

# Principles Of Management: A Modern Approach

*Fourth Edition*

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# CONTENTS

<b>PART I The Management Problem: Past and Present</b>	<b>3</b>
1 Preliminary Perspectives	15
2 Toward Scientific Management	
3 The Management Process: Decisional and Informational Functions	36
<b>PART I CASES AND INCIDENTS</b>	
Is Management a Profession?	51
Scientific Management as a Mental Revolution	52
Back to First Principles	54
The Nature of the Administrative Function	56
A Management Development Program	57
Executive Work Behavior	59
<b>PART II Organization for Management</b>	<b>63</b>
4 The Organizational Structure	79
5 Departmentation	104
6 Line-Staff-Functional Relationships	123
7 Committee Organization	
<b>PART II CASES AND INCIDENTS</b>	
From Functional to Territorial Departmentation	147
Decentralization in the Federal Government	150
The New Personnel Manager	155
Too Many Committees	158
A Foreigner on the Board	159
<b>PART III Managerial Organization: Behavioral Aspects</b>	<b>165</b>
8 Authority, Status, and Power	178
9 Organizational Dynamics: Functional Design and Informal Processes	192
10 Organizational Dynamics: Planned Structural Changes	208
11 Management Staffing and Succession	235
12 From Organization to Process	
<b>PART III CASES AND INCIDENTS</b>	
First Class Air Travel	249
There Is Too Damn Much Politics Around Here	250

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# The Organizational Structure

The organizational structure is the framework within which managerial and operating tasks are performed. The development of a sound structure generally has a high priority in the thinking of executives. Many executives view managerial and operating problems as organizing problems.

## THE MANAGEMENT HIERARCHY

Most organized endeavor is managed by a group ranging in size from a few persons to several thousands. Such groups are generally structured in the form of a hierarchy as the result of formal planning or informal processes.

### The Nature of Hierarchical Organization

The management hierarchy ranks and relates positions and persons in the manner indicated in Figure 4-1. It represents simultaneously a decentralization and centralization of decision making. Decisional responsibilities are decentralized in the sense that they are dispersed among whatever number of executives is necessary to do the job. The ranking of executives in a hierarchy provides a means for coordinating management action. Conflicting and contradictory decisions can be resolved by executives at higher levels. Every executive below the chief executive is subject to planning and control decisions from above. Proceeding from the bottom to the top of the hierarchy, decision-making responsibilities are centralized in fewer and fewer numbers of executives until the apex is reached. All persons in the organization, managerial and nonmanagerial, are required to respond to decisions from that point.

### Cooperative Executive Action

The hierarchy sets the stage for cooperative executive action. Each executive is assigned some part of the total decisional burden. Executives at lower levels function within an area of discretion determined by executives at higher levels. They make decisions on their own initiative, but they are also required to respond to decisions from superiors. The decisional responsibilities at the various levels are differentiated by a process called "departmenta-

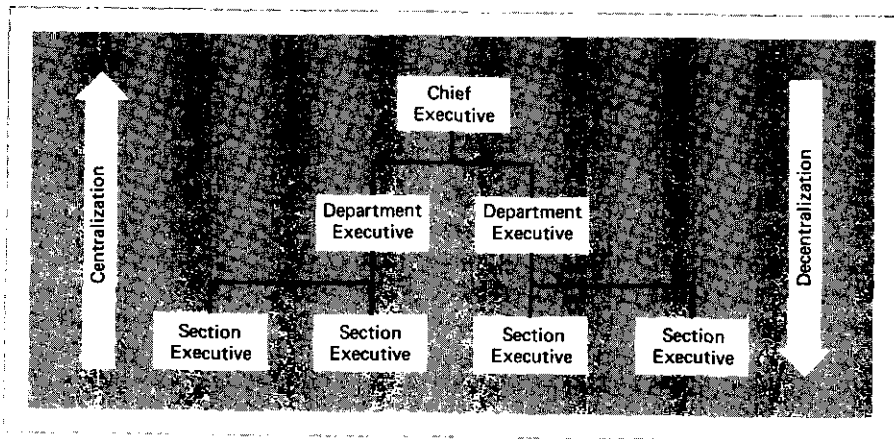


Figure 4-1. A simplified management hierarchy.

tion.” The executives who occupy the basic positions in the hierarchy are generally assisted by staff and service personnel. Committees may also be used to perform decisional responsibilities and to serve other purposes.

