

CENTRALIZATION AND DECENTRALIZATION OF DECISION-  
MAKING AUTHORITY AND RESPONSIBILITY AS AN ORGANIZATION  
PROBLEM FOR BUSINESS-GROUPS : A THEORETICAL ANALYSIS  
AND AN INVESTIGATION OF SOUTH AFRICAN BUSINESS-GROUPS

by

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## TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	THEORETICAL ANALYSIS	3
1.	<u>Business-Groups</u>	3
1.1.	Definition of the Term Business-Group	3
1.2.	Creation of a Business-Group	4
1.3.	Types of Business-Group	6
1.3.1.	Ownership as the Determining Characteristic	6
1.3.2.	Succession of Production and Trade Steps as the Determining Characteristic	8
1.3.2.1.	The Vertical Group	8
1.3.2.2.	The Horizontal Group	9
1.3.2.3.	The Conglomerate Group	9
2.	<u>Specific Organisation-Problems in the Business-Group</u>	10
3.	<u>The Decision in Business</u>	14
3.1.	Definition of Decision	14
3.2.	The Business-Decision	15
4.	<u>Centralization and Decentralization</u>	17
4.1.	Definition of Centralization and Decentralization	17

4.1.1.	Different Meanings of the Terms Centralization and Decentralization	17
4.1.2.	Logical Limitations of Centralization and Decentralization	19
4.1.3.	Centralization and Decentralization with Regard to Delegation	20
4.1.4.	The Degree of Centralization and Decentralization	21
4.2.	Centralization and Decentralization and the Business-Group	22
5.	<u>The Advantages and Disadvantages of Centralization and Decentralization</u>	24
5.1.	The Advantages of Centralization	24
5.2.	The Advantages of Decentralization	27
5.3.	The Disadvantages of Centralization	32
5.4.	The Disadvantages of Decentralization	34
5.5.	Limiting Factors of Centralization and Decentralization	36
III.	THE PRACTICAL INVESTIGATION	42
1.	<u>The Purpose of the Practical Investigation</u>	42
2.	<u>Methods of Research</u>	43
2.1.	Selection of Concerns and Design of the Questionnaire	43
2.1.1.	Four Possibilities to Select the Concerns	44

2.1.1.1.	Selection with Regard to Ownership	44
2.1.1.2.	Selection with Regard to Economic Activity	44
2.1.1.3.	Selection with Regard to the Types of Concerns	45
2.1.1.4.	No True Selection	46
2.1.2.	The Actual Selection	46
2.1.2.1.	Method Chosen	46
2.1.2.2.	Survey of the Concerns which Answered	47
2.1.3.	The Questionnaire	49
2.1.3.1.	The Explanatory Questions	50
2.1.3.2.	The Business-Policy-Questions	52
2.1.3.3.	The Operation-Questions	52
2.1.3.4.	The Questions Related to the Decision	54
2.1.3.5.	The Organisation-Chart	55
3.	<u>The Decision</u>	56
3.1.	Introduction	56
3.2.	Results	57
3.2.1.	Survey of the Results	57
3.2.2.	The Value of the Decision	57
3.2.3.	The Interdependence of the Decision	58
3.2.4.	The Future Consequences of the Decision	59
3.2.5.	The Possibility to Correct the Decision	60
3.3.	Conclusion	62
4.	<u>The Business-Policy</u>	63
4.1.	Introduction	63

4.2.	Results	67
4.2.1.	Overall Objectives	67
4.2.1.1.	Results	67
4.2.1.2.	Conclusion	71
4.2.2.	Co-ordination of all Members towards the Overall Objectives	72
4.2.2.1.	Results	72
4.2.2.2.	Conclusion - Co-ordination	73
4.2.3.	Implementation of the Overall Objectives	73
4.2.3.1.	Results	
4.2.3.2.	Conclusion	75
4.3.	The Attitude of South African Business-Groups Towards Centralization and Decentralization of Business-Policy-Decisions	75
5.	<u>Decisions Concerning the Functions</u>	77
5.1.	Introduction	71 77
5.2.	Results (Excluding "Personnel")	79
5.2.1.	General Results	79
5.2.2.	Results: Finance-Function	80
5.2.3.	Results of the Other Functions	80
5.2.4.	Results with Regard to the Type of Concern	83
5.3.	Conclusion (Excluding "Personnel")	85
5.4.	Results and Conclusion Concerning the Personnel-Function	86
5.5.	Financial Limits - Results and Conclusions	90

**IV. CONCLUSION OF THEORETICAL ANALYSIS AND PRACTICAL  
INVESTIGATION**

## I. INTRODUCTION

The purpose of this thesis is a discussion of the theoretical aspects of centralization and decentralization of decision-making authority and responsibilities and an investigation of the application of this organisational principle in South African business-groups.

The problems are:

1. Does there exist a guideline for the application of either centralization or decentralization of decision-making authority and responsibilities in theory?
2. Do South African business-groups follow a principle with regard to centralising or decentralising the authority relationships in their organization?
3. Do South African business-groups follow theoretical principles, if any, or do they develop their own individual pattern of relationships?

The theoretical analysis is intended to show the possibilities of centralization and decentralization. The aim is to find out whether there exists a guideline which, if followed, would lead to the optimal solution of this special organisation-problem.

The practical investigation does not deal with South African companies in general, but is limited to a special type: the business-group.

The term is defined in the first chapter of this thesis. The business-groups were chosen because representing one form of concentration in business they are playing a more and more important part in the economy. The organisational problems are in principle the same as in every enterprise, but the external growth presents them in a

different form. Therefore, the particular organization problems in business-groups are dealt with in the first chapter of the thesis. The following terms used in this thesis may cause misunderstanding. To avoid this an explanation will show how they are used here.

<b>Business-group</b>	:	<b>Both terms are used for the same statement: A company consisting of former independent companies which, to enter the group, have given up their economic independence, but keep their legal independence.</b>
<b>Concern</b>		
<b>Parent-company</b>		
<b>Head-company</b>	:	<b>The Company which plays the leading part in the concern.</b>
<b>Leading company</b>		<b>This is usually the initiator of the group.</b>
<b>Single company</b>		
<b>Member</b>	:	<b>One company of the group.</b>
<b>Member-company</b>		
<b>Subsidiary<sup>(1)</sup></b>		
<b>Branch</b>	:	<b>An enlargement of a company. A branch is economically as well as legally dependent.</b>

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(1) Here the term is not used in the exact meaning of the Companies Act, 46/1926 (as amended), Section 90 nov. (inserted by Act 46/1952).

## II. THEORETICAL ANALYSIS

### 1. Business-Group

#### 1.1 Definition of the Term Business-Group

A business-group can be defined as a unification or mutual participation of enterprises based on capital, contract or statute. The members of the group remain legally independent, they keep their identity, but they have to give up their economic independence. They accept the policy which is applied to the whole group and carried out by one leading organ of the group. The profit-and-loss account is made for the whole group. (1)(2)

Modern-day English economic publications call this business-group a concern.

