DECENTRALIZATION OF MANAGERIAL AUTHORITY

THESIS

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DECENTRALIZATION OF MANAGERIAL AUTHORITY

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CHAPTER I

INTRODUCTION

Statement of the Problem

Any successful business institution engaged in manufacturing, sales, or service justifies its existence through the satisfaction of human desires. Profit is the reward allocated to the organization owners whether they be stockholders or single entrepreneurs.

The advent of industrialization in this country has greatly separated ownership from operation in business. Professional managers, charged with the responsibility to make a profit, are witnessing with renewed interest those areas in which they can improve factors imperative to maintaining and perpetuating their organizations. Top management is interested in providing a reasonable and logical division of income for those groups which contribute to the utility or economic value of the goods produced, sold, and serviced.

Professional managers often find areas in which they are severely regulated in respect to unilateral actions. Examples of these areas are as follows:
1. Strict tax laws of corporation profits have been passed and are enforced by federal, state, and municipal governments.

2. Conditions under which labor will work are regulated by governmental authorities and even more severely by labor unions.

3. Current economic conditions and future economic trends are the causality of both rational and irrational forces over which managers often have no control.

4. Competition is dynamic or it ceases to be competition.

Realizing the conditioning effects of government, trade unionism, general economic limitations, and competition upon the corporation entity, today's top-level executives are faced with improving those areas over which they have direct control. One of the most valuable contributions these executives make is their continual adjustments in organization balance because they realize that each corporation is dynamic. Current organizational structure and philosophy can very easily be obsolete tomorrow.

A basic issue of management today is in the controversial area of decentralization of managerial authority. Decentralization of managerial authority permits authority to be delegated to lower management levels. The ideal situation in authority decentralization is allowing decisions to be made at the lowest management levels and even to the
worker levels where individuals are capable of making those decisions.¹

Managerial decentralization of authority may be described as being both a philosophy and a technique of management. As a philosophy, decentralization refers to the belief held by top management that all subordinate managers and personnel under them should have a maximum opportunity toward developing and using their talents. Therefore, managers need to be given necessary authority, plant facilities, help in personal development, and guidance to make decisions in their own areas of operations. As a technique, managerial decentralization of authority is a method of organization that permits delegation of decision-making authority to semi-independent units by exercising controls which assure that all units work toward the same mutual goals of the company.²

If the principal key to enterprise efficiency lies in the coordination of people, it is logical that those who are responsible for this coordination should have the requisite authority to manage and that this authority in turn be pushed down into the organization as far as management positions exist.³

Since the end of the Second World War, there have been many articles written about decentralization. Often the

²Ibid.
specific meaning is confused and even misapplied. A corporation may locate additional manufacturing plants in different localities, the term decentralization may be used to connote the various plants. Actually, an appropriate term of "dispersion" is both more accurate and descriptive. Thus, the physical scattering of work and workers may be thought of as a form of decentralization.

Another meaning given to decentralization is departmentalizing of activities and functions which are similar.\(^4\)

The type of decentralization which this thesis refers to is the delegation of managerial authority from a centralized source, either the president of the corporation or the few chief executives in whom it is centralized, down to successive lower management levels and in finality to the lowest practicable level at which a decision can justifiably be made. The justification of decision-making is dependent upon the extent to which personnel trained to make valid decisions and the quality and quantity of information available to support those decisions. Decentralization of authority can accompany both dispersion and departmentalization. Wherever the term decentralization is expressed, centralization is implied.

Decentralization of managerial authority is achieved through constant review of organizational structure by executives in major management positions. A great difficulty

in pushing authority into the lowest levels of management and to the ultimate production line workers is that management often fails to realize that organization charts can be fallible in indicating the extent of decentralization of managerial authority in any business organization. Decentralization of authority at its beginning is an intangible element that often cannot be described accurately on an organizational chart because human beings basically form the medium through which it is expressed.\footnote{Edward C. Bursk, editor, \textit{The Management Team} (Cambridge, 1954), pp. 6-7.}

The occasion has arisen when an executive has indicated his organization enjoyed wide managerial decentralization. Managers of various factories call the home office even for decisions of whether to hire a new employee or spend $200 for a new desk. The case at point would be classified as dispersion or physical decentralization of work activities with no commensurate decentralization of authority. The difference between dispersion of operations geographically from home offices and decentralization of authority cannot be stressed too greatly.

Complete decentralization of managerial authority can never be obtained nor is it desired by any manager. Total decentralization would mean abdication by the manager of all his authority and responsibilities toward business operation to his fellow subordinates. Final results would be elimination
of the highest level of managerial authority and passage of responsibilities to the next lower level of management. Similar consequences would be obtained by any other level of management through its abdication of authority and responsibility.

The basic problem in decentralizing managerial authority is determining the extent to which this authority can and should be delegated from central concentrations. One company may find extreme decentralization of authority the best policy to follow in achieving organizational objectives. Another company may require a high degree of centralization of authority with far lesser degrees of delegation to be the most satisfactory. Many factors which will be described in the following pages have to be taken into consideration before evaluating how much authority need be delegated to get the job done.

Centralization and decentralization are not principles of organization, but rather form a scale of practical values from the one extreme to the other. Every actual business organization must decide for itself, not only in general but in each individual executive situation, to what extent it will centralize or decentralize its organization.  

The problem, therefore, is discovering how much authority should be delegated from the highest executive levels of management to subsequent lower levels. Closely associated with this problem is the necessity of showing why

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centralization and decentralization of authority are important to the particular organization. It is also imperative to illustrate the relationships authority has to the many organizational functions and activities.

Purpose and Justification of Study

A great amount and a great variety of published material have appeared which has dealt with various aspects of decentralization. Numerous descriptions of individual company experiences with decentralization of authority have also appeared.

Little effort has been made, however, to classify and synthesize this material from the many scattered sources. Little effort has been expended to determine the factors which must bear upon the decision individual managements make in regard to the problem.

There appears to be a great need for intensive case studies of decentralization within various companies, but a desirable prerequisite to such study is the type of synthesis that is being attempted here.

A primary justification of this study was the need to assemble all of the available facts about managerial authority. From this collection of information, it would be possible to draw definite conclusions about the merits of managerial centralization and decentralization of authority and how applications could be made to a particular company or situation.
Definition of Terms

Certain terms need to be defined either because of their ambiguous meaning or to make sure the reader is informed of their context and application to this study.

Centralization means concentration. "It may be thought of as a force, directed inward, drawing those things which come within the orbit of its influence toward a common center."7

Decentralization can also be described as a force, "centrifugal in character, causing movement or distribution away from rather than toward the common center. 'Decentralization' is the natural correlative term, the opposite of 'centralization.'"8

Centralization of managerial authority is the concentration of authority to command performance vested in one top executive or several key executives.

Decentralization of managerial authority is accomplished through delegation of authority from the top executive or several key executives to subordinate managers. Authority continues to be delegated from preceding higher

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7 Ibid.
8 Ibid.
management levels down to the lowest level of management where decisions can be justifiably made. Standard Oil Company of Indiana defines decentralization of managerial authority as "dispersing responsibility with authority as low in the chain of management as the people in that chain prove they are capable of handling it to the profit of the company." Decentralization of authority is found in various organizations such as federal and state governments, churches, voluntary associations, labor unions, and business corporations.

The principle of centralized authority states that authority must first be concentrated in one person or one group. It is then delegated by this person or group to lower management levels that are responsible for controlling and directing the enterprise.

The exception principle means that all rules necessary to provide specific action for typical situations need to be outlined so that a subordinate manager will know what appropriate action to take without having to consult his superiors. A manager will need to consult his superior only in unique situations. Although the exception principle is

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used in most organizations, it is often found under other names. The exception principle is compatible with decentralization thinking. 12

Physical decentralization or dispersion in business refers to location of activities and workers away from home offices or organizational headquarters. An organization may be highly decentralized physically with factories in many states and from coast to coast, but still it may enjoy a high degree of centralization of managerial authority. Usually, dispersion of corporate activities is accompanied with some degree of decentralization of authority. Centralization of production in one locality characterized manufacturing prior to the First World War. The process of dispersion of production was accelerated by both world wars. 13

Recentralization of authority is the repossessing of authority that was once decentralized. It is over a function or activity that is widespread in the organization. Recentralization of authority is usually performed by a control staff and is designed to eliminate wide variations in carrying out policies. Recentralization is the result of competitive, governmental, and labor factors. 14

12 Franklin G. Moore, Manufacturing Management (Homewood, 1953), pp. 57-58.
Delegation of executive authority is a "process whereby certain of the executive's functions, responsibilities, and authorities are released and committed to designated subordinate positions. The direction of delegation is always downward in business organizations."\textsuperscript{15}

Span of control is the term designating the number of people that report to and are controlled by a manager.\textsuperscript{16}

A business function refers to the grouping of similar activities. Major business functions include finance, production, and marketing.\textsuperscript{17}

Sources of Data

Data for this thesis came from literature catalogued in the library at North Texas State College. Sources of data included textbooks, periodical articles, and encyclopedias. Principal sources of information were management organization textbooks.

Procedure

The procedure used in preparing this thesis included the formation of a background of the subject matter through reading textbooks and periodicals. These readings included not only material definitely pertaining to the subject, but they also contained data associated with managerial decentralization of authority.

\textsuperscript{16}\textit{Ibid.}, pp. 939-940.  
\textsuperscript{17}\textit{Ibid.}, p. 43.
An outline of the study was prepared from which note cards were gathered and classified. A thorough library search was made for subject material.

Primarily, this thesis is a synthesis of the various scattered material which has been published on decentralization of authority. By combining the writings of many authorities, it is possible to present a more logical picture of the subject.

Presentation of Data

This study is presented in six chapters. The subject is introduced and the problem is stated in Chapter I. The purpose and justification for making the study are then given. A description of the nature and source of authority is presented in Chapter II. It details the general relationships managerial authority has to business organizations. Chapter III is concerned with those factors which indicate a basis for increasing or decreasing decentralization of managerial authority. Specific applications of when and where managerial authority is decentralized are developed from the general background of material given in the previous chapter. Chapter IV presents case studies of corporations that have decentralized managerial authority. Chapter V develops the subject further by illustrating the human relations side of decentralizing authority. Chapter VI contains a summary, conclusions, and recommendations.
CHAPTER II

THE NATURE OF AUTHORITY AND ITS
RELATIONSHIP TO ORGANIZATIONS

Definition of Authority

Authority is the right and power to command performance. It is born in leadership. Whether by virtue of accident, nature, or other forces of circumstances, if a person or even a governmental body lacks leadership qualities, there will be no resultant authority to exercise. Even where authority is acquired through assignment, it is necessary to demonstrate leadership qualities or authority will be taken away. If true leadership does avail through demonstration of ability, authority tends to gravitate to the leader.¹

Source and Nature of Authority

Before a discussion of decentralizing managerial authority can be logically begun, it is first necessary to describe the source and nature of authority.

The concept of "right" and the concept of "power" are the very roots of authority. Power, though, is derived from right through a process of delegation. An early

¹Petersen and Flowman, op. cit., p. 62.
example of delegating authority and decentralization of authority is illustrated by the actions of Moses in biblical days when he accumulated so many tasks that he could not perform all of them himself. Accordingly, Moses

... chose able men out of all Israel and made them heads over the people, rulers of thousands, rulers of hundreds, rulers of fifties, and rulers of tens. And they judged the people at all reasons: the hard cases they brought unto Moses, but every small matter they judged themselves.  

An intermediate source of managerial authority in the United States is the Constitution. From it is derived the right of private property. The Constitution is a creation of the people and is subject to amendment or modification at their will. Thus, society, through its control of government, is the ultimate source of authority that passes to private ownership and to management.