### Hierarchical Spans and Levels

The limited capacity of the executive makes hierarchical organization essential. An executive can reduce his work load by the delegation of work to the next lower level, but delegation simultaneously increases the work load by the amount of supervision that must be given to subordinate executives. The reduction in work load by delegation is usually greater than the resulting increase in supervisory responsibilities. Another level in the hierarchy may become necessary when the amount of supervision begins to exceed the executive’s capacity. The number of subordinates under an executive, which is often referred to as “the span of management,” is related to the number of levels in a hierarchy. A larger span generally means fewer levels, and conversely.

### The Span of Management

How many subordinates can be effectively managed by an executive? Is there an ideal number or a minimax solution to the problem? An early reference to the span of management concept is found in the Biblical account of the Exodus.<sup>1</sup> Moses, who had led the Israelites out of Egypt, was kept busy from morning until evening counseling the people, who had to wait for long periods of time. His father-in-law, Jethro, suggested that Moses appoint rulers of thousands, rulers of hundreds, rulers of tens and concern himself only with the really important problems.

<sup>1</sup>Exodus 18:17–22.

## **A Conclusion from Military History**

Sir Ian Hamilton, a British general, concluded from the history of military organization that spans should range from three to six. He wrote that three would keep an officer fairly busy while six would probably require a ten-hour day. Hamilton thought that "the nearer we approach the supreme head of the whole organisation, the more we ought to work towards groups of three; the closer we get to the foot of the whole organisation (the Infantry of the Line) the more we work towards groups of six."<sup>2</sup>

## **Fayol's Hypothetical Hierarchy**

Henri Fayol, the French industrialist, uses these data in constructing a hypothetical hierarchy.

"Each fresh group of ten, twenty, thirty workers brings in a fresh foreman; two, three or four foremen make necessary a superintendent, two or three superintendents give rise to a departmental manager, and the number of links of the scalar chain continues to increase in this way up to the ultimate superior, each new superior having usually no more than four or five immediate subordinates."<sup>3</sup>

Actual spans in government and industry indicate that there is no one best solution that can be universally applied. For example, a survey of 141 well-managed companies by the American Management Association showed that the number of subordinates reporting to the president ranged from 1 to 24 with a median of between 8 and 9 for large companies and 6 and 7 for median-sized concerns.<sup>4</sup> These and other data on actual spans warn against any dogmatic conclusions as to numbers. There is no general rule that can be used to determine the proper span for particular situations. Spans should probably be smaller at higher levels than at the first-line supervisory level. There would also seem to be an upper limit to the number of subordinates a superior can effectively supervise; 100 subordinates are too many under almost any circumstances, but whether the number should be 5 or 25 cannot be given a definite answer. An executive with 10 subordinates may have a lighter work load than one with only 3 or 4. The reason is that the amount of work involved in different superior-subordinate relationships may vary a great deal. Some subordinates require frequent and extensive supervision; others can work out their problems with little attention from above.

<sup>2</sup>Sir Ian Hamilton, *The Soul and Body of an Army* (New York: George H. Doran Company, 1921), p. 230.

<sup>3</sup>Henri Fayol (Constance Storrs, Translator), *General and Industrial Management* (London, Sir Isaac Pitman & Sons, Ltd., 1949). p. 55.

<sup>4</sup>The results of this survey are reported in Ernest Dale, *Planning and Developing the Company Organization Structure*, Research Report, No. 20 (New York: American Management Association, 1952), pp. 56-60.

## **Factors That Affect Spans**

A variety of factors influence the span of management. Some of them have general application and others help explain the wide divergence of spans in different organizations.

Physical and psychological fatigue obviously place an outer limit on the capacity of a manager. The range of knowledge necessary to conduct the affairs of an organization is another consideration. For example, accounting and engineering are often given separate status even though the number of people involved does not require it. Also important is the personality of the manager; an "empire builder" may have a larger span than a submissive individual.