The business-group represents a form of concentration which is normally accepted as not adversely affecting the 'public interest' with regard to the consumer as well as to the producer. The reason will be clearer after having described the nature of business-groups. Especially in those countries where there exist anti-monopoly-laws the legislature has actually favoured the development of business-groups though their real character might conflict with the laws. This relates in particular to the "disparity between the legal conception of control by members and current practice." (3)

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(1) Lüffelholz, J.: Repititorium der Betriebswirtschaftslehre p.166

(2) According to Section 90 of the Companies Act the balance-sheets and profit-and-loss-accounts of those subsidiaries which are not public are published in a consolidated form by the parent-company. The parent-company publishes an additional balance-sheet and profit-and-loss-account for its own. Subsidiaries which are quoted on the Stock-Exchange in accordance with the Stock-Exchange-Act must publish their own balance-sheet and profit-and-loss-account.

(3) Taylor, Ian R.: An Enquiry Into Some Aspects of Public Company Control in South Africa. p.1.

## 1.2 Creation of a Business-Group

English publications seem to be more concerned with defining the different ways of creating such a group than finding an expression to describe the result of the process. <sup>(1)</sup>

The terms 'merger' and 'acquisition' include the same facts, namely the acquisition of firm B by firm A at which A absorbs B so that B disappears. <sup>(2)</sup> "The absorbing firm retains its identity." <sup>(3)</sup>

A difference might be seen in the fact that "the term 'merger' basically connotes the joining together of parties of the same general order of magnitude, while we would tend to speak of an 'acquisition' where a relatively large entity acquires a much smaller one." <sup>(4)</sup>

Other authors see the term 'acquisition' more related to purchase or exchange of stock, whereas a 'merger' means a purchase of assets. <sup>(5)(6)</sup> The former is a very interesting aspect. In this respect the acquisition can take place without negotiating with the firm, whose stock is intended to be taken over. The take-over can be effected by purchasing shares on the Stock-Exchange. However, the possibility that negotiations take place is not excluded. On the other hand, merger in the sense of purchasing assets always requires an agreement between the selling and the buying firm.

The above interpretation does not answer the question whether the firm whose stock, or assets, as the case may be, are purchased, gives up its identity or not. In the case of the merger it seems natural

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(1) An exception might be the term 'holding-company'.

(2) Weston J.F./Brigham E.F.: Managerial Finance,

p.631

(3) Weston J.F.: The Role of Mergers in the Growth of Large Firms

p.3

(4) Mandy, Nigel S.: Mergers - A Response to the Challenge of Change

p.261

(5) McCarthy, G.D.: Acquisitions+Mergers

p.16/17

(6) Short, R.A.: Business Mergers

p.10/11

that it will give up its identity, but in the case of the acquisition this need not necessarily be true. If the entire assets or stocks are purchased, an abandonment of the identity seems likely, but not if there is only a partial change in ownership of assets. This is mainly the case in the business-group where the partial acquisition of assets is sufficient to bring the joining firm under control of the leading firm.

But if as a result of either merger or acquisition, two or more enterprises combine to form a new entity, then a business-group can never be created in this way because this would mean that the joining firm disappears with regard to its former legal existence.

An 'amalgamation' can be distinguished from a merger as here an organization is founded "for the purpose of absorbing two or more companies. The uniting companies are voluntarily extinguished. The new entity takes over the firm's liabilities and properties."<sup>(1)</sup> The original firm still exists, maybe with most of its staff too, but it operates under a new name.

Some authors call this method a 'combination' or 'consolidation'.<sup>(2)</sup> On the other hand the term business combination is used as a general term to describe mergers and acquisitions, which are further classified as purchase or pooling of interests. "A purchase is described as a business combination of two or more corporations in which an important part of the ownership interest in the acquired corporation or corporations is eliminated. A pooling of interest is a combination of two or more corporations in which the holders of 'substantially all' of the ownership interests in the constituent corporations survive in the combined enterprise. In a pooling of interests as contrasted with a purchase, no new basis of accountability arises. The assets and liabilities

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(1) Short, R.A.: op. cit.

p.10

(2) Weston J.F./Brigham E.F.: op cit.

p. 632

of the constituent corporations are combined and adjustments are made through capital and surplus accounts to reflect the outstanding capital stock of the combined enterprise."<sup>(1)</sup>

The last term used in this field is that of the holding-company.

This is a company, usually without production units, which deals mainly with the administration of other companies' stock which it owns and with determining policy and controlling the realization thereof. The holding-company can be regarded as the parent, while its subsidiaries retain their separate identity, but usually not their independence of managerial control.<sup>(2)</sup> The holding-company stands for a typical example of the business-group.

With regard to these different terms it seems very difficult to decide which operation creates the business-group. The decision becomes more difficult because in different publications the terms imply different meanings. So the term used must always be tested as to its implications and must imply that the joining firm keeps its legal independence, its identity, but gives up its economic independence.

### 1.3 Types of Business-Groups

#### 1.3.1. Ownership as the Determining Characteristic

The forms of business-groups are very varied and different criteria can be found to categorize them. Popular characteristics are ownership, idea of creation and the succession of production-and-trade-steps. Ownership is only of special interest in so far as the owners determine the goals and by this the activities of the enterprise. Owners can be an individual or a family, shareholders (private, or other companies as shareholders) or the State. The possible mixture of these three groups

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(1) McCarthy, George D.: op. cit.

(2) Weston, J.F.: op. cit.

will be neglected here.

One-man- or family-owners primarily seem to be interested in receiving a safe income from the business and keeping their prestige and also a continuance of the firm. Public shareholders wish a high income through high dividends but they also want to preserve the companies which are the sources of their income.

The state as an owner, (the possibility that the State acts in the same manner as a private person is excluded) wants to serve the public interest.

Normally the state is interested in either guaranteeing the supply of goods or services or guaranteeing the supply at lowest costs. Examples are electricity and transport facilities which the state provides.

The activities of a business-group whose ownership might change between these three groups can get very different accents by being determined by the different policies of the owners.

The point of categorising the business-groups according to the idea behind its creation mainly covers the same aspects as those of ownership, but it only looks at the outer appearance. A concern can be founded by a single person. It therefore follows that the personality of the founder is the spirit of the whole group. An example is the Anglo-American Group in South Africa, but also the Michelin-Group in France, the Krupp-Group in Western Germany before the neutralisation. What is common to all these groups is that the personalities of their founders have to a large extent formed the character of the group.

On the other hand groups can come into existence because of necessities on the basis of common considerations.<sup>(1)</sup> State-owned companies originate mainly from this idea.

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(1) Arbeitskreis, Dr. Krühe : Konzernorganisation

### 1.3.2. Succession of Production and Trade Steps as the Determining Characteristic

Finally business-groups can be categorised by the succession of production- and trade- steps. By doing this they can be labelled as vertical, horizontal and conglomerate groups.

