**What is Centralization?**

Centralization refers to the process in which activities involving planning and decision-making within an [organization](https://corporatefinanceinstitute.com/resources/knowledge/finance/corporate-structure/) are concentrated to a specific [leader](https://corporatefinanceinstitute.com/resources/careers/soft-skills/leadership-traits-list/) or location. In a centralized organization, the decision-making powers are retained in the head office, and all other offices receive commands from the main office. The executives and specialists who make critical decisions are based in the head office.

Similarly, in a centralized government structure, the decision-making authority is concentrated at the top, and all other lower levels follow the directions coming from the top of the organization structure.

OR

Centralization is said to be a process where the concentration of decision making is rests in few hands. All the important decision and actions at the lower level are subject to the approval of top management. According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be:-

1. Reservation of decision making power at top level.
2. Reservation of operating authority with the middle level managers.
3. Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.

**Advantages of Centralization**

An effective centralization offers the following advantages:

**1. A clear chain of command**

A centralized organization benefits from a clear chain of command because every person within the organization knows who to report to. Junior employees also know who to approach whenever they have concerns about the organization. On the other hand, senior executives follow a clear plan of delegating authority to employees who excel in specific functions. The executives also gain the confidence that when they delegate responsibilities to mid-level managers and other employees, there will be no overlap. A clear chain of command is beneficial when the organization needs to execute decisions quickly and in a unified manner.

**2. Focused vision**

When an organization follows a centralized management structure, it can focus on the fulfillment of its vision with ease. There are clear lines of communication and the senior executive can communicate the organization’s vision to employees and guide them towards the achievement of the vision. In the absence of a centralized management, there will be inconsistencies in relaying the message to employees because there are no clear lines of authority. Directing the organization’s vision from the top allows for a smooth implementation of its visions and strategies. The organization’s [stakeholders](https://corporatefinanceinstitute.com/resources/knowledge/finance/stakeholder/) such as customers, suppliers, and communities also receive a uniform message.

**3. Reduced costs**

A centralized organization adheres to standard procedures and methods that guide the organization, which help reduce [office and administrative costs](https://corporatefinanceinstitute.com/resources/knowledge/accounting/what-is-sga/). The main decision-makers are housed at the company’s head office or headquarters, and therefore, there is no need for deploying more departments and equipment to other branches. Also, the organization does not need to incur extra costs to hire specialists for its branches since critical decisions are made at the head office and then communicated to the branches. The clear chain of command reduces duplication of responsibilities that may result in additional costs to the organization.

**4. Quick implementation of decisions**

In a centralized organization, decisions are made by a small group of people and then communicated to the lower-level managers. The involvement of only a few people makes the decision-making process more efficient since they can discuss the details of each decision in one meeting. The decisions are then communicated to the lower levels of the organization for implementation. However, if lower-level managers are involved in the decision-making process, the process will take longer and conflicts will arise. It will make the implementation process lengthy and complicated because some managers may object to the decisions if their input is ignored.

**Disadvantages of Centralization**

**1. Less motivated employees:**

People feel demotivated when they work in centralized organizations. They can’t show their talent and skills and are bound to follow the orders given by the top management.

They feel demotivated working in such an organization as they know that no matter how hard they work, they will never be able to become part of top management.

**2. Controlled Environment:**

In a centralized environment, the decision-making power is in the hand of top management, and employees of the environment are bound to follow the decision given by the management.

In such scenarios, employees just follow the instruction given to them and can’t work creatively. Employees get frustrated by the constant supervision and as a result of that their productivity reduces.

**3. Less loyal employees:**

AS employees are constantly supervised and are bound to take orders from the people of high level. They feel less associated with the organization and feel like slaves.

This makes them disloyal for the organization, and they keep looking for the other opportunities and leave the organization as soon as they get a better opportunity.

On the other hand, employees who participate in important decision-making feel more loyal and stays with the organization for a longer time.

**4. Reduced Productivity:**

Employees at lower levels rely on the decision made by higher management, which reduces their productivity. As they waste time to wait for the decision made by the top management, which takes even longer time in making records and implementing the information.

**5. Improved quality of work**

The standardized procedures and better supervision in a centralized organization result in improved quality of work. There are supervisors in each department who ensure that the outputs are uniform and of high quality. The use of advanced equipment reduces potential wastage from manual work and also helps guarantee high-quality work. Standardization of work also reduces the replication of tasks that may result in high [labor costs](https://en.wikipedia.org/wiki/Non-wage_labour_costs).