A theory developed by V.A. Graicunas, a French management consultant, gives recognition to the idea that supervising others is both an individual and social problem.<sup>5</sup> Management must deal not only with a variety of individual personalities but also with different combinations of individuals or group "personalities." Social interaction, group norms and sentiments, and informal leadership are important in understanding subordinate behavior. A hostile clique or conflict among subordinates presents problems that do not exist with a spirit of teamwork.

In addition to subordinate relationships, there are interactions with managers at the same and higher levels as well as contacts with customers, union officials, suppliers, the public, and government. The nature of organizational activities can significantly affect the span. The pace and pattern of work may vary in different kinds of organizations (such as business, education, or military), different departments (such as production or finance), and different situations (such as winter or summer seasons). The size of the span can also be affected by geographical dispersion. Although the problem of distance has been partly solved by rapid communication and transportation, such factors as the need for important on-the-spot decisions and more elaborate control techniques make for larger spans.

## **FLAT VERSUS TALL STRUCTURES**

Some organizations have constructed a "flat" or "horizontal" structure by increasing the span of management and reducing the number of levels. Others have developed a "tall" or "vertical" structure through shorter spans and more levels. Some of the advantages and disadvantages of the two types of organization are considered in this section.

### **The Argument for Flat Structures**

James C. Worthy, a management consultant and a former Sears Roebuck vice-president, contends that "the emphasis is constantly on *shortening* the

<sup>5</sup>V.A. Graicunas, "Relationship in Organization," *Papers on the Science of Administration* (New York: Institute of Public Administration, Columbia University, 1937), pp. 183-187; an analysis of managerial relationships is also found in: Fayol, *General and Industrial Management*, p. 55.

span, without giving much more than lip service to the fact that circumstances often differ and that under certain conditions there may be positive advantages in *lengthening* the span."<sup>6</sup> One argument for longer spans is that it makes close supervision impossible and forces subordinates to rely on their own resources. A subordinate cannot expect much help from his superior, and the resulting responsibilities in turn make for less supervision of those under him. Such a situation tends to bring about a better selection of subordinates, because more delegation with less supervision is risky with incompetent personnel. Executive development is enhanced by earlier decisional experience for people who show promise. As Worthy has noted, "if they have to wait until middle age before having a chance to carry bona fide responsibility, they are not likely to develop into strong, self-reliant leaders and executives."<sup>7</sup> An opportunity to move rapidly to important responsibilities can have favorable motivational consequences for personnel at lower levels. However, it should not be assumed that all people can function well in this kind of environment. The system is not conducive to persons who lack self-confidence and competence.

The argument for longer spans is supported by empirical studies which indicate that productivity may be higher when close supervision is impossible.<sup>8</sup> The data accumulated in these studies show that the heads of low-producing departments supervised their subordinates more closely than those who headed high-producing departments. Supervisors of high-producing subordinates clarified the objectives and then gave few instructions on how to achieve them. Subordinates were permitted to pace themselves and to use their own ideas and techniques in carrying out their responsibilities. Effective supervisors tended either to ignore mistakes or to use them as a learning device. The heads of lower-producing groups were inclined to give frequent and specific instructions and to be critical and punitive when mistakes were made.

A flat structure has fewer hierarchical levels, thereby tending to reduce the "administrative distance" between top and bottom levels. The concept of administrative distance has reference to the understanding and intimacy which characterize the relationship between persons at different levels of the organizational structure. Too much administrative distance can create communication difficulties. As Worthy had pointed out:

"In the vertical structure the administrator is forced to rely less on knowledge growing out of direct contact and more on formal reporting systems in information which is filtered up to him through successive levels of supervision and perhaps considerably distorted in the process. A great deal

<sup>6</sup>James C. Worthy, *Big Business and Free Men* (New York: Harper & Brothers Publishers, 1959), pp. 100-102.

<sup>7</sup>*Ibid.*, p. 112.

<sup>8</sup>The results of some of this research have been summarized in: Rensis Likert *New Patterns of Management* (New York: McGraw-Hill Book Company, Inc., 1961), pp. 9-12; 20-25.

is lost if the facts about problems have to work their way up through too many hands—and to many “censors”—before they reach the man who has to act on them.<sup>9</sup>

Many hierarchical levels or “layering” increases impersonality and reduces understanding between higher and lower levels. The personal touch is lost and informal ties becomes tenuous. Top executives tend to be excluded from the socializing that occurs at lower levels, an exclusion which can seriously disrupt the cooperative process.