#### 1.3.2.1 The Vertical Group

In the vertical business-group the members belong to different steps in the production- or trade-sector. It occurs e.g. "where a manufacturer reaches backwards towards the supplier of his raw materials or forwards towards the distributor of his products."<sup>(1)</sup> Goodvear-Shoes together with Cuthberts-Shoe-Shops and Irvin and Johnson together with Kaap-Kunens can be regarded as representatives of this. The members of a vertical business-group will not necessarily belong to both the production- and distribution- sector. Members can belong to different stages in the production sector as well as to different stages in the distribution-sector, e.g. a group including coal-mines, ore-mines and smelting-work will be called a vertical group.

The advantage of this sort of group is the possibility of cost savings. A product can pass different stages without getting a profit-rate on its price. The product can be calculated at net-prices. This calculation helps the group to become a highly competitive supplier and perhaps gains for it a market-controlling position. However, this advantage is open to arguments. Findings show that some groups have higher costs because their members produce at higher costs than outside companies do. In the case where the members have to pay gross-prices, then the profits remain in the group and will have a positive influence on the profit-and-loss account.

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(1) Mandy, Nigel, S.: op. cit.

### 1.3.2.2. The Horizontal Group

A business-group is called horizontal when the members belong either to the same production-level or to the same trade-level, e.g. every member produces food or sells clothes. The United Tobacco Companies (South) Ltd. producing a wide range of brands is an example of this sort of business-group. Also the iron, steel and engineering company - Hume Ltd. A horizontal concern comes into being mainly because it makes possible rationalisation, specialisation and common research and last but not least also helps to gain market-control.

### 1.3.2.3. The Conglomerate

The conglomerate business-group may fall under this category of production- and trading-stages too. It seems that this type plays the most important role today. The fact that many authors only make the distinction between vertical and horizontal groups on the one hand and conglomerate groups on the other hand is relevant.

Conglomerates are referred to as diversified companies, multi-market or multi-industry companies. In the case of a conglomerate group the group consists of firms representing a variety of production- and/or trade-activities. It is often found that originally vertical or horizontal groups striving after diversification go into fields which have no link to their main activities. These days nearly every business-group tries to diversify, e.g. The Rembrandt Cigarette Company bought a brewery into the group.

Groups like these, where the main character does not disappear, will be categorised with regard to their main activities and their original make-up. But there are also those groups which are conglomerates from the beginning. In this case there is mainly a financial interest between

the leading firm and the individual member. Mutual co-operation between the members does not necessarily take place. It can be said that they only form a group because of their relationship towards the leading firm. In this case the leading firm is usually a holding-company. Its leading position arises since it holds the capital of its subsidiary firms. As a holding-company is formed, to acquire the shares of the previously separate and independent companies<sup>(1)</sup> its functions are administration and policy-making.

The analysis of these different types of concern was not only necessary to clarify the situation, but also because the varying structures might require different organisational links. A discussion of this problem will come later.

But first the specific organization-problems which arise in the business-group will be considered.

## 2. Specific Organization-problems in the Business-Group

The foundation of a concern or its enlargement involves many considerations and is not an easy task. But when this actually takes place it does not mean that the difficulties have been overcome. On the contrary at this stage new difficulties arise and problems concerning the future development have to be solved. The main problem here is the organization. With which organization structure does the group function the best? An organization has four requirements:<sup>(2)</sup>

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(1) Mandy, Nigel S. op. cit

P.259

(2) Ackeff, R.L.: The Meaning, Scope and Methods of Operations Research

p. 13.

- the organisational contents: people, equipment
- the organisation structure: assignment of activity and responsibility  
for people and equipment
- communication
- control.

"If any of the last three conditions are not satisfied by a group it is unorganised. To the extent that any of these conditions, although satisfied, is not fulfilled efficiently, the group is disorganised."<sup>(1)</sup>  
A publication in the Harvard Business Review<sup>(2)</sup> brought to light, that the failure of many mergers resulted out of a poor organisation for the new enterprise. "Vague reporting relationships, and frequent shifts in the degree of the subsidiary's autonomy, created great confusion. Thus, poor organisational frameworks mark 81 per cent of failures."<sup>(3)</sup>  
A clear organisational hierarchy, therefore, seems to be a pre-requisite for the success of a concern.

In principle this problem is the same as it is for every single entity, but the size, the geographical coverage, the complexity on the one hand and the immense financial and social<sup>(4)</sup> responsibility on the other hand increases the problem.

The activities of the group-members have to be co-ordinated and integrated with regard to the overall objectives of the concern. The group has to be structured in such a way that every member's contribution is as

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(1) Ibid

(2) This publication was dealt with in the Financial Mail, August 8, 1969

(3) "Mergers", The Lessons Learned", in: Financial Mail, Aug. 8, 1969.

(4) The societies of today oblige the management to be socially responsible.

large as possible. This can only be reached by creating an organisation-structure which makes the complexity of the concerns easy to survey and control, which regulates and supports the flow of economic activities and which guarantees efficient work. It is not enough to use the right instruments, e.g. internal auditing; a clear definition of relationships, of authority-responsibility-relationships is necessary.

According to Peter Drucker<sup>(1)</sup> three aspects determine the kind of organisation structure a business needs. The first is the analysis of the activities performed. This leads to the questions "what work has to be performed, what work belongs together, and how each activity should be emphasized in the organisation structure."<sup>(2)</sup> In a business-group these questions concern more or less a reorganization of the new member with regard to specialisation or rationalization. The second determination of the structure is to be seen in the decision analysis, which means " what kind of decisions are needed, where in the organisation structure they should be made, and how each manager should be involved in them."<sup>(3)</sup> The kind of decisions is determined by the activities. But where and on what level they shall be made that is the special problem for the business-group. Before entering the group every firm has decided all problems itself. Now, by giving up its economic independence, a new concept has to be found. In principle there are three possibilities:  
The leading firm can make all decisions; the joining firm can

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(1) See: The Practice of Management, New York: Harper & Row, Publ., Incorporated 1954

pp.194-201

(2) Koents H.D./O'Donnell, C.J.; Principles of Management

p. 239

(3) Ibid

p. 239

keep its decision-making authority; or some kind of decisions are made by the head and others by the members. In other words, the concern, that is to say the head of the group, can choose between the organization forms of centralization, decentralization or a combination of these two.

The third determination by Drucker "means knowing the contribution to programs that each manager must make, with whom he is to work, and what contribution other managers must make to him"<sup>(1)</sup>. This touches the human sector, the personal relationships, the individual aspects. The reorganization or organization in this field can become difficult or slow, because the new member enters the group with all its staff, which can't be handled rationally only like machines. The social problem must be solved with adequate tools. With enlargement of the concern especially the staff of the leading firms becomes confronted with another problem. "It is an axiom of traditional economics that as an organization increases in size, it finally reaches a point where managerial efficiency diminishes"<sup>(2)</sup>. To cope with this problem the possibility of decentralization must be taken into consideration. Assignment of activities, departmentation, authority-responsibility-relationships, communication, human aspects — all these are problems which can be seen from the point of view of centralization and decentralization.