Although authority is released by society to business organizations, the social order still retains ultimate control. This control is expressed in regulatory measures of statutory laws which require obedience. Management is confronted with two phases of final authority. The first phase pertains to authority delegated constitutionally to entrepreneurs by guaranteeing the right of private ownership. The second phase of authority is retained by the government and is exercised as regulating actions over corporate operations.

Whenever the right of private ownership is removed, such as in the communist states, there is no authority retained by management to represent private ownership. The government would then own all the businesses and control all of the managerial activities.\(^3\)

Authority is released to business enterprise through a charter which is an instrument granting a corporation certain rights. An early example of decentralization of authority on this continent was the Hudson's Bay Company. Although decentralization of managerial authority was known since 1670 when Hudson's Bay Company received its charter, it has been only in recent years that so much emphasis has been placed on decentralization.\(^4\)

Over 230 years after Hudson's Bay Company was founded, American businessmen began utilizing on large scale the corporation organization. The new era of large industrial organizations actually began when the United States Steel Corporation was granted its charter April 1, 1901.\(^5\)

The nature or inherent qualities of managerial authority are basically the rights of planning, organizing, and controlling work and workers pertaining to the operation of a business. The executive authority in business is, therefore, the right to perform these functions of management.

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\(^3\) Petersen and Flowman, *op. cit.*, p. 62.


These basic rights of planning, organizing, and controlling are accompanied by powers. The powers are the actual manifestations of authority that is activated through individual command or delegation of authority to subordinates. In delegation of managerial authority, an investment of these powers is temporarily and partially transferred to another person who is vested with these powers to act on behalf of a superior. The control of performance will depend upon the amount of authority released, the level to which it is delegated, and the person or group in which it is recentralized.

The ultimate source of authority, as previously stated, rests with society. Ownership has been greatly separated from actual operation of business enterprises since the beginning of the twentieth century. Corporate owners delegate authority to a board of directors who in turn control business operations by appointing a president and other officers to manage the day-to-day operations of the business.

Certain powers inherent to authority can justifiably be delegated by top executives to lower managerial levels of the hierarchy while other powers are permanently retained. The right of executive planning, for example, includes the powers of investigation, policy formulation, and establishment and interpretation of objectives. Formerly, the right of planning and its concomitant powers were retained in the highest executive echelon.
The right to organize includes powers of deciding what work will be done, when, where, and how. It also includes the powers of selecting, training, transferring, assigning, and promoting personnel. The right of organizing is often delegated to lower management levels.

The right of controlling pertains to the powers requiring compliance of workers and operations to standards, rules, and other regulatory guides. Controlling rights may be delegated downward through the entire managerial hierarchy, but they are often recentralized in top management to insure conformance.6

According to Glover:

Managerial authority may be derived from assignment, appointment, or election; it is primary integrant of leadership, and its usefulness to an executive is directly proportional to his ability as a leader of persons, and to his adherence to the concept of authority emanating from competence rather than managerial title.7

Sucjajen states that even another variation in type of authority exists. He says there is a difference between command control of authority and the use of permissive authority. The command control concept places emphasis on the chief coordinator of company activities. Under the command control concept, authority is derived from the sanction of fear. The chief executive would derive his authority from instilling fear in subordinates. The permissive authority

6Ibid., pp. 66-69.
7Glover, op. cit., pp. 149-152.
concept is allied to centralization of policy and operational decentralization. In this type of situation, managers have the right to accept or reject authority delegated to them from higher levels of management. Although such rejection is rare, it may be evident in forms of modifications to fit the particular manager's needs. It is readily seen that the command control concept of authority is incompatible with current management philosophy. A substantial decentralization of authority will operate through diffusing authority until the focus of its source is no longer on a single person, as in the command control concept, but a recognition that authority resides in the organization as a whole. 8

In summarizing authority relationships to organizational structure and the activities carried on within the corporation, it is pointed out that authority is derived from owners. Whether the organization is a single proprietorship, a partnership, or a corporation, ultimate authority is retained by the owners.

Absolute retention of authority is manifested in the single proprietorship where the owner performs the planning, organizing, and controlling of the business in toto. As organizational growth occurs, additional personnel are hired to perform the new or extended activities. The large corporation chief executive is forced to delegate authority to

subordinate managers because of size, complexity of operations, and dispersion of activities.9

Both the quantitative and the qualitative type of authority delegated from top executives are of great importance in evaluating extents of managerial decentralization of authority. Many factors may or may not justify decentralization of authority.

One of the fundamental problems in organization is determining the amount of authority that is to be centralized and that which is to be delegated. According to Koontz and O'Donnell:

No executive can unilaterally be for or against centralization. The prepositions are always in terms of "more or less"—in terms of "how much" and not "whether."

The problem of centralization of authority is consequently a fundamental phase of the principle of delegation. To the extent that authority is not delegated, it is centralized. There are seldom absolutes in centralization and decentralization. It is conceivable that there may be absolute centralization of authority in a given person, but when this occurs, no subordinate managers are created, and no organization exists. Therefore, it can be said that some decentralization is a characteristic of all organization.10

Considerations in Delegating Authority

The activity of delegating managerial authority should also include a commensurate degree of responsibility placed upon the recipient. In other words, if a manager as the


authority to exact action from subordinates, he is then charged with the responsibility for their actions.\textsuperscript{11} Ultimate responsibility of delegating authority is still retained by the president, although subordinates share in responsibility of carrying out their assignments. "An executive may delegate authority to others but he may not delegate the accountability he owes to his management. . . . The responsibility for executing an order must be accompanied by the delegated authority to take that action."\textsuperscript{12} Accountability is an intrinsic part of authority.

In delegating authority, a distinction needs to be made between granting authority to make decisions and granting authority to execute them. Classically, top management and middle management reserved the right to make decisions. Authority for decision making is now further delegated to lower levels of management. The management hierarchy also has requisite authority to execute decisions. The production line worker is limited, though, in the area of making decisions. His authority usually extends over factors necessary to complete his work assignment.\textsuperscript{13} The separation of decision making from execution of decisions or "separation of planning from doing" has been subjected to extreme criticism in recent years.

Only too often in delegation of authority, just the doing phase is delegated. Brown states that it would be better to


\textsuperscript{12}Glover, \textit{op. cit.}, pp. 149-152.

also delegate a portion of the planning and even the controlling phase to the lowest levels of management and eventually to the production line worker.\footnote{14}

It has been said that authority is basically derived from a particular function and that it is therefore inherent to a certain job or work assignment. If this be the case, when a person is assigned a job, it is logical to expect him to also receive the necessary authority to complete his job.\footnote{15} Furthermore, the basic goal of managerial decentralization of authority is to allow decisions to be made at the lowest levels of management where personnel are competent to make decisions and information is available for making valid decisions. "The acid test of managerial decentralization is the degree to which executives participate in decision-making. Or it may be put this way: How far has the company moved away from one-man control of all major decisions?\"\footnote{16}

Before work assignments can be carried out, authority to perform those assignments must be delegated. Activities are grouped as to logical relationships and managers are given the required authority over their areas of activities to discharge their assignments.\footnote{17}

\footnote{14}Alvin Brown, Organization: A Formulation of Principle (New York, 1945), pp. 100-103.  
\footnote{15}Glover, \textit{op. cit.}, pp. 149-152.  
\footnote{16}William Grant Ireson and Eugene L. Grant, editors, Handbook of Industrial Engineering and Management (Englewood Cliffs, 1955), p. 36.  
\footnote{17}Bursk, \textit{op. cit.}, pp. 6-7.
Summary

Whenever an organization consists of two or more people, there must be some provisions for delegation of authority. Actually, the only reason why additional employees are hired is to give them certain duties that cannot be performed by the present number of employees. Additional production workers means more managers are needed. A new level of the management hierarchy may be added to the existing structure. Since there will be more activities to be performed, and perhaps entirely new activities, a greater amount of managerial authority will need to be delegated.

Newman states that there are four definite stages of decentralization of authority. The first stage is a highly centralized type of administration. Occasionally, decentralization of authority is not desirable, and the key executive produces the most efficient operation by performing the entire planning for the organization.

The second stage is a limited decentralization of authority. Under this type of decentralization, the major policies, procedures, and programs of the company are formed in the top echelon of management. The authority to apply the plans of the top echelon to specific situations and routine day-to-day planning are then delegated through the hierarchy to first and second levels of supervision.

The third stage is called delegated authority. Authority to make operating decisions is delegated to subordinate executives down to the first level supervisor and in cases even to the production-line worker.
The final stage is bottom-up administration. The ultimate in decentralization of authority is represented by this fourth stage. Bottom-up administration attempts to decentralize initiative along with authority. Every individual in a company is assigned a job, but it is up to the individual to decide how that job may best be performed.

Each plant, each unit, and perhaps each individual is made to feel a proprietary responsibility for his activities. . . . Centralized staff assistance is used only insofar as the operating people believe it will help them; if they can get better results following their own ideas, no one complains.18

CHAPTER III

FACTORS WHICH INDICATE A BASIS FOR GREATER
DECENTRALIZATION OF MANAGERIAL AUTHORITY

Every business enterprise is composed of activities, functions, and philosophies that differentiate it from other organizations and make it unique. The degree of decentralization of authority in any organization will be determined by carefully weighing the various factors included in this chapter. The primary factors which indicate how much authority will be decentralized from top management are the size of the corporation; the kinds of activities and functions conducted in the enterprise; the philosophy of management toward decentralization of authority; the ability of managers to accept authority; external forces such as government restrictions, economic conditions, competition, and trade unionism; and the extent to which control can be maintained over decentralized authority.

Influence of Corporation Size

As an organization grows in size and reaches large-scale operations, it will have evolved into a structure of specialized departments and sub-departments. Organizational functions of finance, production, and sales will have been
definitely defined and established under the jurisdiction of a departmental manager. Under decentralized managerial authority, these managers have the authority and responsibility to make decisions pertaining to their departments. A greater extent of decentralization of authority is indicated where these executives are permitted to make a majority of the decisions. 1

Perhaps one of the major disadvantages of large size in corporations is bringing together human resources to forge an effective and efficient team. Since there are more managers and workers in larger organizations, the problem of coordinating activities becomes greater. The large firm requires more specialized departments and levels of management to supervise the day-to-day performance of these activities. With the addition of more managers, adequate communications becomes impossible unless decentralization of authority is provided. However, even though activities may increase and authority is decentralized, the top echelon of management still retains authority to formulate long-range objectives for the organization. 2

According to Anderson and Schwenning:

As organizations grow, one function after another should take its departure from head-quarters and pass down the line of administration,

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1Petersen and Flownman, op. cit., p. 296.
down to the lower levels by the necessity of keeping in touch with local conditions.\textsuperscript{3}

One organization that had 150 branch offices found that it was able to save 20 per cent of the clerical costs in handling accounts receivable through centralizing this activity in twelve branch offices located strategically throughout the country. Contrasting this situation was another company that found it more desirable because of extreme competition in service activities to decentralize authority over accounts receivable and disperse the activity to all branches even though costs increased 15 per cent. Perhaps the best guide applicable to the above situation is to find the more ideal balance by weighing the importance of clerical economy, speed, control, and service.\textsuperscript{4}

Another dis-economy associated with large corporations is the length of time required to make decisions and the number of interested executives and specialists that must be consulted. Such a process is not only time consuming but also expensive. Corporations can often minimize this cost by decentralizing managerial authority. Control is retained over the delegated authority through utilizing the "exception principle." Subordinate managers are indoctrinated with all rules necessary to provide action for typical situations. When the exception principle is used, the managers will know


what appropriate action to take without having to consult superiors. Only unique situations are referred to higher management for decisions.\(^5\)

**Span of Control**

With the addition of new or extended activities, a corporation finds it necessary to increase the number of managers. This may be accomplished by adding new levels of management, increasing the number of managers in existing levels, or a combination of the two.\(^6\) Adding new levels of management in the hierarchy may or may not result in a greater decentralization of authority. However, when new personnel are added to existing levels, the span of control of the executive just preceding the level at which personnel was added is increased. Decentralization of authority then follows. Although this flat type of organization is contradictory to traditional span of control limitations, the reasoning behind it is valid. When managers have large numbers of subordinates reporting to them, the only alternative is to delegate authority. The subordinate managers are then placed in position to make decisions.