### **Flat versus Tall Structures: A Comparative Analysis**

A flat structure can complicate the communication process by the burdens it imposes upon cross communication. Fewer levels may facilitate communication between superiors and subordinates, but larger spans can produce communication problems among subordinates. Communication among equals does not necessarily have an advantage over communication among unequals. Conflicts among individuals and groups of subordinates can become barriers to effective communication.

Authority can be a highly useful communication instrument. An authoritative message from superior to subordinate is often given far more attention than messages from one subordinate to another. The impetus given by authority can bring about a rapid flow of information among the larger numbers of levels in a tall structure in spite of the greater administrative distance. The adverse consequences that the reduced administrative distance in flat structures can have on the authority relationship should also be noted. Authority is reinforced by inequalities in status; it can be reduced by too much socializing among superiors and subordinates.

The emphasis on equality in the flat structure can cause coordination problems. In a world pervaded by uncertainty, differences of opinion cannot always be resolved by the logic of the scientific method. The democratic process cannot be completely depended upon to provide an appropriate outcome. Authority is frequently necessary if an organization is not to be disrupted or even destroyed by a lack of coordination. The fact that flat structures tend to develop capable and self-confident subordinates can complicate the problem. Such subordinates are inclined to push their prerogatives and build strong subsidiary departments. Departmental interests may become far too important in the total scheme of things. Subordinates must frequently be “forced” to conform to the requirements of superior levels.

The flat structure fits the cultural norms of the United States better than does the tall structure. Most people appear to have a preference for leaders who use a democratic approach and who do not overtly use their authority. The reaction against close supervision reflects such sentiments. A related factor is that a flat structure with less social stratification is more in accord

<sup>9</sup>Worthy, *op cit.*, pp. 102–103.



with an egalitarian political and social philosophy. However, preachments on this subject do not always correspond to actual practices. Indeed, a tall structure is sometimes more satisfactory from a motivational standpoint because it offers a greater number of status gradations.

People in a democratic society are not normally opposed to an authoritarian approach when it is necessary to achieve an important purpose. They rarely refuse to accord authority during an emergency. The relatively tall structure of the military with its authoritarianism is widely accepted during time of war. Such structures are probably more effective in situations requiring rapid adaptations and precise coordination.

### **Related to Decentralization**

The problems considered above are closely related to the subject of decentralization. Decentralization or a lack of it can bring about different behavioral patterns in structures that have a similar shape.

## **CENTRALIZATION AND DECENTRALIZATION**

Several kinds of centralization and decentralization are found in organizations. One is the geographical concentration or dispersion of operations. In this sense an organization is centralized if all operating activities are performed in one geographical area; it is decentralized if plants and offices are located in different areas. Second, these concepts may have reference to the centralization and decentralization of particular functions. Thus, the function of purchasing is centralized in one department or performed on a decentralized basis by a number of departments. Finally, as used in this chapter, centralization and decentralization describe the manner in which decision-making responsibilities are divided among executives at *different* hierarchical levels.

Centralization and decentralization should be viewed in relative rather than absolute terms. Complete centralization is the concentration of *all* decision making at the apex of the management hierarchy. If this were possible, there would be no need for a management hierarchy. Complete decentralization, or the delegation of *all* decision-making functions to the lowest level of the hierarchy, is equally absurd. The logical consequence would be the elimination of all managerial positions above the lowest level. Some centralized decision making is necessary to coordinate management effort and achieve a unity of purpose. The question is not whether centralization or decentralization should take place; it is a matter of finding the proper balance between these mutually dependent forces.

### **The Extent of Decentralization**

The kind of criteria that can be used to determine the nature and extent of centralization and decentralization is indicated by Ernest Dale.

