

ORGANIZATIONAL DECENTRALIZATION; A PREREQUISITE FOR GROWTH

— B.F. VAN NIEKERK



OPSOMMING.

Die gedesentraliseerde organisasiestruktuur word bepleit as noodsaaklik vir doeltreffendeheid in groot ondernemings. Slegs korporatiewe beplanning, die bepaal van beleide en die evaluering van behaalde resultate word deur die sentrale bestuur behou.

General Motors is by far the biggest company in the world. The value of goods marketed by this organisation every year comes to R18 744 million which is enough to buy 1 million suburban homes or 10 million family cars.

The company reached this colossal size because it succeeded in utilizing to the full the talents of its employees and effectively co-ordinating their efforts toward increasing the profitability of the company. Instead of its growth being retarded by big company unwieldiness, GM created an organisational efficiency which has carried the company to a position of being some 50% bigger than the world's second biggest company.

But this is easier said than done. How did General Motors do it?

According to Peter Drucker — noted authority on management principles, who also did extensive research into the history of General Motors — the bouquet must to Alfred P. Sloan, the legendary boss of GM who conceived the philosophy of decentralized authority as far back as 1920. Interestingly enough the lack of the same approach which

caused the steady growth of GM nearly caused the collapse of the Ford Motor Company. At Ford the rage was centralized control to the degree where the management of the company consisted, for all practical purposes, of one man — Henry Ford I. With his death in 1946 Ford's management died. The company, already weakened by the human limitations which preclude even a genius from successfully running an industrial empire single-handedly, soon found itself in a position of insolvency. The famous name would have disappeared but for considerable financial aid from the U.S. Government and for the fact that grandson Henry II literally bought over dozens of top executives from GM. They brought with them the basics of a concept which by that time had become firmly established as the central management philosophy of General Motors Corporation — decentralized control.

It is significant that Ford's share of the market dropped from 70% in 1924 to 20%

in 1939 whereas, after the change of heart after the War, this bankrupt company made a recovery which can only be described as miraculous. It is now the third biggest in the world.

But what is decentralization of authority? Is it a laissez-faire existence where everybody does as he likes, discipline is permissive and the business of the company is generally conducted along the lines of some sort of hippie society? Certainly not. It is a management philosophy with a proven record as a money-spinner. It has been proved in practice to be the most successful approach for any company bigger than the stage where everybody is within shouting distance.

The structuring of the formal organization is important — even if only two people are working together. As it grows in size the structure becomes a little more intricate but the central theme will always be one of two basic approaches. Under the approach of centralized control the position exists where one or a few members of top management will retain all possible control and personally direct the output of the organization. The alternative approach, decentralized control, calls on top management to withhold any intervention in the detailed operation of the company; to release the authority for operating decisions downward in the organization.

It is understandable that a senior executive can do the job far better than the junior manager a few notches lower down. However if he keeps on telling him exactly how, he will not only frustrate and inhibit development of the junior man, but spend most of his time ensuring that junior jobs are done well, whilst his own work, vital to the company's future as it is, will be done less well, for the simple reason that the ability of any one man is limited. Management involves guidance and assistance, not dominance.

Specific characteristics of the approach are:

- (1) Each manager is given maximum responsibility and authority. He knows that there will be no interference in the way he sets about achieving the objectives which were jointly

set by top management and himself.

- (2) Apart from meaningful and challenging objectives a fair system of evaluating performance is required. This is used to evaluate performance against objective and to create the competitive climate which is one of the corner stones of the philosophy.

- (3) In the giant empire the method used is normally federal decentralization. Each factory of the company is an autonomous unit and is responsible for producing and marketing one or a group of the company's products or for the manufacturing of raw materials used by other departments or sold to outsiders. Every unit is judged on its profitability.

In smaller companies where it is impractical to divide the operation into autonomous product lines the method followed is functional decentralization. The factory, or division of the factory, "sells" its produce to the marketing division at a fixed price which allows a certain "profit". The marketer, in turn, shows a "profit" in selling the product, and the contribution of different departments in the production and marketing divisions can be compared.

- (4) Thus a competitive climate exists. Not only do departments compete constructively against each other but department and individual alike compete against their objectives. Also a genuine commitment exists towards these objectives because the individual concerned was instrumental in developing them.

- (5) The nature of discipline in the organization changes. It is not imposed but a spontaneous result of peoples' dedication to their task. It is not

restrictive and inhibitive but a constructive and motivating force.

- (6) Tension is much lower. Individuals are not frustrated by a bureaucratic existence but enjoy working in a climate where their higher order needs can be satisfied.
- (7) Decentralised authority provides an atmosphere where the individual can develop his talents naturally. It breaks down the fences which are so often built to protect the personal empire which is such an important symptom of the system utilizing centralised control. Under decentralized control individuals are less interested in their own empires and more interested in the company itself.
- (8) Staff development. Pushing authority as far down into the organization as possible not only creates the climate for maximum productivity and individual satisfaction but also for developing the type of manager in whose

hands the future of the organization will be secure. Not only is responsibility a basic need of any employee above the unskilled level but it develops initiative, self-assurance and decisionmaking ability.

Some find it difficult to fully appreciate the concept of decentralized authority. Apart from it running counter to his historically-rooted culture patterns man intuitively dislikes delegation and finds it difficult to concentrate on abstract long-term planning and a broad perspective. Also the concept opposes the belief of some that a really successful executive must be a forceful man of action, decisive, commanding, ambitious and very much the central figure.

In the process of decentralizing control top management does not lose control. The management centre is not weakened. Its influence merely changes. The approach enables top management to stop being super foremen and leaves them time to fulfil their intended role of being planner, philosopher and evaluator.

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