Before analysing these terms in detail the term 'decision' shall be discussed.

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(1) Ibid

(2) Strong, E.P.: The Management of Business

### 3. The Decision in Business

#### 3.1 Definition of Decision

Besides centralisation and decentralisation, "decision" is another term used in this discussion which needs to be clarified. This is of importance in the investigation of how business-groups actually function in South Africa.

Making decisions is the foremost activity of every executive inside and outside the business. But not every activity of the executive can be called a true or genuine decision.

"Decision" must be distinguished from "behaviour" and from "acting".

In the case of behaviour, an action can be observed externally, but no statement can be made about the reasons which have caused the action. However, the behaviour is preceded by a motivation. But for the observer the motivation is not perceptible, only the behaviour can be recognised. 'Acting' can be observed, but not always. The motivation causing the action cannot be observed.

But the fact of seeing or not seeing a person 'acting' or of not being able to observe the motivation is of no importance for the definition of the term. Important is the effect 'acting' has on the situation. If a person acts he is going to change the situation. This change makes the difference between 'behaviour' and 'acting'.

At least the 'decision' can be observed with regard to the action as well as to the motivation of the action. A decision is a reaction to a situation.

The person making the decision has to notice the situation and then to recognise that the situation needs a reaction.

Decisions can be made either without or with sophisticated knowledge of the situation.

The first category covers those decisions which are the result of impulsive actions, those which are made on the basis of certain personal prejudices, those which are made without serious consideration of the situation and those which are routine or non-programmed decisions.<sup>(1)</sup> The genuine decision as it may be called is based on the knowledge that the situation is complex, that there exist different alternatives for the reaction and it must be made under uncertainty. The "genuine decisions require the formulation of new principles through conscious thought processes."<sup>(2)</sup>

Thus the genuine decisions require firstly the recognition that the situation provokes a decision.

Secondly there must be at least two alternatives from which the final decision can be chosen. These alternatives, which must be mutually exclusive, must be developed in the decision-making process.<sup>(3)</sup>

Thirdly the decision requires the choice between the alternatives.

This is the centre of the decision-process.

And fourthly there must be one or more persons<sup>(4)</sup> who make the decisions.

### 3.2 The Business Decision

The business decision is related to the special characteristics and activities of the business. "The basic decisional problem in business organization is to develop strategies that give rise to a favourable balance between revenues and costs."<sup>(5)</sup>

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| (1) Albers, Henry H.: Principles of Management             | p.83  |
| (2) Ibid   | p.83  |
| (3) Koontz, H.D./O'Donnell, C.J.: Principles of Management | p.152 |
| (4) It can also be a computer.                             |       |
| (5) Albers, H.H.: Principles of Management                 | p.83  |

The decisions are made by one or more persons, but for the outside observer the decisions appear as those of the firm. The business-decision has four characteristics.

The first is the value of the decision. The decision can have different consequences regarding financial and non-financial aspects.

The value of the decision is high when the consequences are big. It is low when there are no important consequences.

The value of the decision determines the requirements for the decision-making process, which are mainly the qualities of the decision-making person and the necessary information. The bigger the consequences are the better must be the qualification and the information.

The second characteristic of a business-decision is the fact that it is dependent on other decisions made in the firm. No business-decision can be seen isolated because it concerns not only the decision-making unit but beyond it other units of the firm.

Thirdly the decision has consequences for the future of the firm. Either the near or the far distant future can be affected. The difficulty to make the decision becomes greater the more the decision covers problems of the future.

The last characteristic of the business-decision is the possibility of correcting the consequences of the decision. Decisions which can be corrected only with extreme difficulty must be prepared with more accuracy.

This is not the place to discuss the methods of making decisions in business. But it should be mentioned that the recognition of the dynamic environment of the firm has led to the static theory of the firm being discarded and led to dynamic models mainly based on the marginal

analysis of economic theory. One of the most important approaches is Operations Research.

#### 4. Centralisation and Decentralization

##### 4.1. Definition of Centralisation and Decentralization

##### 4.1.1 Different Meanings of the Terms Centralisation and Decentralization

The terms centralisation and decentralization are used in different meanings and it is necessary to make clear which meaning shall be used here.

Firstly the terms are used to designate the geographical concentration or dispersion of operations. <sup>(1)</sup> The locality of employees and/or physical facilities are described. In this meaning a concern which has members all over the world would be called decentralised, whereas a group whose members are situated in the same town would be called centralised.

The second meaning refers to the centralisation or decentralization of functions. It leads to the question of which functions (e.g. production, purchase, sales, finance, personnel, public relations) are carried out by the head only and which are carried out on every level downwards the organisation. This is a question of departmentation.

Thirdly the terms are used in connection with authority and leadership. (Fayol's 8th principle). Then they are understood in that way that at some place in the organization there must be a person motivating, leading and

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(1) Albers, Henry H.: Principles of Management

balancing the whole enterprise and representing the general interest.<sup>(1)</sup>

And finally, as used in this thesis, "centralisation and decentralisation describe the manner in which decision-making responsibilities are divided among executives at different hierarchical levels."<sup>(2)</sup>

In other words the issue is whether managerial work like planning, organising, leading and controlling is done by the head or by subsidiaries. "The greater the amount of managerial work the chief executive passes along toward the operating levels the more 'decentralized' an organisation is said to be. By contrast, a 'centralized' organisation is one in which a relatively large portion of the management work is performed at the highest executive level."<sup>(3)</sup>

They are principles for all managerial relationships. The characteristic is the degree to which authority is delegated. Authority can be concentrated at the top of the hierarchy (centralized) or dispersed (decentralized) lower down in the hierarchy. Centralisation or decentralisation in this sense can also mean that the decisions are locally centralized or decentralized. Then centralisation means that decisions are made either in the head-office or in the branch. "In both, however, we may use the same basic concepts in deciding whether we should try to centralize or decentralize certain of the company's decisions."<sup>(4)</sup> Whereas the first two meanings of the terms have more or less special reference to a growing firm, thus the business-group the last two are applicable to both a small firm as well as to a big one.

However, the importance of the delegation of authority with regard to the decision making increases with the increasing size of the business.