1. The greater the number of decisions made lower down the management hierarchy.
2. The more important the decisions made lower down the management hierarchy. For example, the greater the sum of capital expenditure that can be approved by the plant manager without consulting anyone else, the greater the degree of decentralization in this field.
3. The more functions affected by decisions made at lower levels. Thus companies which permit only operational decisions to be made at separate branch plants are less decentralized than those which also permit financial and personnel decisions at branch plants.
4. The less checking required on the decision. Decentralization is greatest when no check at all must be made; less when superiors have to be informed of the decision after it has been made; still less if superiors have to be consulted *before* the decision is made. The fewer people to be consulted, *and the lower they are* on the management hierarchy, the greater the degree of decentralization.<sup>10</sup>

Such criteria make possible a more objective analysis of this aspect of organizational dynamics. However, the difficulties involved in developing a better understanding of managerial behavior should not be underestimated. Things are not always what they seem to be. Actual practice may differ significantly from the practices stipulated in organization manuals or proclaimed by executives. Thus, an organization which appears to be highly centralized may actually practice a high degree of decentralization on an informal basis. Many of the personal relationships between executives have subtle and subjective qualities that cannot be readily translated into objective terms.

What is the proper degree of centralization or decentralization? The answer to this question will vary under different conditions. Some organizations achieve more effective management by a higher degree of centralization. Others attain the same goal by greater decentralization. Some of the factors that influence the extent to which decision making is delegated are considered here.

### **The Process of Delegation: Problems and Limitations**

Delegation becomes necessary when the workload of an executive position exceeds the physical and psychological capacity of the executive. The delegation process reduces the executive workload, but it also adds to the workload by increasing the *number of subordinates* or *span of management*. This process can continue until the workload that evolves from an increasing span of management exceeds the executive's capacity to carry the burden. Additional levels of management become necessary when this limit is reached.

The superior's responsibility is not absolved by the act of delegation. Delegation involves taking a risk on the capability of subordinates. This risk

<sup>10</sup>Ernest Dale, p. 107.

cannot be entirely avoided, but it can be mitigated by exercising some degree of supervision over the activities of the subordinate. Decentralization is greater or less to the extent that executives are willing to delegate important decision-making responsibilities and exercise a minimum of supervision and control.

An important argument for greater decentralization is the need to develop initiative and self-reliance among subordinates. Many executives believe that the subordinate should be constantly challenged by greater responsibility. Sears, Roebuck and Company has deliberately followed a policy of creating long spans of management, which forces greater delegation and restricts the amount of supervision. Such a policy gives the executive more freedom of action and throws him on his own resources. It tends to weed out those who do not have the necessary potential and promotes the development of experienced and dynamic executives.

The extent to which a policy of decentralization can be carried out may be limited by the personality of the executive. The psychological make-up of some executives inhibits their willingness to delegate decision-making prerogatives. Henry Ford, Sr., for example, felt that he had to fit every piece into the puzzle. Having built a "billion dollar" corporation from a very humble beginning, he disliked giving anyone else a part of what he considered to be a "one-man show." He delegated decision-making responsibilities in the most haphazard fashion and frequently reversed subordinates without consulting them.

A refusal to delegate may also be prompted by the degree of risk involved. As Ernest Dale has written, "hard times and increased competition may foster centralization."<sup>11</sup> The organization's ability to absorb a mistake by a subordinate may be greatly reduced under such circumstances. As a consequence, the top executives may exercise more decision-making prerogatives than would otherwise be necessary and increase the extent to which subordinates are supervised.

The lack of competent executives frequently explains a reluctance to delegate. Although decentralization often enhances the development of executive talent, it is not always possible to make a silk purse out of a sow's ear. A policy of decentralization, even under the most favorable circumstances, cannot be implemented overnight. Some executives do not have the ability to assume additional responsibility and have to be gradually removed through the retirement system or induced resignation. Younger executives generally require extensive supervision by experienced superiors before they can be given more responsibility.

### **Uniformity and Diversity of Conditions and Policy**

A higher degree of centralization is generally more workable with uniform operating and environmental conditions. The experience of the Fisher Body

<sup>11</sup>Ernest Dale, "Centralization Versus Decentralization," *Advanced Management*, Vol. 20, No. 6, June 1955, p. 13.