Sears, Roebuck and Company has used the flat type of organization with great success. An interesting study was made of Sears' decentralization of managerial authority by increasing the span of control of managers.

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\(^5\) Moore, *op. cit.*, pp. 57-58.

In the course of this study the operations of two groups of B stores (150 to 175 employees) in towns of approximately the same size were analyzed. In one group the managers had organized their stores with an assistant manager and some thirty merchandise managers in charge of store departments. In another group the stores were organized along more conventional lines, with an extra level of management between the store managers and the department heads. Studies of sales volume, profit, morale, and lower-management competence all indicated that the stores with the "flat" type of organization were superior on all scores to those more conventionally organized.

... the store manager, knowing that he had to delegate considerable authority, took greater care in selecting, guiding, and training his subordinates and also found it necessary to adopt efficient methods of objective control over performance.

In addition, the Sears study found that reducing the length of channels resulted in vastly improved communication between the store manager and his subordinates, despite the presence of so many subordinate managers.7

There are three main reasons for limiting span of control. First, as subordinate managers are added, an increase will result not only in direct relationships, but there will be an increasing amount of cross-relationships between group members. Second, managers have a limited attention span that makes it impossible to do an adequate job of supervision after a certain point. Finally, there is an indication that adding more subordinate managers means they will be geographically dispersed and hence become increasingly difficult to supervise.

There are, however, numerous tendencies toward extending managerial span of control or increasing the number of subordinate managers reporting to their superior. It is a

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natural tendency of executives to take keen personal interest in the many aspects concerned with their jobs. They may desire power and satisfy this desire through having a great number of people reporting to them. There is also the danger of having too much supervision which thwarts subordinate self-reliance and initiative. The optimum span is determined by considering the advantages of keeping managerial authority centralized and weighing these advantages against the gains that would be realized if managerial authority were decentralized through delegation.

Managerial span of control should be increased to the point where advantages of delegation are finally out-weighted because of the increasing costs of additional supervision, adding extra staffs, and communication difficulties.

The values to be derived from decentralizing managerial authority through extending the span of control of managers depends upon contributions additional subordinates make to company profits and what degree decentralization furthers group relationships. The executive who delegates authority to his subordinates has more time to devote to top management work such as planning, developing new ideas, policy-making, and coordinating activities.

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Dividing the Decision-Making Unit

Decentralization of authority is often accomplished by splitting the existing decision-making unit into several smaller units and delegating decision-making powers to them. A considerable amount of efficiency may result in the following ways:

1. Managers will be closer to the point where decisions need to be made. Thus, delay in making decisions because of the necessity of first checking with headquarters or other officials is reduced through managerial decentralization. People who are located at the point where activity occurs requiring decisions usually have greater information concerning the factors involved than those people in higher echelons who are either separated because of dispersion or by levels of authority. When immediate decisions are essential, such decentralization is advantageous. A considerable savings of time and money may be realized through eliminating a portion of consultation and communication formerly required to make a decision. As physical dispersion of activities and volumes of activities increase, this savings may become of major importance to the organization.

2. By reducing the size of the large decision-making unit, there may be an increase in managerial efficiency. Formerly, managers shunned responsibility and went to headquarters automatically each time any problem came up. Through decentralization of authority, these managers utilize their time more fully and are put in the position of demonstrating abilities as executives to make decisions.
3. Decision quality will improve as complexity and magnitude are reduced through delegation. Major executives are relieved of the possibility of over-work.

4. Through delegating decision-making, the expense of coordination is reduced because managers have greater autonomy. A concise framework of organizational policy needs to be stated so decisions made by subsidiary units will be uniform and not stray from company objectives. The coordinating staff of Sears, Roebuck and Company was greatly reduced by establishing policies within which managers operate individual stores. In reality, store managers have greater freedom to make decisions that were formerly referred to higher management levels for action.

5. The quantity and expense of processing paperwork at headquarters is considerably reduced through decentralizing authority for decision-making. In one medium-sized company, for example, all regional managers were required to contact headquarters for confirmation of major decisions before they could be made. The procedure took from ten days to thirty days. Eight signatures were required before a clerk could be transferred from one regional headquarters division to another. With the advent of decentralizing authority to make decisions to the lowest possible level, only three signatures are now required for the transfer, and all of these signatures are made at the same headquarters.9

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9Ibid.
There are certain disadvantages of reducing the size of the centralized decision-making unit.

1. Occasionally there is a lack of uniformity in decisions when they are not made from a centralized group. This has been one of the major obstacles toward decentralizing managerial authority. For example, where managerial authority is decentralized, there may be different wage rates paid for similar jobs, greater variations in capital expenditures, and more liberal holidays. This disadvantage should not be overemphasized, though. An appraisal needs to be made taking into consideration the possible advantages of uniformities. The appraisal should compare these advantages of uniformities with the cost of deteriorating interest of those persons who are denied independent authority to make decisions. The advantages of decentralized authority may be retained without losing uniformity if regular integrating meetings are held between the headquarters staffs and the dispersed regional managers or between the managers of various functions located at the headquarters. Policy discussion can be reviewed at these meetings for purposes of familiarizing managers in those areas where uniformity is desired.

2. Another disadvantage of decentralization of authority from a central decision-making unit is that there may be an inadequate utilization of specialist service. In most companies, the best talent and the highest-priced talent are assembled in the home office. Managers in regional offices may ignore the specialist staff service advice available at the home office.
Only too often this is true because managers may feel that home office counsel is either unwarranted or time-consuming. As a result, the headquarters service from staffs may only be partly used and the effectiveness of the staff is impaired. It is top management's responsibility to define the staff service relationships with those managers in the field. The advantages of utilizing superior counsel before taking action in the field in certain cases needs to be emphasized.

3. Another possible disadvantage is the lack of capable managers or inadequate equipment in the field. There are certain functions that defy delegation because of the great technical problems that must be solved or because the equipment is so expensive that it is allocated cautiously. An even greater hesitancy to delegate authority is caused by the scarcity of qualified managers in the field. Managers who have been in the field for many years may be unable to take on new responsibilities while the younger managers may not have sufficient experience to warrant additional authority. The difference between recommending action and that of making decisions is great. 10

Standard Oil Company of Ohio recommends reducing as many levels of management as possible through increasing span of control. They benefit from a greater intimacy in communication in their organization. They also believe that every management problem should be assigned down to the lowest level of management

10 Ibid., pp. 112-113.
and a decision made at the lowest level that the nature and circumstances will permit.\textsuperscript{11}

One entire management level was eliminated by International Business Machines between 1940 and 1947 through enlarging job requirements of plant managers and foremen and increasing the number of subordinates reporting to a superior.\textsuperscript{12}

The process of decentralizing managerial authority from a central concentration requires a transitional period of training subordinates to receive authority and subsequent responsibility. Perhaps the best procedure is to gradually allocate new responsibility and regularly evaluate performance to confirm that the candidate has mastered his new duties before additional ones are delegated.\textsuperscript{13}

According to Truman, the factors which basically favor decentralization of authority from a central concentration are as follows: (1) situations requiring quick action; (2) the necessity for initiating action in the field; and (3) the necessity for dealing with large numbers of individuals. Those factors favoring centralization are as follows: (1) the need for uniformity; (2) to get best results

\textsuperscript{11} A. A. Stambaugh, "Decentralization: The Key to the Future," \textit{Dun's Review and Modern Industry}, LXIV (September, 1953), 166-173.

\textsuperscript{12} Dale, \textit{op. cit.}, p. 53.

\textsuperscript{13} \textit{Ibid.}, pp. 112-113.
Organization Functions and Activities

The various activities in a corporation determine the rank or importance of the functions carried on within that corporation. Also the rank value of a particular function contrasted to other functions and the importance of the function to continuous business operation is an important factor to consider before authority is decentralized.

Corporation size greatly influences the functions performed. At the different stages of corporation development, certain functions may not be performed. With growth, new functions are added and existing functions may change. Emphasis on certain functions may be greater or lesser. Usually, at all stages of organizational growth, three major functions: production, sales, and finance are performed.

The American Management Association surveyed the extent of managerial decentralization of authority of certain major functions performed in corporations. The functions the survey examined included finance, production, accounting and statistics, personnel, purchasing, marketing, traffic, and other specialized functions. The survey was concerned with these functions in large corporations. Since the survey results applied to just a small sample, it is not wholly representative or applicable to all corporations.

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11 David Bicknell Truman, *Administrative Decentralization* (Chicago, 1940), pp. 82-124.
In this survey, it was found that the degree of decentralizing authority in one function is sometimes dependent on the degree of decentralization of another function. An example will illustrate this point. If there is strong central control over the finance function, the possibility may or may not be present for personal action in the matter of expenditures in other functions.

The American Management Association defined centralization for application in their study as follows:

Centralization is the concentration of major decisions of the particular management activity at the home office; decentralization, to mean delegation of some major decisions of the activity at the branches. Sometimes it may be said that centralization refers to decision-making by top management, decentralization to decision-making lower down the management hierarchy; to that extent the results apply to companies without branches.15

The Production Function

Usually, the first function to be delegated by the chief executive is production. It is rather difficult to assess concretely the degree of managerial decentralization of authority over production since several factors need to be considered. These factors are the product's nature, production processes, economic rate of production, and utilizing the investment to the fullest. As the rate of production increases, though, a corresponding degree of authority is decentralized.

15 Dale, op. cit., p. 188.
Delegation of the production function in small to medium-size companies is accomplished by a job order type of work. A higher degree of delegation of authority over the production function is found in many larger corporations. They accomplish this decentralization by dividing operations into individual product divisions. Central coordination is maintained by the use of production budgets, through control by a special vice president over manufacturing, committee management, and by controlling production results with standards. Coordination is often aided by centralized staff services such as engineering, technical research, and product development.

An example of decentralized authority over production operations is illustrated in the Du Pont Company. Ten manufacturing departments separately carry on functions of production and sales. They also have considerable authority over research activities. These ten manufacturing departments are operated similarly to independent companies, but each is responsible in turn to the Executive Committee and the president from whom corporation major policies are made. Each department does its own manufacturing of products which are allied and sells its products.

The manufacturing departments operate within the company as independent entities. They buy from and sell to one another using the same terms of sale quoted to outside businesses and do not give particular preference to other department members of the company. On occasions, one department's products may actively compete in the same market with the products of another department.
A general manager is in charge of each of the departments. He receives his appointment from the Executive Committee. The general manager assumes all responsibility for organizing his department and must assume responsibility for its results. He is responsible for all activities of his department, the investment the company has in the plant, processes, laboratories, and any other facilities that may be under his jurisdiction. He has been given complete authority over the factors that enter into costs and selling prices. The power he receives from higher management levels is commensurate with the responsibility he owes.

The Executive Committee still provides guidance for the general manager on company policy and provides for over-all coordination between departments. The Executive Committee and the Finance Committee also have the centralized authority over major decisions such as plans for capital expenditures, construction, and expansion of plant facilities.16

The Finance Function

Of all the major functions lending themselves to decentralization, the finance function is least often delegated. Even though a company follows wide decentralization of managerial authority policies, it still keeps the finance function centralized. When plants or branch offices are widely scattered geographically, the local executive in charge of financial

activities is often directly under the executive in charge of finances at the home office. On occasions, authority over financial control is retained by the board of directors and is operated by them or the board's finance committee without ever being delegated to the top executives of the corporation.