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(1) Urwick, L.: The Elements of Administration	p.81
(2) Albers, Henry R.: Principles of Management	p.185
(3) Newman, William H., Sumner, Charles, E., Warren, Kirby E.: The Process of Management	p.62
(4) Jones, M.H. Executive Decision Making	P.322

#### 4.1.2. Logical Limitation of Centralisation and Decentralization

One thing is common to the four kinds of centralisation/decentralisation: they will never be found completely realized. This shall be explained from the logical point of view. The above mentioned kinds of centralization/decentralization showed that it can be centralized/decentralized with regard to a special characteristic, namely with regard to the geography, to the functions, to the authority-relationship, to the decision-making-responsibility. Units which are equal with regard to one characteristic can be concentrated or separated. Now it is obvious that centralization with regard to one characteristic means decentralization with regard to all other characteristics at the same time. (1)

Geographical decentralization makes it impossible to centralize totally with regard to functions, authority and decision-making. All functions cannot be centralized because that would mean the neutralization of the geographical decentralization. The entire authority cannot be centralized because in the plant there must be some measure of authority to perform operations. Centralization of decision-making-responsibility cannot take place entirely because on-the-spot decisions have to be made in that unit. "Neither centralization nor decentralization are absolutes. An extreme of either one would destroy any organisation." (2)

From this restriction of the realization possibilities of centralisation/decentralization it follows that in the firm, in the organisation you will find both types. "The arteries of decentralization bring the lifeblood of responsibility and authority to the various members, while the veins bring it back to the centre." (3)

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(1) Koziol, E.: Die Unternehmung als Wirtschaftliches Aktionszentrum

(2) Gross, B.M.: Organizations and Their Managing,

(3) Ibid

But although "centralisation and decentralization can be thought of as two theoretical extremes, neither of which are found in actual practice, the concept of each one is helpful in the study of organising."<sup>(1)</sup>

#### 4.1.3. Centralization and Decentralization with Regard to Delegation

As already mentioned the subject of this investigation is the centralization and decentralization of decision-making-responsibilities.

Whether authority should be concentrated or dispersed throughout the organisation is question not so much of what kind as of how much authority."<sup>(2)</sup>

Centralization/decentralization then is the result of delegating authority.

In the case of delegation, decentralization is related to a person, which means that the person is representing the unit.

Delegation "means the act of passing to another position or person the whole or part of stated responsibility, usually in a subordinate relationship."<sup>(3)</sup>

This process leads to decentralization - "the pattern of responsibilities resulting from delegation."<sup>(4)</sup> With regard to this result "centralization" must be used specifically, i.e. that responsibility for this or that is retained at a centre."<sup>(5)(6)</sup>

One can understand centralization and decentralization in a broader sense than related to a person. This can be seen with regard to complete groups of activities and functions. "Decentralization in this view,

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| (1) Terry, George R.: Principles of Management,                                  | p.373 |
| (2) Koontz H.D./O'Donnell C.J.: Principles of Management                         | p.349 |
| (3) Brech, E.F.L.: Organisation: The Framework of Management                     | p.372 |
| (4) Ibid   | p.372 |
| (5) Ibid   | p.372 |
| (6) No delegation of authority is possible without delegation of responsibility. |       |

would be the segregating of all the production activities for one or more products, and the delegating of over-all authority and responsibility to one particular production or plant manager."<sup>(1)</sup>

In other words: "Decentralisation means the division of a group of functions and activities into relatively autonomous units, with over-all authority and responsibility for their operation delegated to the head of each unit."<sup>(2)</sup>

But centralization and decentralization are not only mechanical processes of delegation beyond it they represent a management philosophy; and a decision favouring the one or the other influences not only the organization but all management activities: planning, staffing, directing, controlling.<sup>(3)</sup>

#### 4.1.4. The Degree of Centralization and Decentralization

Confronted with these two patterns of organization it can be observed that the issue is not the entire realization of the theoretical forms but that it is the degree of centralization and of decentralization.

The degree of either the one or the other not only differs from company to company but also inside the company between the departments.<sup>(4)</sup>

The question arises how to measure the degree of centralisation and decentralization. On principle one can design a schedule with different information about the decision made.

- e.g.: <sup>(5)</sup>
- a) Number of decisions made.
  - b) Importance of decisions.
  - c) Number of functions affected by the decisions.
  - d) Checking required on the decisions.

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| (1) Strong, Earl P.: The Management of Business                          | p.78/9 |
| (2) Ibid   | p.79   |
| (3) Koontz H.D./O'Donnell C.J.: Principles of Management                 | p. 352 |
| (4) Newman, W.R., Summer, C.E., Warren, E.K.: The Process of Management  | p.62   |
| (5) Dale, E.: Planning and Developing The Company Organization Structure | p. 107 |

From this it can be gathered that a small number of decisions made on the lower levels, unimportant decisions with little influence, decisions which are highly controlled, are all signs of a high degree of centralization. On the other hand, a big number of decisions made on lower levels, important decisions with strong influence, decisions which are made without a great deal of control, are signs of a high degree of decentralization. Generally one can do so, however, it is extremely difficult to find a satisfying scheme - for all businesses.

Different sizes of business, different historical developments of the enterprises, different environments, different objectives, require different standards. More or less it has to be decided from case to case and evaluated with regard to every special firm. As already said, the result then will not be definite but only a reflection of the tendencies which are to be seen.

#### 4.2. Centralization and Decentralization and The Business Group

The business-group, consisting of different firms which are legally independent, mostly geographically dispersed, often producing a variety of products, has to take into account the above facts on the one hand and the desirable advantages to the corporation on the other hand. The advantages of the single firm as well as those of the group must be used to reach the common goal. "In Human Relations on Industry, Burleigh B. Gardner and David G. Moore say that a primary objective of organizational planning 'is that of building large organizations and of retaining, at the same time, the quality and strength of small,

well-integrated work groups"<sup>(1)</sup> Replacing 'work groups' by 'individual firms' this applies very much to the concern.

For the business-group there is the alternative between dominance of the leading firm, the parent company, and *laissez-faire* of the subsidiaries. However, the '*laissez-faire*' must be seen with regard to the common goals of the group.

The actual solution will lie in between these alternatives and again one will find elements of both - centralisation and decentralization.

In the words of Alfred Sloan: "I maximize decentralization of divisional operations in the words 'shall in no way be limited'"<sup>(2)</sup>...

"I proceed to limit the responsibility of divisional chief executives in the expression of 'proper control'"<sup>(2)</sup>

Before examining the actual attitude of concerns towards these alternatives the general advantages and disadvantages of centralisation and decentralization will be analysed from the theoretical point of view.

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(1) Uris, Auren: Centralization vs. Decentralization  
(2) Sloan, A.P. jr.: My Years With General Motors

p.265/266  
p. 53

## 5. The Advantages and Disadvantages of Centralization and Decentralization

### 5.1 The Advantages of Centralization

What favours the centralization of decision-making in the business-group?

At the first glance centralization seems to be the only natural way.

The necessity for a uniform policy throughout the group seems to require centralized decision-making. The central management has a better survey over the whole group than any single divisional-executive. The latter might be more concerned with his small entity than with the development of the group. If he tries to strive for carrying out the group's policy, his interpretation of the goals might differ from that of his colleagues. To avoid jeopardising the realization of the company's policy, centralization of decision-making fosters the uniformity of policies. By this means a uniformity of activities and a consistency of operating within the group is guaranteed.

Centralization also makes possible that the decisions can be made by specialists. The single firm is not always able to afford a specialist as well as it might not be able to use all capacities of specialists. But in the concern the head-company can employ specialists, who can be used by the whole group.