Division of the General Motors Corporation is a good case in point.<sup>12</sup> This division manufactures bodies for the automotive divisions, such as Buick, Oldsmobile, and Chevrolet. Although the various body makes and styles differ in design and specification, the basic method of manufacturing is essentially the same. Before World War II, Fisher Body operated on a highly centralized basis, and relatively minor operating matters in the widely dispersed plants had to be referred to division headquarters for approval. This mode of management was significantly changed during World War II when the division divided into five product subdivisions, each of which produced one of the five major wartime products. The managers of the subdivisions were given greater freedom from the dictates of division management. As Peter Drucker has observed, they were "in pretty much the same position as the manager of a General Motors Division."<sup>13</sup> The change from the peacetime production of a single final product to the production of several distinct wartime products was undoubtedly a major consideration in Fisher Body's decision to decentralize. The resulting diversity in the nature of operations made highly centralized decision making more difficult.

Geographical decentralization sometimes creates an impetus toward greater managerial decentralization. Significant differences in local conditions tend to reduce the applicability of centralized decisions, which may impose a greater uniformity of policy than is warranted by differences in customer preferences, state and local laws, weather conditions, and business customs. The difficulty that can result from a failure to recognize such differences is illustrated by a situation described by Edwin R. Embree.

"In a little school just outside Baton Rouge, Louisiana, the teacher had been hearing a class read a lesson on birds in one of the standard textbooks. To drive home a point from the lesson, she asked a boy, 'When do the robins come?'

The pupil promptly answered, "In the fall."

"Now, Jimmie," urged the teacher, "read the lesson carefully again."

After he had droned out the text a second time, she said cheerily, "Now, Jimmie, when do the robins come?"

More hesitantly and sullenly he answered again, "The robins come in the fall." "James, James," shouted the teacher, "read that lesson again. Now tell me when do the robins come?"

Almost in tears the boy finally answered, "The robins come in the spring."

And so they do—in Boston where the text was written. But in Louisiana, just

<sup>12</sup>Peter F. Drucker, *Concept of the Corporation* (New York: The John Day Company, 1946), pp. 120–122.

<sup>13</sup>*Ibid.*, p. 120.

in order to avoid the northern winter, they come in the fall, as the boy well knew.<sup>14</sup>

Managerial decisions made in Boston may similarly fail to take into account unique conditions facing a plant manager in Baton Rouge, Louisiana.

The advantages of standardization and specialization may dictate a greater uniformity of policy through centralization. The problem is to balance these advantages with those that may be gained by adapting to a dissimilarity of conditions. Lower levels of management often prefer more freedom of action in dealing with local problems. However, good policy at this level may be bad policy from an organizational point of view. The symmetry of the forest is not always apparent to one who views the individual trees.

A higher degree of centralization is sometimes imposed by external considerations. Employer and industry-wide collective bargaining has reduced the discretion that can be given to lower levels of management in the area of industrial relations. Modern communication facilities, such as television, tend to promote greater centralization in the areas of advertising and sales promotion. The size of business organizations with which a firm deals may also be important in this respect. The fact that raw materials are obtained from a large supplier may induce greater centralization over the purchasing function. Centralization of financial and accounting matters has been made necessary by Federal taxes and regulations.

### **The Problem of Size**

The relationship between the size of an enterprise and its economic efficiency has been the subject of much speculation by economists and management experts. Economic theory indicates three phases of development as a firm increases in size. During the first phase of growth, greater specialization of capital and personnel and a better utilization of indivisible resources result in increasing economic returns.<sup>15</sup> After the firm is sufficiently large to take full advantage of these economies, it may enter a phase during which further growth results in constant rather than increasing returns. An increase in the scale of operations of 20 per cent will bring about an equal percentage of additional output. Eventually, however, further increases in size may bring about decreasing economic returns. After this point is reached, the percentage increase in output will be lower than the corresponding rate of growth.

The reason generally given for decreasing returns is that an increase in

<sup>14</sup>Edwin R. Embree, "Can College Graduates Read?" *The Saturday Review of Literature*, Vol. 18, No. 12, July 16, 1938, p. 4.