The reasoning behind retaining centralized control over the financial function is obvious. The basic objective of any company is financial in nature, that is, making a profit. Thus, sometimes even a single decision in the highest management level will be the difference between a profit or loss for a period's operations. Because of this reason and because top management can use financial reports for checking the effectiveness of operations, a high place in the company is accorded to the finance function and it is only rarely that any financial details are decentralized except those of a routine nature.

Even in those corporations where authority is widely decentralized in other functions, a question is raised as to the authority delegated to local managers over making capital expenditures. Some companies lay down the capital expenditure schedules by central policy statements which specify the sums each member of the hierarchy is permitted to use without requesting special permission. Although these capital expenditures will vary in extent from company to company, they are generally limited to small amounts.

The financial activity of budgeting is highly centralized. Various divisions are required to draw up budgets at intervals
for approval and review by top executives. The decisions over raising capital, finding sources of funds, and payments of the dividends are invariably centralized in the board of directors and the finance committee executives. 17

The Personnel Function

A large part of decisions affecting the personnel function are highly centralized. The activities in which authority is centralized include the following:

1. The development of executives and promotion of executives is centralized to insure that greatest managerial efficiency is guaranteed.

2. Authority over selecting and placing key executives is centralized because of vast effects on managerial efficiency and because of the expensive payroll expenditures made to executives.

3. Top management usually determines decisions over those items which are linked to incentives, work satisfaction, and future profits. Such areas include salary changes, pensions, arrangements for stock purchases, and bonuses.

4. Centralized authority is retained to make decisions in the labor contracts. Since these contracts change frequently, they involve major payroll costs. Decisions in this area can be very expensive.

5. Top management reserves the authority to administer authority over grievance decisions in cases where precedents are established.

17 Ibid.
6. Authority is centralized over making changes in wage rates for groups of employees because such decisions may have a far-reaching impact upon the supply of labor, labor morale, and company finances.  

Minor personnel problems even in companies which are highly decentralized are often taken to higher management levels in the company for decisions. It has been noted that on occasions, divisional personnel managers in large corporations go to the head personnel office for even minor decisions involving a grievance rather than take the chance of having a decision reversed. Many companies require that all grievances be referred up to the management level of vice president of personnel. Sometimes such grievances are not worth the cost of processing.

Quite often, major differences are detected in delegating decision making to personnel managers. Some local managers are granted a wide latitude over hiring and firing while they are given no authority over transfers or increases in salaries.  

The Marketing Function

A study of decentralization of authority in sales management was made by Murphy in 1946. He concluded that decentralization of decision-making was more widespread in this field than in any other function. Although a company  

\[18\text{Ibid.}\]
\[19\text{Ibid.}\]
may have a highly centralized system of control over authority in other functions, the sales function is frequently de-centralized.

Unlike production, selling is often conducted away from company headquarters because customers are widely scattered. It would be difficult for the home office to outline the approach a salesman uses toward his customer.

Selling authority is decentralized when the distribution of a corporation's products extends beyond the boundary of home office. It then becomes desirable for branch sales offices to be established. The introduction of new product lines often leads to decentralization.  

When Ford Motor Company was reorganized in 1946, fifteen separate operating divisions replaced the highly centralized operations of Henry Ford, Sr. By 1948, management decentralization was completed. New managers were appointed over the car product divisions such as the Ford division, Mercury division, and Lincoln division. These managers were responsible for sales of their products, as well as production.  

Authority over sales is often decentralized to provide customer convenience. Decentralization is common in the large grocery chain stores, mail-order companies that have retail outlets, and the suburban branches of downtown department stores. Central coordination is maintained by a

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Ibid.

vice president in charge of selecting merchandise and merchandise inventory control. The vice president of sales and associated committees hold conferences regularly to form and review general sales policies.

Often, decentralization of the marketing function exists only in name. Although sales functions may be decentralized, other functions of marketing may be highly centralized. When units of a company are physically dispersed, strict control may still be maintained from the home office. Often little variation is permitted the branch offices or salesmen in quoting prices, discounts, and merchandise specifications without first consulting the home office for a decision. The home office may strictly control other items such as travel and entertainment expenditures of salesmen, credit to be extended to customers, and sales quotas. On occasions a prescribed sales talk may become standard procedure. Perhaps the only variable element of authority over which the branch office and salesmen have control is the amount of the sale. The reasoning behind centralization of authority in the previous situations is that control of authority must be kept over utilizing the expensive time and the expensive talent of salesmen.

Market research is often centralized. The market research department can usually hire researchers more specialized than branch offices can afford to hire. Often data collection
in this function is decentralized while forecasts of future sales and determination of policies are centralized. 22

The trend in advertising is toward centralization of authority in decision-making. The advertising activity is usually centralized if one or more of the following five conditions exists:

1. If the advertising or market research department has a more competent and experienced staff, the activity is centralized.

2. The activity is centralized if the prestige and status of the company are associated closely to its advertising.

3. The activity is highly centralized when it is a factor of major importance to corporation profit or loss. Examples of this include the major tobacco companies.

4. Centralization of decision-making is the rule when the advertising is on a national scale rather than conducted on a local scale, and the contacts have to be made at the home office.

5. Authority will be centralized when better service and advertising rates can be obtained by placing large accounts with agencies. 23

The marketing activities involved in exporting are usually centralized in home offices because the activities are often highly complex. An exception occurs when independent

23 Ibid.
manufacturing plants and selling branches are established in foreign countries. 24

The Purchasing Function

The extent of decentralization of managerial authority over the purchasing function is determined in part by classifying what type of purchase is being made. Authority to purchase capital expenditure equipment is usually retained in top levels of management due to the large amount of money being spent on the investment. The purchase of basic materials which go into the manufacturing of the product are purchased centrally. Materials used in production at branch plants are usually purchased centrally even when other purchasing in the branch plants is decentralized. For example, when Ford Motor Company decentralized purchasing in its six production divisions, it still continued to buy such items as steel, tires, and glass centrally. However, when materials' costs represent only a small part of total production costs, authority for their purchase may be widely decentralized.

Decentralized authority to make purchases is greater in the following situations:

1. When plants are widely dispersed and communication is difficult, decentralized purchasing is carried on. Decentralized purchasing is also done at plants which have different lines of products and different purchase requirements,

24 Ibid.
plants which need to make important purchases locally or where supplies are perishable, and plants which are operated on a competitive basis and are semi-independent. Some companies base the effectiveness of each division by its profit-and-loss statement. Thus, General Motors has delegated authority to divisional managers to purchase where they wish if it enables them to maximize profits.

2. Authority to purchase is decentralized in periods when declining prices are expected and purchases are made on a hand-to-mouth basis.

3. Finally, purchasing is decentralized when little appreciable savings could be realized through centralization or when materials are purchased in very small quantities.25

Decentralization of managerial authority to make purchases is not frequently found in single-plant companies and companies that have several plants in the same general locality because of duplicating activities.

Even where decentralization of purchases is made, there is often a centralized purchasing staff. A director in charge of purchasing is located in the organization headquarters and is responsible for establishing basic procedures and policies.

A Buyers' Guide has been prepared by purchasing agents' offices in some large companies for release to line management personnel. The Buyers' Guide is used for procuring materials

25 Ibid.
and supplies that are needed in local operations. This is a type of decentralized purchasing. One large company that uses a Buyers' Guide says that 67 per cent of its purchases are made by personnel away from the home office. The objectives of the Guide are to simplify and decentralize routine ordering activities by allowing the user to place orders directly to the supply sources that were established previously by the purchasing department. When authority to make purchases through using the Buyers' Guide is decentralized, control is maintained by audit from central office of vendors' invoices and field audit of ordering points.  

Miscellaneous Functions

The traffic function is usually decentralized when shipping is accomplished directly from the supplier to the branch plant or from branch plant to the customer. Some activities are centralized, though. Examples of these are basic policy formulation, negotiation with carriers, and rate studies. Centralization of authority will exist where continued flow of production is dependent upon an efficient system of routing among production units.

Specialized functions such as legal, insurance, real estate, patent, and research frequently are centralized because they are staff functions serving other units and management. Research may, by its very nature, require a

26 Ibid.
degree of decentralization but usually because of the high expense involved remains centralized.²⁷

Functional Versus Federal Decentralization

In the early 1920's, Sheldon was writing in England about decentralization of authority in companies on a functional basis.²⁸ Dutton, in his *Principles of Organization*, 1931, stated that organizational control over authority was originating solely in the top levels of management and subordinate managers had little chance to further delegate. These managers were allowed only to follow orders from higher management. What companies needed was some type of organization that would give the various units of the business real managerial power.²⁹

The previous discussion centered around activities and functions that lent themselves more or less to decentralization. Where organization is accomplished by types of functions, similar activities are grouped together into one common function. The function of production, for example, can be either highly centralized or decentralized. The authority a manager has over policies, practices, specified processes, or any matters


that relate to activities involved in performing a certain function is known as functional authority. 30

Drucker, one of the more critical writers about management today, states that neither functional nor geographic decentralization offer the best means of truly decentralizing managerial authority. He states that what enterprise needs is a new type of organization that gives all parts of the business genuine managerial powers over many functions.

This principle is federalism, in which the whole of the enterprise is conceived as made up of autonomous units. The federal enterprise and all its units are in the same business. The same economic factors determine the future of the whole as well as of all units; the same basic decisions have to be made for all of them; the same kind and type of executive is needed. Hence the whole requires a unified management in charge of the basic functions; the decision what business the enterprise is in, the organization of the human resources and the selection, training and testing of future leaders.

At the same time, each unit is a business itself. It produces its own products for a distinct market. Each unit must therefore have wide autonomy within the limits set by the general policy decisions of the management of the whole. Each unit has to have its own management. The local management will be primarily an operating management; it will be concerned mainly with the present and the immediate future rather than with basic policy. But within a limited scope it will have also to discharge real top-management functions. 31

It is difficult to achieve the autonomy by decentralization of authority in corporations that are organized on a territorial

30 Koontz and O'Donnell, op. cit., p. 1147.

or functional basis contrasted to those organized on a federalistic or product basis. Federal decentralization brings several different functions together. Authority is delegated to a manager who operates his division in a semi-autonomous fashion.  

The Du Pont Company formerly had an organization that was strongly centralized along functional lines. Considerable diversification of operations took place following the First World War. Now authority is "decentralized by products and type of manufacture with a general manager or president, if a department is operated as a separate subsidiary, in charge of all operations for a particular group of products."  

According to Drucker, functional decentralization of authority establishes integrated units that have a maximum responsibility for major and distinctive stages in the business process. Although these units are separated in operations, they are not completely independent of other functional units because they do not earn separate profits. Functional decentralization gives the unit manager and the personnel of the unit an opportunity to work together as a team in "separate operation centers free from the close control of higher management."  

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An example of this operation center type of organization is illustrated if branch "B" makes the glass parts used by branch "A," The process of glassmaking is a distinct operation. Branch "B" has managers over its own plant, even though the entire production of the plant goes to branch "A" at another location.

Federal decentralization organizes the various activities into separate and distinct product businesses that have their own independent markets and are responsible for making a profit. The main feature of distinction in federal decentralization is the establishment in each product division separate profit centers that test their ability to compete with other profit centers in the parent corporation and with those of other organizations.