As decisions made by specialists normally have a high value and a high efficiency the concern will profit by this centralized decision-making. At the same time the subordinates can be less skilled. This results in lower payroll expenses. <sup>(1)</sup>

In a group often decisions of the same nature have to be made.

To avoid unnecessary duplications of decisions and with that saving of efforts and costs which is due to the overlapping activities <sup>(2)</sup>

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(1) Newmann, William H.: Administrative Action

p.220

(2) Uris, Auren: Centralization vs. Decentralisation

p. 265

centralized decision-making is more rational.

The same fact occurs with regard to the carrying out of functions. Where members of the group belong to the same species of business they have to fulfil the same functions. For example, in a group where all or some members produce the same sort of goods they all have to purchase the same materials for the production. In this case the centralization of the purchase-function would mean an economical advantage. From this one can gather that centralized decision-making regarding the functions is economical.

This relates to another saving. An important factor in the concern-organization is the control. Control is necessary to make sure that the goals become realized. Control is one of the main tasks of the parent-company. The fewer decisions are made by the subsidiaries, the less control is necessary. This means, firstly, that for the whole group the control can be minimized, if decision-making is centralized.

Secondly centralized decision-making makes possible one centralized control-department in the head-company.

Both effects have economical advantages. But beyond it they guarantee a more qualified control activity. The advantages of specialists hold good.

Another argument in favour of centralisation is that the decisions can be made more quickly than in a decentralized organization. This is certainly valid for some sorts of decisions, like decisions about operation matters. In many cases the head-company can be better

informed and it may be easier for it to make the decisions in the right situation. However, one cannot be dogmatic about this point.

Finally one argument is that centralized decision-making excludes mistakes on the lower level. This argument is based on the fact that in the central office specialists can solve the problem. As they are highly qualified and have more of an overall view their decisions have higher probability to be correct than those of subsidiary executives'. But there are not only the more or less economic factors which favour centralization. Social and psychological points have an influence too.

At first people often do not like to have responsibility. If the company is designing its organization it must take into account the available staff.

For some nations this fact is important because their people belong to ethnic groups either whose nature is not such to carry responsibility or who are not educated enough to take the responsibility. Here the human nature favours centralized decision-making.

Human nature might also try to avoid difficult decisions. Here people want to have responsibility, but a limited responsibility. One can find that executives on lower levels do not like to have too much responsibility and they like to leave difficult decisions to the head-company and its specialists.<sup>(1)</sup> This means "utilizing the talents of outstanding executives by the entire organization."<sup>(2)</sup>

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(1) See: Baker, H./France, R.R.: Centralization and Decentralization in Industrial Relations, Summary p.2.

(2) Uris, Auren: Centralization vs. Decentralization p.265

Another fact is the influence the society has on the attitude of people. Where the executives of the different subsidiaries are at the same time more or less members of an authoritarian society they might prefer a strong leading management. As the power and prestige of the management grows with the importance of the decisions it has to make, this leads to a centralized form of organization. This influence of the society is of importance for business-groups which are spread over different countries with different societies.

### 5.2. The Advantages of Decentralisation

The other organization form -- decentralization -- has its advantages too. These will be dealt with in the following chapter. From the definition of business-groups, which means that the members strive for a common economic aim, it can be concluded that centralization might be the best organization for the concern. But on the other hand the actual formation of the group -- the setup of legally independent companies -- seems to favour the decentralized structure. As the single company has had its own organization structure before joining the group it might be advantageous to let the single company keep its decision-making authority. <sup>(1)</sup>

The parent-company in the group has to look after the realization of the group's objectives. As decentralisation means delegation of authority it follows that by dispersing authority the activities carried out by the top-executives in the parent-company can be minimized and limited to the most essential ones, which can be the concern's objectives. If these executives are restricted in their decisions

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(1) However, there can exist a centralized organization in the single company

to the most important ones their load is very much relieved<sup>(1)</sup> and by this their time can be used more efficiently.<sup>(2)</sup> It can be said that their effectiveness is multiplied.

The concern, being normally a very big complex, makes it nearly impossible for the top-management to deal with all problems arising themselves. "It is an axiom of traditional economics that as an organisation increases in size, it finally reaches a point where managerial efficiency diminishes. One answer to the problem is decentralisation."<sup>(3)</sup> It is a physical necessity to delegate responsibilities to a certain degree.

This delegation has the advantage that management in every part of the group can develop initiative, responsibility and authority at logical centres, closer to the scene of action, throughout the company.<sup>(4)</sup>

"Decentralisation means the absence of 'edict management' in which nobody quite knows why he does what he is ordered to do."<sup>(5)</sup> As these managers feel stimulated they may show more "initiative, resourcefulness and the sense of profit-making responsibility."<sup>(6)</sup> If the lower-level-executives are accustomed to make decisions and to exercise initiative they represent a strong self-reliant management personnel, which means a growing managerial potential.

Whereas centralisation favours specialists, decentralisation favours generalists. As it is uneconomical to have specialists on every level down the hierarchy, the decisions the executive have to make are naturally of broader nature.<sup>(7)</sup> But this fact has two advantages. The first

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(1) Terry, George R.: Principles of Management,

(2) Baker, H. and France, R.R.: op cit. Summary

(3) Strong, S.P.: The Management of Business

(4) Fish, Lounsbury S.: op. cit.

(5) Drucker, P.F.: Big Business

(6) Fish, Lounsbury S.: op. cit.

(7) The General Motors organization which favours decentralisation solves this problem by having staff-departments at the head-office.

p.578

p.1

p.78

p.253/254

p.49

p.254

is that the succession into the general manager's positions are facilitated. (1)

If lower-management executives are accustomed to make decisions and to exercise initiative the development of strong management personnel becomes possible. (2)

At the same time the chances to be promoted are growing, because there are more places to be filled. This may create a more dynamic atmosphere in the company.

A characteristic of the business-group is the geographical dispersion (in most cases). One result of this is that the executives in the individual company are much more familiar with the local conditions and they do have more insight into these conditions than the head-office has. Because of this a decentralized decision-authority can more easily obtain the advantages of the local conditions. (3)

Beyond it decentralization capitalizes the natural decision-making advantages possessed by management on the spot, so that actual advantages can be gained.

To put the centralized decisions into action an extensive communication and information system is necessary. This system can be shortened in a decentralized organization which results in money savings.

A smaller system can also better be supervised which might make the flow of information more effective. Decisions made on the spot not only have the advantage of being able to take into account the actual situation, they also can be made much quicker than centralized decisions.

At the same time conflicts of interest between head and subsidiaries can be eliminated.

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(1) Terry, George : Principles of Management

p. 378

(2) Baker, H. and France, R.R.: op. cit. Summary

p. 1

(3) Terry, George R.: op cit.

p. 378

An important aspect of delegated decision-making authority is the distribution of risks. The consequences of a wrong decision made by the head-company can be worse than those of a wrong decision made by a subsidiary. As the latter only has to decide on matters concerning itself the costly effect of a wrong decision does have less important consequences.