<sup>15</sup>An indivisible resource may be roughly defined as one which cannot be divided into smaller units without complete or partial loss of efficiency from either a cost or technical standpoint. For example, the radar installation on a large ship is much the same as that on a smaller ship. A railroad must construct trackage of sufficient gauge to handle its rolling stock even if only one train a week is scheduled. A grocery store must have at least one clerk even though he may be busy only half the time.

enterprise size beyond a certain point reduces managerial efficiency.<sup>16</sup> Increases in the scale of operations necessitate a corresponding expansion of the management hierarchy. A relatively larger number of executives is required, and the vertical and horizontal relationships become more complex. For a time the advantages of managerial specialization tend to increase efficiency, but the hierarchy cannot be infinitely expanded without creating conditions that lead to serious problems. Communication becomes more difficult as more levels of management are added. Top executives are farther removed from operating conditions and are generally forced to make decisions on the basis of information relayed by other executives. The number of communication centers is increased, which tends to create a greater distortion of information and delay the transmission of decisions. Effective control and coordination become more difficult, and morale may suffer as executives become smaller fish in a bigger pool. These and other factors, the argument goes, eventually cause a decline in economic efficiency, which serves as an automatic check on bigness in a competitive environment.

Empirical studies have not been particularly successful in substantiating the inevitability of decreasing returns to scale. Many American industrial corporations have challenged the concept by growing bigger. Some have doubled and tripled in size during the past ten years. Well over a hundred of them have assets exceeding 1 billion dollars, and more than 127 have sales in excess of that amount. However, bigness is not a product of business activity alone. The size of military, religious, trade union, and governmental organizations has in many instances exceeded that of the business corporation.

An argument that the big business corporation is operating under conditions of suboptimal efficiency is not supported by existing data. However, such organizations have had to overcome a number of difficult managerial problems in coping with the problem of size. Many of them have drastically changed their management organization to solve coordination, communication, and control problems. Product and territorial departmentation were used to divide big organizations into relatively autonomous operating units. Staff organization helped reduce the coordination problems that often accompany functional specialization. The delegation of a major share of the responsibility for making operating decisions to lower managerial levels was another approach. Such organizational and managerial innovations have been highly instrumental in reducing the applicability of the theory of decreasing returns to scale.<sup>17</sup>

<sup>16</sup>A distinction should be made between the concept of decreasing returns to scale and the law of diminishing returns. Diminishing returns results from combining additional variable factors with one fixed factor. The eventual lack of proportionality in factor combination causes a decline in output.

<sup>17</sup>Large corporations take full cognizance of the relationship between operating efficiency and plant size and recognize that specialization in certain areas has limits. At the same time, the size of the entire enterprise has made possible more intensive specialization in some areas, such as research and development.

Although decentralization has been particularly advantageous in large organizations, it may also promote more effective management in medium-sized and small organizations. Size is an important consideration in determining the appropriate degree of decentralization, but it should not be viewed as the only consideration.

### **The Problem of Communication**

The management hierarchy may be viewed as a structure of communication centers through which decisional and control information is transmitted to and from the performance level. The volume of information that flows through this system is closely related to the extent to which decision making is centralized. Decisions made at the apex of the hierarchy involve more communication centers than those originating at lower levels. Too much centralization can easily overload the system and create bottlenecks in the flow of information. This problem is amplified with increases in the size of the management hierarchy, and it may significantly reduce the speed of decision making and the ability to adapt to dynamic operating conditions. A further difficulty is that information is frequently distorted as it passes through a long maze of hierarchical positions.

### **Coordination and Control**

Decentralization always involves some degree of centralized planning and control. Every level of management below the chief executive is subject to decisions made at a higher level. Such an arrangement is necessary to coordinate activities and achieve an organizational unity of purpose. The freedom of action given to the executives through decentralization is always restricted. The executive is on his own, but never completely. His situation is similar to that of the driver of an automobile on a public highway, who may drive as he pleases within the limits set by traffic regulations. Decentralization diminishes the amount of direct supervision exercised by a superior over the activities of a subordinate, but this reduction in personal supervision is replaced by other forms of control, such as budgetary, profit, and cost controls. Such controls are an essential feature of decentralization; without them there would be far less inclination to delegate important decision-making prerogatives.

### **Executive Development**

Industrial and business leaders have often lamented the dearth of executive material, yet a part of the responsibility for this situation must be placed upon their doorsteps. Too many executives have failed to see that a puppet can never become a puppeteer. The experience of recent wars indicates the existence of a large reservoir of potential leadership material. A large part of military leadership below the division level came from men who were barely out of their teens. Many of these youthful company, battalion, and regimental commanders were eminently successful in the discharge of great

responsibility. To be sure, considerable risk was involved in such an extensive delegation of decision-making prerogatives to an inexperienced officer corps, and some officers did not have the capacity for the responsibility imposed upon them. Failures as well as successes must be placed upon the scoreboard, but the over-all results probably exceeded expectations.