Federal decentralization with its profit centers is complementary to functional decentralization with its operation centers, rather than competitive with it. Whereas functional decentralization builds a manager's sense of responsibility and independence through giving him authority and freedom of action, federal decentralization gives him additional feelings of responsibility and independence derived from competition in the open market. 36

The federal type of decentralization is a relatively new development in organization in American companies. Only a few corporations such as the classic examples of General Motors Corporation, General Electric Corporation, Sears, Roebuck and Company, and Du Pont were using federal decentralization prior to 1930. Drucker made the first

36 Ibid.
major study of corporation federalism by recording operations in the General Motors Corporation in 1946. Although federal decentralization has grown slowly, companies that have tried it were eminently successful. One of the reasons that it has grown slowly is the lack of experience managements have had with it. 37

Another reason why federal decentralization has grown slowly is the concern top management has for mistakes that may be made by junior executives when they acquire authority to make decisions. This reason is often invalid upon closer examination.

For example, the chief executive in one company was worried that if authority was delegated to a purchasing agent, costly errors would result. Upon closer examination, it was revealed that the most expensive error the purchasing agent could make would be $100,000, but it annually cost the company $142,000 in forms that needed to be filled out, executive time spent in checking the work of the purchasing agent, and all the other precautions taken to insure against any possible error on his part. There were additional possible losses because of purchasing decisions that were delayed. Thus, the possible losses that could be sustained from independent decision-making were not equal to the expenses and losses the corporation incurred resulting from the checkup procedure on the purchasing agent. 38

37 Ibid.
The most common way of evaluating the results of decentralized federal departments is measuring the success they have in earning a profit.

The number of units sold, the sales in dollars, and selling expense per unit afford additional standards for evaluating the performance of a division that is responsible for sales activities. However, these data should be judged in relation to market conditions.

If the division produces the product but does not manage the selling, the cost per unit and the total expenses of a division might be used as a partial criteria of successful management.39

The Corporation Philosophy

One of the factors that has great importance in deciding how much managerial authority will be centralized and how much will be delegated to lower levels is the corporation philosophy. The type of thinking done by former managers and current managers give the corporation its truly distinctive personality. A corporation philosophy may have had its roots in the founding of the organization many years ago and it may still cling to the same principles whether they be good or poor.

A management philosophy can be either conducive toward decentralization or it may cast a negative shadow over attempts to delegate authority to lower levels. McGregor illustrates past thinking done by managements in forming individual philosophies and contrasts this thinking with the ideal philosophy that encourages decentralization of authority:

39 Owens, op. cit., p. 142.
The conventional conception of management's task in harnessing human energy to organizational requirements can be stated broadly in terms of three propositions...

1. Management is responsible for organizing the elements of productive enterprise—money, materials, equipment, people—in the interest of economic ends.

2. With respect to people, this is a process of directing their efforts, motivating them, controlling their actions, modifying their behavior to fit the needs of the organization.

3. Without this active intervention by management, people would be passive—even resistive—to organizational needs. They must therefore be persuaded, rewarded, punished, controlled—their activities must be directed. This is management's task. We often sum it up by saying that management consists of getting things done through other people.

Behind this conventional theory there are several additional beliefs—less explicit, but widespread:

4. The average man is by nature indolent—he works as little as possible.

5. He lacks ambition, dislikes responsibility, prefers to be led.

6. He is inherently self-centered, indifferent to organizational needs.

7. He is by nature resistant to change.

8. He is gullible, not very bright, the ready dupe of the charlatan and the demagogue. 40

McGregor goes on to present a new management philosophy which is conducive to authority decentralization:

1. Management is responsible for organizing the elements of productive enterprise—money, materials, equipment, people—in the interest of economic ends.

2. People are not by nature passive or resistant to organizational needs. They have become so as a result of experience in organizations.

3. The motivation, the potential for development, the capacity for assuming responsibility, the readiness to direct behavior toward organizational goals are all present in people.

Management does not put them there. It is a responsibility of management to make it possible for people to recognize and develop these human characteristics for themselves.

4. The essential task of management is to arrange organizational conditions and methods of operation so that people can achieve their own goals best by directing their own efforts toward organizational objectives.

This is a process primarily of creating opportunities, releasing potential, removing obstacles, encouraging growth, providing guidance. It is what Peter Drucker has called 'management by objectives' in contrast to management by control. It does not involve the abdication of management, the absence of leadership, the lowering of standards.41

Prior to the advent of the Second World War, much management thinking was along the lines expressed by Diemer:

There is danger in carrying this idea of decentralization too far, because there are always certain types of men who when given an inch will take a mile, and they are apt to set themselves up as autocrats with all the despotism of the ruler of Abyssinia unless advance restrictions are made as to their following the office, production-control, and personnel methods set up by the staff and functional authorities.42

It appears from this quotation that in actuality, Diemer is defeating his own argument. The traditional despotic industrialist, labeled as a "tycoon," "big boss," and "magnate," received the slang title because he publicly had a reputation for keeping managerial power extremely centralized.43

41 Ibid., pp. 88-89.


43 Petersen and Plowman, op. cit., p. 282.
There are two primary organizational philosophies, between which there are various gradations and adaptations. The philosophy of the executive that demands extreme centralized authority may be compared to the authority concentrated in a dictator or a monarchist while the basic philosophy of those advocates of decentralized authority adhere in principle to a democratic or representative philosophy. 

Professional managers such as William B. Given, Jr., Alfred P. Sloan, Charles McCormick, Ralph J. Cordiner, and Crawford H. Greenewalt are proponents of decentralized managerial authority. They emphasize that if managerial decentralization of authority is going to work, the people who have positions of management status need to have a practical and sound management philosophy which includes the mastering of delegating.

Decentralization of managerial authority is most effective if the entire management team is thoroughly indoctrinated with a mutual set of objectives, principles, policies, and standards to measure results.

A management philosophy provides a basis for self-development and education of managers in using and accepting the delegated authority from superiors. It thus creates an attitude of co-operation through participation. An end

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\(^{44}\) Spriegel and Davies, *op. cit.*, pp. 75-76.
result of using a philosophy of mutual thought as the basis for managerial decentralization is called a "unity of doctrine." Without the integrating influence of a unity of doctrine, managerial decentralization of authority is not feasible.

The nature of the top executive level philosophy in many companies has a dramatic influence on how decision-making will be accomplished. In recent years, more corporations have adopted decentralization in decision-making as a method of organization. These companies include the very largest corporations in the country such as General Motors, Du Pont, Sears, Roebuck and Company, Ford, General Electric, and International Harvester. Medium-size companies include Sylvania Electric Products, American Brake Shoe Company, and the Sperry-Rand Corporation. The top management philosophy has had much to contribute to the financial success of these companies and help convince other managers that adopting decentralization of authority techniques will help improve their economic positions. Perhaps a statement typical of these companies is expressed by the board chairman of Sears, Roebuck and Company, Robert Wood:

We complain about government in business, we stress the advantages of the free enterprise system, we complain about the totalitarian state, but in our industrial organizations, in our striving for efficiency, we have created more or less of a totalitarian organization in industry—particularly in large industry. The problem of retaining efficiency and discipline in these large organizations and yet allowing our people to express themselves, to exercise
initiative and to have some voice in the affairs of the organization is the greatest problem for large industrial organization to solve.45

Current and Potential Capacities of Managers

Another factor that will influence a decision of whether to decentralize managerial authority is the competence and potential capacity of managers to assume responsibility. Primary importance is placed in the chief executive, though, if he combines policy-making with detailed control and supervision, if he maintains close contact on subordinates, if his intentions are easily communicated or are known by subordinates, managerial authority will probably be highly centralized in the chief executive. Authority may be decentralized, though, if the top executive prefers delegating a large portion of his authority so that he may concentrate on just one or two major functions of which he has superior knowledge compared to other executives.

The extent of decentralization of authority will also depend on the competence of other company executives and the attitudes they have toward the top executive. Delegation will more likely take place where subordinate executives are assured of having confidence from top management.46

The executive manpower factor needs to be given attention before any attempts are made to decentralize. The number of managers involved varies with the situation whether it be

46 Ibid.
growth of the company or geographical dispersion. Reorganizing functions will cause a shift to be made in managerial requirements and capacities of those managers who have a specialized background and others who have broad backgrounds of general experience. In order to make sure the company has managers with experience and specialized backgrounds, the current group of executives should be appraised and inventoried, and the company's future requirements need to be estimated. Programs for selecting new potential management material and self-development of present managerial personnel may be desirable.

A company needs executive personnel who are trained and have the ability to receive delegated authority before decentralization can take place.

Influence of External Factors

There are several external conditions that may influence a company's plans to either centralize or decentralize authority. They are broadly classified as government influences, economic conditions, competition, and trade unionism. These influences help point out the truism of the dynamic changes corporations undergo from time to time in recentralizing authority once decentralized.

The government exerts influences over corporations in several ways. Primarily, the restrictive high corporation tax laws require the finance function to be centralized. Tax laws are designed for revenue purposes rather than regulatory
measures, but they have a very definite regulatory effect on corporations. The federal income tax collector is interested in every business executive who makes decisions involving funds. Uniformity in tax policy is a prime consideration to all company managements. The influence of the government in this area means that authority over this function is highly centralized since subordinate managers could not be expected to make decisions accurately concerning profits without having specialized tax advice.

Another governmental restriction may be in the form of price controls. If a company's prices are subjected to governmental regulation, sales managers will not have much freedom to determine them. When a corporation's materials are allocated or restricted by the government, the purchasing agent has little freedom to buy them.

The restriction on decentralizing authority may not be absolute because of government controls. Considerable authority might still be decentralized. But the company top executive finds that he dare not trust subordinates with interpretation of government regulations. This is especially true because of the severe penalties imposed for breaking the law and because of adversely affecting public opinion. Thus, interpreting what is and what is not lawful behavior is in the home office's area of authority.

Centralizing and decentralizing authority shift between home office and the field as economic conditions vary.

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Usually, in periods of depression, many managerial activities formerly decentralized are drawn back to the home office where closer control can be exerted. In periods of expanding economy, the reverse is true because there is not as close control over corporation profits.

An example of centralizing and decentralizing authority during economic conditions may be illustrated in a company's sales force. In a buyers' market, the sales force activities would be decentralized while in a sellers' market, it would be highly centralized. 48

Competitive factors affect the centralization of authority also. Where competition is very keen and profit margin is small, managerial authority is likely to be centralized over sales activities.

Certain personnel activities are highly centralized. Centralization has been forced upon corporations in activities allied to collective bargaining contracts by government regulations and by trade unions. Other areas which are sensitive between managements and trade unions and require centralization of authority are wage and salary administration, merit rating, and job evaluation studies. 49

Maintaining Control Over Decentralized Authority

As corporation headquarters relinquish more and more authority, it changes from the operations of directing

49 Koontz and O'Donnell, op. cit., p. 209.
activities to those of coordinating them. One of the dangers of decentralization of authority is that authority may be passed too freely from the central source to subordinate managers and these subordinates may lose sight of the general objective of the corporation. On the other hand, if authority is highly centralized, subordinates may lose sight of specific conditions affecting corporation operations.50

One of the most effective ways of retaining control over decentralized units is through control of profits of those units. This is a very effective method where product or federal decentralization is used. Managerial decentralization achieved through profit control is superior to other alternative devices used for maintaining control.51

The centralization of control requires the centralization of authority in a corresponding degree. But the existence of a central authority and control does not necessarily indicate centralized control. This depends entirely on the manner in which control is exercised.