But secondly the wrong decision can be a lesson for the other companies and they can learn from the mistakes which have been made. Especially in a horizontal concern where all members belong to the same species of business <sup>it</sup> can be very useful.

The advantages can thirdly be used as follows: "Plans can be tried out on an experimental basis in one plant, modified, and proven before being supplied to similar plants of a company."<sup>(1)</sup>

The above mentioned distribution of risks presumes that decisions are made individually by the subsidiary's executives. By this it is presupposed that the management is able and capable to make these decisions. A bigger amount of initiative and ideas, which decentralisation provides, is certainly a big benefit for the concern. The challenge to make decisions not only brings to light the extraordinary and outstanding managers but it also makes visible a weak management, which is of less use for the company. It means, "that weak divisions and weak managers cannot ride for any length of time on the coat tails of successful divisions, or trade on their own past reputation."<sup>(2)</sup>

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(1) Terry, George R.: op. cit.  
(2) Drucker, P.F.: Big Business

Decentralized decision-making lets the business-group gain the capable managers and get rid of those who are not managers in the true sense of the word. This advantage can be strengthened by another positive effect decentralisation has. Decentralization of decision-making responsibilities favours competition inside the group.

If the executives get decision-making authority and responsibility they might try to do their best. As the success of their decisions can be evaluated with regard to the decisions made by other executives they will try to strive after the best results. To reach the latter managers have to do all that is possible. By this the company and the group gets the advantage that the management resources are utilized at an optimum.

Leaving the more economical advantages of a decentralized organisation two aspects concerning the more human side must be added.

The first is that a decentralized organisation can have a positive effect on human relations, which may be caused by the absence of a gap in the executive group between the 'privileged few' and the 'great many'.<sup>(1)</sup>

Delegation of decision-making responsibilities makes the individual feel important and gives the subsidiary's staff as a whole a feeling of team-spirit. "Intimate personal ties and relationships are promoted resulting in greater employee enthusiasm and co-ordination,"<sup>(2)</sup> as well as in greater fairness between the executives. There might be more freedom to criticise, to talk and to suggest.

Secondly decentralization as well as centralisation represents a form

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(1) Drucker, P.F.: Big Business

p.49

(2) Terry, George R.: op. cit.

p.378

of management philosophy. "The creation of the decentralized divisional structure is one of the important social inventions of this century."<sup>(1)</sup>

From this point of view decentralization represents a democratic form of organization and has all the advantages of a democratic society. From which one of the most important is that people are able to develop their abilities for the advantage of the society.

### 5.3. The Disadvantages of Centralization

Although the disadvantages of centralization and decentralization are more or less the advantages of the contrary form these points shall be discussed for the sake of completeness.

The making of centralized decisions requires a very extensive information system. The effectiveness of this system diminishes with the growing size of the group. Although the introduction of computers has helped to overcome this lack of information, the lack cannot be removed entirely. The conventional information channels as well as the computer require selected information which means that a choice has to be made, unimportant information is neglected.

The more comprehensive and detailed the information becomes, the higher the expenses for the information system. By "stretching of communication lines to the breaking point"<sup>(2)</sup>

The information system receives an over-proportional importance in the concern. And even the best information system cannot always provide all information for meeting the local needs or a complex operation. Whereas on the one hand the data required for the decision are difficult to get in a centralized organisation, on the other hand it is difficult

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(1) Lickert, Rensis: New Patterns of Management,

p.85

(2) Uris, Auren: Centralization vs. Decentralization

p.265

to put the decisions made into action. The most obvious disadvantage is the slow speed with which the decision reaches the department which it concerns. A time-lag in comparison with a decentralised made decision must be accepted.

Centralisation also means excessive demands on the managers in the head-company. The smallest one is the time they have to spend.

However, this disadvantage can be mitigated by employing more staff, although this means softening the centralised organisation at the same time.

A stronger disadvantage is the fact that the top executives have to bear an enormous responsibility for their decisions. For the individuals this means a heavy stress and they can be forced to develop a breadth of interest that is beyond their capacity. <sup>(1)</sup>

For the concern centralised decision-making has the disadvantage that a wrong decision made in the head-company has enormous consequences. The costliness of centralized decisions is higher than that of decentralized.

As centralized decision-making responsibility requires more than average capabilities only few people are able to become top managers in this organisation. This leads firstly to a personalising management policy <sup>(2)</sup> and secondly to a very strong dependence on a single person, who is very difficult to be replaced.

The last disadvantage is stressed by the fact that concentrated authority in a few hands doesn't allow lower level executives to show interest and initiative. At least they are not in the position

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(1) Ibid  
(2) Ibid

to show their talents and they are not given the chance to exercise decision-making. This results in small management resources.

#### 5.4. The Disadvantages of Decentralization

One disadvantage of decentralized decision-making responsibilities in the concern which is often mentioned is the fear that it might bring the uniformity of the policy into danger. The individual executive might be more concerned with the success of his company than with that of the whole group. This is in fact a very severe disadvantage and perhaps only strong control-lines can mitigate this disadvantage.

Nearly the same idea stands behind the argument, that decentralization has a negative effect on the co-ordination between the group-members.

As it can be accepted that branch managers are not only not interested in co-ordination but they also often do not have the survey over the whole group which enables them to participate in co-ordination, it can be concluded that the head-company does better if it centralises this activity.

Another argument against decentralization is that the more decisions are made on lower levels the higher is the risk for the company. This argument can be underlined by the "difficulty in finding executives able and willing to assume primary responsibility."<sup>(1)</sup> If the

company can't find the right staff to make decisions the risk might be even higher. As a decentralized organization needs many executives the choice might not be big enough to choose the right people only. Then second rate executives must be accepted in top jobs, simply

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(1) Ibid

because they are available.<sup>(1)</sup> The question of management resources can become a fairly high problem for a decentralized organization. Another disadvantage of decentralization can be the neglecting of specialisation. Managers down the level have to make all-round decisions because a concern normally can't afford specialists for every company. The size of the company determines the employment of specialists. As smaller companies are not likely to get them they might suffer from the lack of these sophisticated people. Above this "too much decentralization may prevent the cost-saving efficiencies of specialisation."<sup>(2)</sup>

From the human point of view there might arise a disadvantage. "Inter-unit rivalry interfering with operations"<sup>(3)</sup> can interrupt the flow of activities and the successful performance. This argument is the negative side of the advantage of competition inside the group. Competition can be very useful when it works within an acceptable framework. But when executives do not use this instrument for the prosperity of the group but more for the satisfaction of their esteem it can become very dangerous.

As already said, the advantages of the one organization form are more or less the disadvantages of the other form. It is of interest to weigh up the advantages and disadvantages to see which arguments are relevant in a particular case and which not. But this problem cannot be dealt with in this thesis.