The experience of industrial establishments with a history of decentralization has been similar to that of the military. Although formal training is an important factor in executive development, experience molds the final product and gives a subordinate a chance to prove that he can make the grade. A willingness to risk delegation to lower levels reduces the hazards of promotion and helps provide a reservoir of qualified executives. It also helps indicate which executives do not have the capacity to assume greater responsibility.

### **Managerial Specialization**

Centralization is sometimes favored because it permits a higher degree of managerial specialization. This argument undoubtedly has validity in the case of small enterprise. The advantages of specialization are generally greater than the disadvantages that may evolve from a higher degree of centralization. However the net advantages that may be derived from specialization diminish rather rapidly as the size of the firm is increased. The coordination, control, and communication difficulties that tend to accompany centralized decision making by functional specialists are important elements in reversing the process. Large organizations have generally turned to product and territorial departmentation and decentralization to solve the problems of overspecialization. Many medium-sized and some small firms, as Urwick has suggested, can benefit from greater decentralization along similar lines.<sup>18</sup> An integral part of such a decentralization program has been the development of functional staff and service departments to advise and assist those who make the decisions. However, it should not be assumed that all centralized decision making by functional specialists has been eliminated. The most avid practitioners of decentralization on a product or territorial basis have retained important functional decision-making prerogatives at the top management level. A reason is that some forms of specialization become possible only in large organizations. Also, the point of decreasing returns from specialization is not reached at the same time in all areas of managerial decision making.

### **Centralized Controls**

Decentralization generally involves less person-to-person supervision by the superior. The subordinate is essentially left to make decisions within broad

<sup>18</sup>L. Urwick, *The Load on Top Management—Can It Be Reduced?* (London: Urwick, Orr & Partners, Ltd., 1954), pp. 30–31.



guidelines established by higher management. There is supervision, but it is reduced to a minimum. Too much supervision will generally make subordinate managers less prone to make their own decisions and will make them rely upon the formal and informal advice and suggestions from above. The result can give rise to "creeping centralization" and control through subjective personality-oriented standards. Such potential disruptive influences are reduced by objective yardsticks to measure managerial performance.

The controls developed by the General Motors Corporation are good examples of the way in which the performance of managers of decentralized divisions can be measured. One of them is a costing system that eliminates extraneous factors, such as cyclical fluctuation, as much as possible. Second, the rate of return on capital invested in each division is compared. Finally, an analysis is made of the competitive standing of the products of each division in the market. The performance of divisions that sell principally to other GMC divisions is measured by their ability to supply these divisions at a lower cost than outside suppliers. Every attempt is made in the application of these standards to eliminate the impact of forces that cannot be controlled by the division managers. Thus, a significant reduction in sales resulting from a general decline in the demand for automobiles is not assumed to be a sign of managerial inefficiency. The division manager is held accountable only if the share of the total market going to a division begins to decline.

In addition to reducing the risks of delegation, control through objective performance standards tends to reduce infringement by top management upon the decision-making prerogatives delegated to the division level. Division managers could hardly be held responsible for the results if too many important decisions were actually made by central management. Such controls also reduce the need for division executives to cater to the whims and fancies of top executives. Clever political manipulations and subjective evaluations are less likely to play a dominant role in the relationships between superiors and subordinates. Success or failure is a matter of objective record that cannot be readily changed by personal likes or dislikes.

### **The Importance of Centralization**

The emphasis given in recent years to the philosophy of decentralization should not cause the student of management to neglect the importance of centralization. The failure to develop a sufficient degree of centralization may have serious consequences. Top management cannot simply sit back and watch the scores recorded by the financial and statistical control systems. It must play a positive and active role in the formulation and implementation of policies that concern the welfare of the organization as a whole. It cannot assume that a policy of *laissez faire* will somehow promote the best interests of the organization. Decentralization does give a subordinate greater

freedom, but it is never freedom without restrictions from above. Decentralization without centralization is an invitation to internecine warfare. Organizations cannot survive without coordination and a unity of purpose.

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