With decentralized control, the central authority extends its control to some organization unit at a lower level of responsibility and authority. This unit, to which the necessary authority has been delegated exercises control over the functions for which it is responsible. With centralized control the central authority extends its control directly to the point of performance.52

50 Anderson and Schwenning, op. cit., pp. 250-251.

51 Ireson and Grant, op. cit., pp. 61-62.

52 Ralph Currier Davis, Industrial Organization and Management (New York, 1940), p. 117.
As decentralization of control increases, there is an increasing separation of operative control and administrative control. Top executives of large corporations are then chiefly concerned with the administrative controls over their corporation's work. The amount and the scope of delegation has to increase as the corporation grows. Some executives, though, cannot delegate without losing control over activities they manage.53

Centralized control may be provided for in several different ways:

1. A company may have what is called centralized programming. Top level executives establish company objectives for production by consulting interested divisions so that a logical relationship is maintained to sales, return on investment, and inventories that have to be carried. Performance standards are established for each division. Each division operates under four economic factors: (1) business cycle variations, (2) long-term growth, (3) competition, and (4) seasonal fluctuations. The planning of long-range goals is done centrally with the various divisions being consulted.

2. Divisional managers may be denied the authority to make certain basic decisions such as prices of products, capital expenditures, salary changes over a certain level, union contracts, and bonuses.

3. Centralized control may also take the form of providing general staff services at the home office regarding

new techniques, methods, uniform practices, and future policies. This service may be on a basis that allows division managers to use it at their discretion. They are free to use the special staff services provided through personal contacts, periodic conferences of all divisions, bulletins, and meetings.

4. Centralized accounting control may be maintained by an auditing staff located in the home office, by measuring costs and expenses of each division and comparing one division against the other to evaluate effectiveness, by measuring and comparing what the rate of return is on invested capital, and by study of the market to determine market standing of a division's sales and finding what percentage their share is of the market.

The degree of decentralization of authority in any organization is determined by weighing the factors presented in this chapter. The primary factors which indicate how much authority will be delegated include the size of the corporation, the kinds of activities and functions conducted in the enterprise, the philosophy of management toward decentralization of authority, the ability of managers to accept authority, external forces, and the extent to which control can be maintained over decentralized authority. A more complete summary of Chapter III is presented in the concluding chapter.

54 Dale, op. cit., p. 106.
CHAPTER IV

CASE STUDIES OF CORPORATIONS THAT DECENTRALIZED MANAGERIAL AUTHORITY

Perhaps one of the better ways to understand what decentralization of managerial authority accomplishes is to review the results obtained by several successful corporations in this country. This discussion is not limited to just the large corporations, but it also includes medium-sized companies, companies which are widely dispersed physically, and those whose operations are primarily carried on at one location. No attempt will be made to present an entire history of a company's organizational structure and activities carried on in that company. Instead, pertinent information that demonstrates how decentralization of authority operates and the derivative benefits to that company will be given.

General Motors Corporation

The classical example of successful decentralization of authority is found in the General Motors Corporation. One of the first companies to decentralize on a production basis, General Motors is a phenomenal example because of its size and because of the philosophy that it has practiced for more than three decades. General Motors Corporation

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policy of decentralized managerial authority through production divisions stresses decentralized operations and decentralized authority with coordinated control over semi-autonomous divisions being retained in the top management level of the corporation. According to General Motors, this policy means that managers of operating divisions are subject to broad corporate policy but are left with the authority to make decisions according to how their division is organized.

Several advantages the company has realized from decentralization are as follows:

1. There is greater speed in decision-making.

2. There are fewer conflicts in decision-making between the operating divisions and top management.

3. There is a lack of political maneuvering in the organization because each manager has a feeling of being treated fairly in his association with top executives, and he has confidence that when a job is done well it will be appreciated.

4. There is more democracy and informality in management.

5. There is no gap between the organization's top management and subordinate managers in the company.

6. A large reserve of managerial manpower is available for promotion.

7. Weak managers are detected by reviewing results from semi-independent competitive divisions.
General Motors is divided into several divisions such as Buick, Chevrolet, Pontiac, Frigidaire, and Allison. They are operated similarly to independent businesses but conform to broad corporation policies. Each division designs, manufactures, and sells the products it makes. Each division purchases materials and parts from other divisions or from outside sources. There is freedom to make purchases wherever the division can find suitable products at the lowest price. Each division has authority to hire and train employees, develop and maintain individual line and staff organizations, and decide what manufacturing methods and processes will be used.\(^1\) Several divisional managers at General Motors estimated that 95 per cent of decisions reflecting upon operations were under the divisional manager's area of authority.

Decentralization of authority is pushed as far down in the division as possible. The philosophy of decentralized authority permeates the organization because of the leadership of division managers. In fact, many top executives come from divisions that have given them experience in managerial duties through decentralized authority.

The top level of management has centralized authority over main policy formulation. Line executives are responsible for most of the policy-making while staff departments

serve as advisory groups. Control over policies pertaining to financial matters is more highly centralized than policies pertaining to operations. Major matters of financial nature are reserved by the board of directors.

Combining decentralized authority with the degree of centralized authority necessary to accomplish control is one of the major reasons for the success of General Motors. Perhaps the most important of these centralized controls relates to finance. Auditing controls are placed at the very highest level, in a position independent of the management at other levels.\(^2\)

Definite limitations of authority over certain activities are imposed on divisional managers. Such activities include capital expenditures, union contracts, product lines and pricing of products, bonuses, and changes in salaries above certain levels. Authority over these activities is centralized in top management.

The formula for success through decentralized authority at General Motors is illustrated in the following statements:

1. Top managers of the corporation have encouraged decentralization of authority by combining independence in divisional managers with coordinated activities through centralized major policy control.

2. The company practices competition between divisions.

3. Centralized control is maintained over decentralized authority.\(^3\)

\(^2\) Koontz and O'Donnell, op. cit., pp. 210-213.

\(^3\) Ibid., pp. 214-216.
Johnson and Johnson Company

Largely as a result of decentralization of managerial authority, sales at Johnson and Johnson Company grew from twenty million dollars in 1932 to 243 million dollars in 1954. 4

The extent of decentralization practiced in the Johnson and Johnson Company has been called "extended autonomy." This company's plan of decentralization of authority goes further than product divisions. Johnson and Johnson Company is composed of many units that operate as legal profit-and-loss independent entities. Each unit is operated and managed separately. The manager of the unit is responsible for all functions and activities such as product design, plant construction, industrial relations, and marketing. The unit manager has the full authority of small plant managers or owners.

To illustrate how much authority has been delegated to managers, General Johnson, chairman of the board, sent a new man to Brazil and Argentine to establish a South American factory for the company. During thirteen years, General Johnson had written just twelve letters to the man and six of those letters were notes wishing the manager a merry Christmas.

Johnson and Johnson Company is organized into thirty-two operating companies. The various company managers submit

annual sales forecasts to the home office in New Brunswick, New Jersey. The home office controls general policies over labor relations and capital investments. Otherwise, managers are left free to make decisions over their units. 5

Other Companies

Several other case studies are presented to demonstrate to the reader how decentralization of authority is applied in different companies.

The Borden Company

In some instances it is desirable for a company to carry on certain activities with decentralized authority and others highly centralized. For example, the Borden Company conducts its business with what it calls a flexible operating plan.

This requires the conduct of the company's business on a local community basis wherever practical, without discarding centralized direction if conditions make this necessary. Wherever the business is localized, i.e., where it serves local customers and depends mainly upon local suppliers, control is vested in local management; but in other phases of the company's activities, where close coordination is essential for efficient country-wide operation, centralized management is preferred. . . . An example of centralized control, as exercised in several divisions, may be found in the company's evaporated milk operations. Borden plants in about a dozen states manufacture a product that is sold on a nation-wide basis, and the direction of production and distribution would not be improved through decentralization. In fluid-milk and ice-cream divisions, however, there is a different situation that lends itself admirably to decentralized operation. Every milk market is unique; it has

its own pattern of consumer wants, its own board of health regulations and systems of buying from producers, its own established practices effecting processing and distributing operations from farm to home. In his own community, the manager of a fluid-milk or ice-cream plant operates it very much as an owner-manager, being subject only to the broadest over-all policies of quality and service. By vesting authority in a responsible local representative, the company prevents the problems of remote control. 6

_Sylvania Electric Products, Incorporated_

_Sylvania Electric Products, Incorporated, uses decentralization as an effort to keep manufacturing plants small. They have used line authority in the field whereas functional authority remains at headquarters. Sylvania plants range from 230 employees in the smallest plant to 2,900 employees in the largest, but all except five plants have less than 1,000 workers.

_Sylvania finds that decentralization of authority through physical dispersion of activities has helped improve and hasten executive development and has improved public relations._ 7

_Rheem Manufacturing Company_

_The Rheem Manufacturing Company started a program in 1952 of decentralizing its management hierarchy. Rheem has no national headquarters. The president of the company_

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maintains two offices, one in Richmond, California, and the other in New York City. The industrial relations and general purchasing executives are quartered in Chicago while the international vice-president has his office in New York City. The senior vice-president and general manager and the national advertising manager are located in Los Angeles.

Rheem adopted this method because of the wide dispersion of the company’s manufacturing plants.

Standard Oil Company of New Jersey

Standard Oil Company of New Jersey operates through about 125 subsidiaries and affiliate companies. Each of these companies has its own board of directors and officers that are responsible for their own individual operations. There is maximum opportunity for independence in thinking and expression of judgment and authority.

The parent company controls these many companies through its directors and an Executive Committee. They confine their work to the review of the results which the member companies have shown. Five of the twelve directors on the Jersey board of directors form the Executive Committee. Four are permanent members while the fifth is temporary and is chosen for a certain period of time by the other four members.

A Coordination Committee of fourteen members is composed from managers of operating departments of Jersey plus two

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executives from the subsidiary companies. The chairman and vice-chairman are directors. The primary purposes of this committee are of a study and advisory nature. 9

Blaw-Knox Corporation

The Blaw-Knox Corporation manufactures over 250 different products. For example, it makes television towers, open-hearth furnace doors, milk evaporators, and cement mixers.

While the former management doctrines were mass diversification, the nine divisional managers carried on their daily operation as if they worked for competing companies. This competition was far different from the type associated with Buick and Oldsmobile product divisions at General Motors.

A new president took over operations at Blaw-Knox in 1951. He found that the company did not even have a job description manual and that managers did not often know what they were supposed to be doing.

It was evident that the company was suffering from too great decentralization of managerial authority without adequate centralized control over operations. To remedy the situation, all of the separate companies were merged with the main company. 10

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Ford Motor Company

In 1946, the Ford Motor Company was losing nearly nine million dollars a month. Operations of the sprawling out-dated empire built by Henry Ford, Sr., were controlled by a handful of men in Dearborn, Michigan. Responsibility and authority were confined to these men alone.

It became apparent that drastic action would have to be undertaken, or the company would face bankruptcy. Ford Motor Company, under the leadership of Henry Ford, II, began a program of managerial decentralization of authority. This program enabled Ford to "draw upon the intelligence, the skill and initiative not just of a few over-worked executives, but of thousands of capable men all down through the ranks of the organization."11

The five steps Ford Motor Company used in reaching their goal of decentralized managerial authority were:

1. Top management had to be relieved of the burden resulting from routine operations.

2. Policies had to be provided for guiding management.

3. A definition of functions had to be made for each operating unit of the organization and authority and responsibility had to be delegated to unit managers if they were to be expected to do an effective job.

4. There must be a provision of necessary management tools for executives and supervisors.

5. A means for measuring performance had to be established.  

In summarizing this chapter, it may be said that there are many reasons which indicate a basis for greater decentralization of managerial authority. But the road to decentralization is not an easy one. Along it will be found resistance in various forms. Corporation tradition where managers grew in status under one-man supervision is likely to perpetuate itself in future executives. Delegation of decision-making may be costly. There are training expenses and possible losses from mistakes made by junior executives. Finally, delegation and decentralization of authority may imply a loss of prestige and power to some executives and may be strongly resisted.

