

Meaning of Centralization

Centralization is a form of organizational structure where the decision making capability rests with the top management. A couple of hand-picked members are entitled to create strategies, determine the goals and objectives based on which an organisation will function.

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

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

Meaning of Decentralization

Decentralization is another form of organizational structure that functions by delegating decision-making capabilities to multiple teams across geographies.

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

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

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

Basis of Comparison	Decentralization	Centralization
Definition	Decision-making capabilities delegated across multiple levels	Decision-making capability rests with the top management
Flow of Information	Open and free	Vertical
Ideal for	Decentralization is ideal for large-sized organizations	Centralization is ideal for small-sized organizations
Decision-making speed	Significantly faster	Comparatively slow
People Involved	In decentralization, a higher number of people from each level are involved in the decision-making process	In centralization, only a few handpicked people are involved in the decision-making process
Employee Motivation	Highly motivated employee	Demotivated employee
Conflict in Decision	Most likely to occur	Least likely to occur
Burden	The burden gets shared among many levels	Only one group is carrying the burden
Stability	Prone to instability due to multiple conflicting decisions	Relatively stable as decisions are made by a central authority sharing a common ideology