliver on that core mission.
- 3) Redistribute resources appropriately between central budgets and local units. This might mean some resources move from central units out to local units, and some resources might move from local units back to a central unit, depending on the service unit.
- 4) Form a uniform structure for all service units, where local staff meet regularly with central staff to: have local issues float up, to brainstorm on efficiency improvements, and to learn about new policy issues and central needs.

Table 2 - Potential Benefits and Risks of Centralized and Decentralized

Centralized	Decentralized
Potential Benefits	
Consistency: Different branches use similar processes/products and common language	Tailored: Adapted to unique needs of each branch and able to react faster
Consolidation: Expertise and information is kept in one unit; People know where to go for this function	Nimble: Easier to make changes at branch levels and less bureaucracy
Efficiency: Processes become more repeatable; redundancies are reduced; easier to document lessons learned	Autonomy and Empowerment: Branches take more ownership over developing an effective function or process
Stature: Function has a voice closer to, or at, the top of the organization, as opposed to fragmented	Builds local capacity: Local units develop skills to solve the functional problem
Alignment: Decisions more likely to be aligned with overall organizational strategy and priorities	
Authority: More clarity on who owns and makes decisions in the functional area	
Leverage: Easier to leverage personnel if they report centrally	
Potential Risks	
Relevancy: Out of touch with needs of local users or communities	Reporting: Difficult to monitor and report disparate processes and functions
Resistance: Branches may resist being told how to do things	Resources: Local teams may not have the resources or expertise to be fully effective
Bureaucracy and inertia: More difficult to change the function's role in the organization if the organization changes its strategy	Brand: Inconsistent experiences or products can compromise the brand of the organization

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