The size of a corporation usually indicates that decentralization is being carried on to some extent. But the factor which comes nearer making decentralization work is the attitudes of top management or their philosophy of delegating authority to trained subordinates so that these subordinates may be managers in the real sense of the word.

12 Ibid.
CHAPTER V

THE HUMAN RELATIONS ASPECTS OF DECENTRALIZATION OF AUTHORITY

The importance of the human factor and its relationship to decentralizing authority cannot be stressed too greatly. In actuality, decentralization is accomplished through the efforts of managers and workers. Without their co-operation, any attempt to decentralize authority would be thwarted in the earliest stages of planning.

The material included in the previous chapter has placed emphasis on factors which indicate a basis for more or less decentralization of authority. Although those factors in many cases were influenced by company managers and workers, they detailed conditions of and benefits to the corporation in toto.

The human resources of any corporation are the greatest assets of that corporation. Decentralizing authority affords the fullest development of the human element and can be classified beneficial to both the corporation and the individual worker or manager. Through a process of delegation, a condition of decentralized authority allows the manager to be a full manager in the real sense of the word. He shares in all of the rights of planning, organizing, and controlling,
given to top management in its power of authority to guide the company's operations.

The human dignity of the manager and the worker more nearly approaches realization when each is given a job, challenging in nature, and requiring superior performance. Decentralization provides that type of challenging job. McGregor has pointed out that it is a fallacious assumption that workers do not want to work and that they work only when motivated by management through persuasion, reward, and punishment. Instead, he contends that workers are continually motivated without any aid from managements, but their motivation is stifled because their jobs are not challenging. To remedy the situation, management has become addicted to using sugar-coated rewards of profit-sharing plans, bonuses, incentive programs, and many other methods they believe will make the manager and worker produce more efficiently.¹

The following discussion is conducted under two broad classifications. The first is primarily interested in applying decentralization of decision-making authority to the manager and to the worker. An analysis is made of the beneficial results to both employees and the company through decentralization. The second portion of this chapter will cope with the problem of over-specialization that faces many companies of today and how decentralization of authority may help solve the problem.

¹ McGregor, op. cit., pp. 88-90.
Participation in Decision-Making

As one manager put it, "I want a job which gives me a chance to accomplish something—to use my talents, whatever they are." Managers want a feeling of significance and attainment, yet extreme complexity and bigness in modern industry often give middle managers and foremen a sense of frustration and loss of significance. Their human dignity is challenged because they feel that they are merely order-takers and paper-shufflers without real authority and responsibility. Decentralization is one of management's most effective measures to combat this loss of dignity and inferior sense of responsibility.²

The loss of dignity mentioned in the above quotation in reality extends much further than just the first level supervisor. In recent years, management has begun to wake up to the fact that the potential resources locked up in the production line worker as well as the lower management levels must be released to the fullest if the American standard of productivity is to increase significantly year after year.

Decentralization of authority plays an important role in improving employee morale and setting an atmosphere conducive to higher production rates. Adequate wages and good employee benefits by themselves do not necessarily create better morale among employees. Employee benefits and material rewards are of importance to morale only as far as they are associated with the attitude of management toward workers. If it is evident that management has little

concern with employee welfare, neither liberal benefits nor high wages engender a positive type of morale.

Employees look for the opportunity to exercise and develop their abilities and skills. They also want to be associated as part of a company that appreciates their efforts and talents. Although morale is usually higher in the smaller organization where there is greater personal relationships between management and the worker, large organizations can realize the benefits in high morale and efficiency through a program of decentralization of authority where the worker has the discretion to make decisions affecting his work station.³

Where organizations are large and complex with many different activities being carried on, individual supervisors and workers are subject to constant direction, and they seldom have opportunities to develop qualities of self-reliance and initiative. In the organizations that are characterized by wide decentralization of authority, a primary reliance is given to personal capacity and initiative of the manager and worker. There is a noticeable lack of supervision that is detailed with formal controls, thus permitting both managers and workers to maintain greater freedom in the methods they utilize to accomplish their jobs.

Under this system, employees are primarily judged on results. Top management is concerned with the ultimate

results of the organization's operations and it becomes alert in recognizing and rewarding good performance. Furthermore, this type of administration contributes strongly to esprit de corps and morale because the atmosphere in which employees work is free from oppressive supervision. Each worker has a sense of personal responsibility and individual importance that is often denied through an organization where authority to make decisions is highly centralized in a few key executives.

McGregor states that to provide the atmosphere conducive to improved morale through decentralization of authority it is first necessary to understand the needs of workers and then satisfy those needs. Employees have four basic categories of needs.

1. Physiological needs are the first and easiest to be satisfied. This group would include the provision for adequate food, shelter, and clothing. Rarely, in our economy, does this need attain a very large perspective in comparison with other needs. Compensation for employees' efforts soon eliminates this need. Worker attention then turns to the second group of needs.

2. After physiological needs have been satisfied, employees seek to satisfy their safety need. Primarily this

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is manifested in job security. Once again, management has largely satisfied this basic need so the attention of employees is focused on the third and fourth groups of needs which are the most difficult to satisfy.

3. The social need of employees is rarely reached although different companies may come closer to providing for this need than do others. Social needs include individual satisfactions from harmonious group inter-relationships at work stations. To provide an atmosphere where the worker is accepted by the group, and in turn accepts the group, is truly a complex task.

4. The final group of needs pertains to the worker's ego. This category is the hardest to satisfy. Egoistic needs are of two kinds. The first kind includes those needs which relate to one's self-esteem. They are needs for independence, self-confidence, competence, achievement, and knowledge. The second sub-classification of ego needs relate to an individual's reputation. They include the need for recognition, the need for status, the feeling of being appreciated, and finally the respect due from fellow employees. Egoistic needs are seldom satisfied, and it is in this area that management often completely overlooks the opportunity to improve employee morale while attaining company objectives. Ego needs can be satisfied, in part, through delegation of decision-making to the employee.5

The desire for independence by an employee is fulfilled when that employee is given authority to complete the various different activities of his job. Perhaps the trend toward specialization has had adverse effects upon the employee's efforts to gain independence in his job. Specialization often denies a real sense of accomplishment. 6

Employee self-confidence is furthered when an employee knows that management has confidence in his ability to make decisions affecting his job. The feeling of competence in turn is instilled through the day-to-day repetitious performance of one's job. Through decentralization of authority, an employee senses real achievement because the job takes on aspects of being a challenge. Finally, the desire of a worker to increase his knowledge is culminated when he has maximum authority to make decisions affecting the job. He is encouraged to learn not only more about his own particular job but also the relationship of his job with others. The needs of the worker for recognition, status, appreciation, and respect are more nearly realized when the worker is given maximum authority over the planning, organizing, and controlling of his job. 7

The question is raised why companies may find it advantageous to decentralize authority down to the worker

level. That is, what are the benefits which accrue to an organization whose managers make participation in decision-making possible to subordinates? An answer to this question would depend upon the criterion that guides a manager's choice of whether to delegate authority to make decisions or keep it centralized. The manager of a business who performs rationally will make a choice from different alternatives and will select the alternative that maximizes results at a certain cost or the one which attains desired results at a lower cost. By using this criterion in deciding whether to delegate decision-making authority to the worker, a manager finds it advantageous to delegate authority whenever such delegation leads to increased results obtained at a certain cost or attainment of desired results at a lower cost.

The following advantages may be realized through the decentralization of decision-making authority down to the worker level:

1. There will be a higher rate of production and a higher quality of product because of increased personal attention and effort from workers.

2. There will be a reduction of absenteeism, turnover, and tardiness.

3. There will be a reduction in grievances and a more harmonious manager-subordinate relationship.

4. Employees will accept change more readily. This is an important factor since changes in production and office methods occur continuously at the present time. Procedural
changes that are arbitrarily introduced from higher levels of management without explanation to subordinates tend to cause a feeling of insecurity in subordinates. Often, employees will sabotage the new innovations with countermeasures if they are not informed of the change. When they are allowed to participate in decision-making involving changes, they know what is going to happen and why. They may even desire the change. Resistance from employees toward new changes will become intelligent adaptation when their insecurity is supplanted with security.

5. There will be a greater ease in managing employees if they are allowed to share in decision-making. Fewer managers will be needed because supervision will not be as severe. Employees who participate in decision-making over matters that directly affect them have an increased sense of responsibility toward the performance of their jobs.

6. There will be an improvement in the quality of manager decisions. Seldom do managers possess knowledge of all consequences and all alternatives relating to decisions they make. Through the existence of barriers that retard an upward flow of information from workers to superiors, much of the valuable information subordinates possess will never reach their superior. Participation in decision-making has a tendency to break down the barriers, thus allowing the information to be made available to the manager.
Such information from subordinates may alter decisions of the manager and improve the quality of those decisions.  

There are certain conditions that need to be present, though, before authority is decentralized. They are as follows:

1. A final decision should not be of an urgent nature. When it becomes necessary to reach a decision rapidly in an emergency, it is evident that even though decentralization of decision-making has beneficial effects in other instances, slowness in reaching a decision can result in thwarting enterprise goals or it may even threaten the existence of the organization.

2. The cost of decentralizing decision-making should not be so expensive that it outweighs the positive values derived from it. If the decisions require outlays of money that could be used to better advantages, such as buying equipment that is more productive though expensive, then decentralizing authority for making such decisions would be ill-advised.

3. Whenever subordinates are delegated authority to make decisions, they need to be informed that there is a certain latitude of permissible failure on their part. Before a subordinate is willing to participate in decision-making, it is necessary to establish the fact that his job and status in the plant will not be adversely affected by what he says or thinks.

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4. Giving subordinates the opportunity to participate in decision-making should not seriously threaten to undermine any formal authority that managers possess. In some cases it is possible that participation may cause subordinates to question the competence of their manager or a case may arise where subordinates were correct in their decisions while the ultimate decision of the manager was in disagreement with theirs and proven to be incorrect.

5. The provision of opportunities for participating in decision-making should not allow leaks of information to be made to competitors. If participation is to be achieved, such leaks need to be avoided.

6. Channels of communication need to be established through which employees receive and dispense information in the decision-making process. These channels need to be continuously available for subordinates' use, and they need to be both convenient and practical.

7. For participation in decision-making to be effective, efforts need to be made in educating subordinates of the purpose and function of decentralization of authority and how it applies to realizing the overall objectives of the company.9

Decentralization of decision-making authority may be made on a group basis where the members of a work group are

9Ibid., pp. 226-227.
consulted for a decision affecting their jobs. Such an approach is called a "group-dynamics" approach.

According to the exponents of the group-dynamics approach, the benefits of group decisions are therefore to be obtained only within the framework of a democratic group structure in industry which, it is claimed, is the key to reduced labor conflict as well as to increased production. In this connection, there arises immediately a series of questions concerning the way in which such a democratic group structure can best be achieved. Involved also is the question as to whether employee participation should (and can) be limited to decisions on production problems or should include a large variety of plant problems of concern to employees as well as to management.  

Other areas of employee participation in decision-making include consultative management and performance appraisal where the individual rates himself or in consultation with his supervisor establishes standards of performance. Employee participation has been carried to an even greater extreme in Germany through a process of "co-determination" where labor as well as management takes an active interest in managing the affairs of the company.  

Perhaps the ultimate in decentralization of managerial authority rests in "bottom-up management." Both authority and initiative are decentralized. Each plant, unit, and even individual feels a proprietary responsibility for

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11 McGregor, op. cit., p. 90.
activities of performing certain work assignments. The employee figures how the job may be performed best and then completes the job. He uses centralized staff assistance only when he believes it will help him and if he can realize better results from its services.

Given, chairman of the board at American Brake Shoe Company, states that this type of decentralization requires competent personnel. "Without careful selection and training, a high degree of decentralization not only would be dangerous, but in the end could bring ruin to the business."

