

## Quadrant II - Notes

**Paper Code: POD 104**

**Module Name: Types of Planning: Centralised and Decentralised Planning  
Part - I**

**Module No: 11**

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### **Planning**

- Planning may be Centralised or Decentralised.
- Its division is made on the view point of Execution of Plans.

### **Meaning of a Centralised Planning**

- In centralised planning, the entire planning process in a country is under a central planning authority.
- This authority formulates a central plan, fixes objective targets and priorities for every sector of the economy.
- It takes all decisions in accordance with the goals and targets of the plan.
- The central planning authority controls every aspect of the economy.
- It enjoy the power to decide What and how much is to be produced, how, when and where it is to be produced, and to whom it is to be allocated-are exclusively
- It fixes prices of all products and wages of all types of workers.
- Naturally, such planning is rigid.

## **Features of Centralised Planning**

- The government creates a central economic plan. The five-year plan sets economic and societal goals for every sector and region of the country. Shorter-term plans convert the goals into actionable objectives.
- The government allocates all resources according to the central plan. It tries to use the nation's capital, labour, and natural resources in the most efficient way possible.
- The central plan sets the priorities for the production of all goods and services. That includes quotas and price controls. Its goal is to supply enough food, housing, and other basics to meet the needs of everyone in the country
- The government owns monopoly businesses. These are in industries deemed essential to the goals of the economy. That includes finance, utilities, and automotive. There is no domestic competition in these sectors.
- The government creates laws, regulations, and directives to enforce the central plan. Businesses follow the plan's production and hiring targets. They can't respond on their own to free-market forces.

## **Advantages of Centralization**

### **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 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 toward the achievement of the vision. In the absence of 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 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 helps reduce office and administrative costs. 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. If lower-level managers are involved in the decision-making process, the process will take longer and conflicts will arise. That will make the implementation process lengthy and complicated because some managers may object to the decisions if their input is ignored.

## **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 labour costs.

## **Disadvantages of Centralization**

### **1. Bureaucratic leadership**

Centralized management resembles a dictatorial form of leadership where employees are only expected to deliver results according to what the top executives assign them. Employees are unable to contribute to the decision-making process of the organization, and they are merely implementers of decisions made at a higher level. When the employees face difficulties in implementing some of the decisions, the executives will not understand because they are only decision-makers and not implementers of the decisions. The result of such actions is a decline in performance because the employees lack the motivation to implement decisions taken by top-level managers without the input of lower-level employees.

### **2. Remote control**

The organization's executives are under tremendous pressure to formulate decisions for the organization, and they lack control over the implementation process. The failure of executives to decentralize the decision-making process adds a lot of work to their desks. The executives suffer from a lack of time to supervise the implementation of the decisions. This leads to reluctance on the part of employees. Therefore, the executives may end up making too many decisions that are either poorly implemented or ignored by the employees.

### **3. Delays in work**

Centralization results in delays in work as records are sent to and from the head office. Employees rely on the information communicated to them from the top, and there will be a loss in man-hours if there are delays in relaying the records. This means that the employees will be less productive if they need to wait long periods to get guidance on their next projects.

### **4. Lack of employee loyalty**

Employees become loyal to an organization when they are allowed personal initiatives in the work they do. They can introduce their creativity and suggest ways of performing certain tasks. However, in centralization, there is no initiative in work because employees perform tasks conceptualized by top executives. This limits their creativity and loyalty to the organization due to the rigidity of the work.