The greatest advantage of bottom-up management is its effect on the members of the enterprise. It stimulates the employees to challenge, discover, create, decide, and initiate. Not only does this enhance the morale of the individual concerned, but it provides a dynamic force that can be made an important source of profitable operations. It provides excellent training for future executives. Also, operations are adapted to local conditions, inasmuch as both initiative and authority are thrust upon those who are most familiar with the actual operating situation.

There are certain obstacles to be encountered if a company decides to decentralize authority. Some managers will feel that their status in the organization is in jeopardy. Management can guard against this by holding meetings where managers are informed that their pay, prestige, and privileges will not suffer when decentralization is initiated.

\footnote{William B. Given, Jr., \textit{Bottom-Up Management} (New York, 1949), p. 88.}

\footnote{Smith, \textit{op. cit.}, pp. 209-210.}
Personnel dissatisfaction may be expected at first. Some managers may actually resign as the result of readjusting responsibility for decision-making and delimiting certain powers through the process of decentralizing managerial authority. Frequently, specialists find it difficult to assume new jobs that require a wider scope because they have an inadequate background or they are resistant to accepting newly found authority. It may be a frustrating experience for some managers to become accustomed to receiving authority if it has been highly centralized in just a few top executives in the past.

Since the key to decentralizing managerial authority is delegation of authority, it is appropriate to ask why managers often refuse to delegate. The most prevalent of these reasons are as follows:

1. The manager feels that no other person except himself is qualified to do the job.

2. The manager may lack confidence in the people under him.

3. The manager may have received his training under a superior that was a nondelegator.

4. The manager may not want to take the time to train subordinates or may be afraid that they will make too many errors.

5. The manager may be afraid of losing control if he delegates.
6. The manager may not understand the mechanics of delegation or know how to use it most efficiently.\textsuperscript{15}

On the other hand, subordinates may refuse to accept delegated authority. Newman reports the following reasons why subordinates refused to use authority that was delegated to them:

1. The subordinate fears criticism.
2. It may be easier for the subordinate to ask his superior for a decision.
3. The subordinate may lack the necessary resources or information.
4. The subordinate may already be overworked and feels that accepting delegated authority will be more of a burden.
5. The subordinate may not have an adequate incentive.
6. The subordinate may lack self-confidence.\textsuperscript{16}

The manager to whom decision-making authority is delegated will largely determine the success or failure of the program to decentralize managerial authority. Top management should evaluate the experience, personality traits, and background of personnel that receive authority to make sure that proper use will be made of delegated authority. It may often be

\textsuperscript{15} Edgar G. Williams, "Strategic Factors in Managerial Decentralization," \textit{Business Horizons}, XXXII (June, 1957), 76-77.

necessary to conduct a formal training program on how to delegate authority.\textsuperscript{17}

It has been shown that participation by managers and workers in decision-making has many advantages. The effects decentralized authority has upon human relations in a company, on the whole, are beneficial and to be desired. A final area of human relations that needs to be explored is the effect decentralization of authority has upon overspecialization of jobs and job enlargement.

The Effects of Overspecialization

The significance of specialization lies in increasing production through the process of breaking complex systems of operations into their smallest component parts. Quite often, the human factor is overlooked in this process. Management may lose sight of the potential each worker has to perform certain stages of planning, organizing, and controlling operations over his job. The individual worker, in turn, has little perspective of the relationship his job has to other highly specialized jobs. Even more important, the worker may completely lose sight of company objectives because of the impersonal atmosphere that exists.

There is good reason to believe that the gain in productivity achieved by overspecialization and its twin brother, overcentralization of authority, has been lost in the debilitating

\textsuperscript{17} Williams, \textit{op. cit.}, p. 77.
and enervating effects that they have had on employee morale and willingness to co-operate.

One company in the field of merchandising fostered a decentralized authority administration throughout the company. An outstanding characteristic of the organization is the high morale of its employees and managers. The company is more concerned in the over-all results of operations that it is in small details of any particular job.

Overspecialization reduces the jobs of employees to repetitive, routine tasks. There is the danger that employees will feel that their relationship to the company is only an economic one. Where this situation exists, the fullest potential cannot be realized from employees because their work contributions will meet only the standards and seldom exceed them.

Decentralization of managerial authority discourages overspecialization since workers are free to perform activities that have direct relationships to their jobs. The creative potential of workers is released when they are allowed to plan and organize their work.

The importance of the human factor in decentralizing managerial authority cannot be stressed too greatly since decentralization is accomplished through the efforts of managers and workers. Only when managers and workers have

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19 Ibid., p. 394.
requisite authority over their work will a job become challenging in nature and require their superior performance for its completion. Decentralization provides that type of a challenging job.
CHAPTER VI

SUMMARY AND CONCLUSIONS

Final Summary

A basic issue of management today is the controversial subject of decentralizing managerial authority. Through the process of delegation, authority is committed to successively lower levels of management and to the worker. The ideal situation is to allow decisions to be made at the lowest management level where managers are capable of making those decisions.

Managerial decentralization of authority is both a philosophy and a technique. As a philosophy, decentralization is a belief held by top management that all subordinate managers and personnel under them should have a maximum opportunity to develop and use their talents. As a technique, decentralization is a method of organization that permits delegation of decision-making authority to semi-independent units and individuals that compose those units.

Complete decentralization of managerial authority can never be obtained nor is it desired by any manager. Total decentralization would mean abdication by a manager of all his authority and responsibilities.
The basic problem in decentralizing managerial authority is determining the extent to which this authority can and should be delegated from central concentrations. One company may find extreme decentralization of authority more effective while another organization may require a high degree of centralized authority. It is necessary to ascertain how much authority should be delegated from the highest executive levels of management to subsequent lower levels.

Authority is the right and power to command performance. It is born in leadership. The concept of "right" and the concept of "power" are the roots of authority. Power is derived from right through a process of delegation. Society is the ultimate source of authority in this country. An intermediate source of managerial authority is the Constitution which guarantees free enterprise. Authority is released to businesses through a charter. Top management receives its authority from stockholders. The executive authority in business is the right to perform the functions of planning, organizing, and controlling the activities of the organization.

The activity of delegating managerial authority also includes a commensurate degree of responsibility placed upon the recipient. Ultimate responsibility of delegating authority still resides in the top level of management.

The primary factors which indicate how much authority will be decentralized from top management are the size of
the corporation; the kinds of activities and functions conducted in the enterprise; the philosophy of management toward decentralization of authority; the ability of managers to accept authority; external forces such as government restrictions, economic conditions, competition, and trade unionism; and the extent to which control can be maintained over decentralized authority.

Several large companies decentralize managerial authority by increasing the span of control of managers. When managers have large numbers of subordinates reporting to them, the only alternative for them is to delegate authority. Subordinates are then placed in the position to make decisions. Managerial span of control should be extended to the point where advantages of delegation are finally outweighed because of the increasing costs of additional supervision and when communication difficulties arise from too many subordinates reporting to the manager.

Decentralization of authority is often accomplished through reducing the size of the decision-making unit. Managers are then closer to the point where decisions need to be made. Decision quality will improve as complexity and magnitude are reduced through delegation. The expense of coordination is reduced because managers have greater autonomy to make decisions.

The quantity and importance of activities and functions conducted in an organization determine the amount of
decentralization of managerial authority extended to managers over those activities and functions. Certain functions lend themselves more readily to decentralization than do others. The first function to be delegated by the chief executive is likely to be the production function. It may be widely decentralized. Authority over the finance function, on the other hand, is almost always highly centralized. Authority over personnel activities is usually centralized while authority over sales activities is often decentralized.

It is more difficult to achieve the autonomy of decentralized authority when a corporation is organized on a functional basis as compared to one organized on a federal or product-line basis. Federal organization combines several functions under the authority of the unit manager. The chief characteristic of federal decentralization is that it organizes the various activities into separate and distinct product businesses that have their own independent markets and are responsible for making a profit.

Management philosophy can be either conducive toward decentralization or it may discourage any attempts to delegate authority to lower management levels. There are two primary organizational philosophies, between which there are various gradations of decentralized authority. The philosophy of the executive that demands extreme centralized authority may be compared to the authority concentrated in a dictator while the philosophy of those advocates of
decentralized authority adheres to the principle of democratic representation.

Another factor that determines whether managerial authority will be centralized or decentralized is the competence of managers to receive delegated authority. Programs for selecting new potential management material and self-development of present managerial personnel may be desirable before any attempt is made to decentralize.

There are several external conditions that may influence a corporation's plans to decentralize managerial authority. The government's restrictive tax laws usually require centralized authority over financial matters. Economic conditions such as depressions tend to cause a recentralization of decentralized authority while periods of prosperity are followed with greater decentralization. Where competition is very keen and profit margins are small, managerial authority is likely to be centralized over sales activities.

As corporation headquarters relinquish more and more authority, they change from operations of directing activities to those of coordinating them. One of the most effective controls over decentralized authority is requiring units to show a profit. Managerial decentralization achieved through profits control is superior to other alternative devices used for maintaining control.

The importance of the human factor and its relationship to decentralizing authority cannot be stressed too greatly.
Decentralization is accomplished through the efforts of managers and workers and without their co-operation, any attempt to decentralize authority would be thwarted in the earliest stages of planning.

Decentralizing authority affords the fullest development of the human element and is beneficial to both the corporation and the worker or manager. Employees look for the opportunity to exercise and develop their abilities and skills. In the organizations that are characterized by wide decentralization of authority, a primary reliance is given to the personal capacity and initiative of the manager and worker. There is a noticeable lack of supervision that is detailed with formal controls, thus permitting both managers and workers to maintain greater freedom in the methods they utilize to accomplish their jobs.

Employees have four basic categories of needs. They include physiological needs, safety needs, social needs, and egoistic needs. The last two categories are the most difficult to satisfy. Decentralization of authority comes closer to satisfying the worker needs than do other methods.

Decentralization of managerial authority down to the worker level is one of the methods being used today to nullify the effects of overspecialization. Decentralization of managerial authority discourages overspecialization since workers are free to perform activities that have direct relationships to their jobs. The creative potential of
workers is released when they are allowed to share in the planning and organizing of their work.

Conclusions

Evidence indicates managerial decentralization of authority will become more prevalent in the years ahead. As a management philosophy and technique of organizing work, decentralization is widely practiced with high degrees of success in many of the largest corporations in this country. Authority over certain business functions exemplified in financial and personnel areas, however, may become more centralized due to outside forces of government and trade unionism. There is an indication that smaller companies will also make a greater use of managerial decentralization of authority in the future.

It is impossible to say that decentralization of authority is desirable in every company. There are indications that some degree of decentralization is warranted in almost every organization, but the answer to the question of how much will depend upon many factors that contribute to the unique personality and operations of the particular enterprise. An extensive and thorough analysis must be made in each company and each of the several factors listed in this thesis needs to be considered before reaching a valid conclusion to decentralize authority.

Finally, the greatest contributions that come from decentralizing managerial authority are in the area of human
relations. When managers and workers receive jobs which are challenging and continuously require their best performance, everyone benefits.

Recommendations for Further Study

The subject of decentralization of managerial authority admirably deserves continued study. The present collection of data on the subject is definitely limited in both scope and depth. In fact, very few ambitious studies have been made on the subject of decentralization of managerial authority.

There appears to be a definite need to standardize terminology. This would facilitate comparisons and compilation of data from different sources.

Most of the case studies of companies that decentralized managerial authority have been derived from the larger corporations. It would be of value to assemble case studies from medium-sized companies and branch offices and compare them with those of the larger companies.

Another area that needs additional study is in the relationship between decentralization and human relations. Research is needed to ascertain how much authority workers actually need to achieve maximum efficiency and satisfaction from their jobs.
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