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(1) Ibid p.265  
(2) Strong, E.P.: The Management of Business p.80  
(3) Uris, Auren: Centralization vs. Decentralization p.265

At this stage it shall only be stated that one must not forget that both forms of organization represent a special direction of management-philosophy. The centralization stands for an authoritarian attitude of top-management whereas decentralization stands for a democratic approach. The philosophical standpoint of the top-management which is responsible for the organization of the concern is one decisive factor influencing the choice of the organization. The readiness for the one or the other form may well be strengthened by their attitude, although the economic reasons will remain the most important.

#### 5.5 Limiting Factors of Centralization and Decentralization

In one of the first chapters it has been mentioned already that neither centralization nor decentralization will be found entirely realized in the business-world. In practice one will always find some elements of the opposite form in the actual organization. As there exist factors which limit the 100% actualization of each of the organization-types, these factors shall be dealt with now. To show the limitations of centralization is relatively easy because centralization theoretically has only one limit and that is the person. "This would be, of course, a ridiculous condition for almost any but the tiniest organization. The reduction of the process to this unusual limit does, however, serve to suggest the extreme contracting possibilities inherent in centralization."<sup>(1)</sup> One can conclude that centralization in its pure form will not be realized.

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(1) Hardwick, C.T. and Landuyt, B.F.: Administrative Strategy and Decision Making.

"Decentralisation likewise, even though it is in action in an opposite direction, has an extreme limit, which would be such complete autonomy of office, department or plant that only a common name might bind the entities together."<sup>(1)</sup>

The business-groups which judged by their outlook can be called decentralized in nature will never introduce such an extreme organisation form. The unity of economic goals is of such a big importance for the existence of the group that it cannot be given up.

Beyond it there exist subordinate limits for decentralisation.

The first is the information. "Adequate and reliable information pertinent to the decision is required by the person making the decision. Decision-making authority, therefore, cannot be pushed below the point at which all information bearing on the decision is available."<sup>(2)</sup>

Every executive must be informed about what is going on in the whole group so that his decision is based on an adequate knowledge and he must be conscious of the consequences of his decision. "So you can safely decentralize management authority only to the extent that you are organised at the receiving end to assure balanced, co-ordinated management decisions — taking all consequential business factors into account."<sup>(3)</sup>

The possibility to make information available to executives all over the group determines the degree of decentralization. The less information is possible the greater is the need for centralization in decision-making activities.

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(1) Ibid

(2) Staiger, John G.: What Cannot be Decentralized

(3) Fish, Lounsbury S.: Decentralisation Reappraised

p.245

p.256

p.249

In a wide-spread and complex undertaking like the concern, decisions have to be made which affect either some members or all members at the same time. They have consequences with regard to risks, needs and opportunities. The main decisions of this category are the following:

- "1. Investment of limited capital funds among competing needs.
2. Determination of which areas offer greater possibility for growth.
3. Assignment of executive personnel among different operations, considering the relative needs of the business and the training value of the experience in the rounded development of men for senior executive posts."<sup>(1)</sup>
4. "The scope of the impact of the decision: if a decision affects more than one unit of the enterprise, the authority to make the decision must rest with the manager accountable for the several units affected by the decision."<sup>(2)</sup>

These decisions require not only a fair amount of knowledge but also a point of view which enables the decision-maker to survey the whole group. At least the latter requirement seems to be more possible for a person of the head-company. So it can be concluded that the above sort of decisions should better be centralized in order to achieve the optimal results.

Another limit of decentralization is the size of the concern. The concern must be big enough to make decentralization worthwhile. It must be taken into consideration if the unit to which the authority shall be delegated is

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(1) Ibid

(2) Staiger, J.G.: What Cannot be Decentralized

p.249

p.256

- "1. Big enough to justify a potent management team.
2. Small enough for that team to 'get its arms around' and do a first-class job.
3. Complete and separable -- a logical, definable, management 'package', embracing or having adequate control over elements, facilities, services, and related operations vital to the achievement of its primary objectives.
4. Measurable as to results achieved, as an essential basis for management accountability."<sup>(1)</sup>

For a small member of the group it might be financially better to lead it centrally.

There exist two other limits or difficulties for decentralization.

A concern wants a strong and well-integrated system of companies because they guarantee the economic success. The "attainment of this objective, says Raymond Villers in the Harvard Business Review<sup>(2)</sup> may be blocked by two obstacles:

- '1. The difficulty of decentralizing down to a sufficiently small unit. (The decentralized unit of a large corporation is generally of substantial size, often including many plants and several thousand employees. There is little or no decentralization within such a unit.)
2. The difficulty of controlling the decentralized unit. (Simplified controls, such as those based essentially on the well-known criterion of 'return of investment', often prove to be deceptive and can be applied successfully only to decentralized units of substantial size.)"<sup>(3)</sup>

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(1) Fish, Leunbury S.: Decentralization Reappraised p.250

(2) Quoted from Uris, Auren: Centralization vs. Decentralization

(3) Ibid

The first argument refers again to the size of the unit. But here the problem is deeper, as the size is an unknown figure. The optimal size has to be found and determined. This is a very difficult problem and up to now it seems as if this figure can only be found by trial and error.

The second problem is that of control. A system has to be developed which is able to control the decentralized units. As Villers mentions, the methods based mainly on the 'return on investment' are not satisfying. Technically the control has become possible. The introduction of the computer means a big help. But the problem to find a system which covers more than the financial success has not been solved yet.

But there is not only a limit from either the impacts of decentralisation or centralization or from the inside of the firm. There can also exist limitations caused by outside factors. "Company - or industry - wide bargaining with labour unions may have to be confined to a high level in the organisation. Legal and government requirements may require certain financial decisions to be made for all units of the firm by one centralized department."<sup>(1)</sup> Centralisation on the one hand as well as decentralization on the other hand have their limits and none of the two theoretical types will be found realized entirely in practice. Villers and other management authorities tried to balance both forms by taking as they see it the best from each. They favour an organisational

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(1) Strong, E.B.: The Management of Business

setup with centralized planning and control and decentralized operational authority and responsibility. "Essentially, this approach offers a division of the 'planning' and the 'doing' functions. To be sure, the heads of the decentralized units have 'authority' and 'responsibility'. But, by and large, they are forced to play the home office's game."<sup>(1)</sup>

This situation probably makes possible the most complete degree of decentralization, because this solution leads to the so-called 'profit center' type of situation. "Here, the unit head has almost complete decision-making latitude, his responsibility being simply to show acceptable results in terms of profit performance."<sup>(2)</sup>

The question of centralization and decentralization is a question of degree. As one person is not able to perform all activities in a centralized organization so is decentralization never complete as "some degree of control is always maintained."<sup>(3)</sup>

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(1) Uris, Auren: Centralization vs. Decentralization  
(2) Strong, E.P.: The Management of Business  
(3) Ibid

p.266  
p. 79  
p. 79

### III. THE PRACTICAL INVESTIGATION

#### 1. The Purpose of The Practical Investigation

In addition to discussing the theoretical aspects of centralization and decentralization of decision-making-responsibilities, the purpose of this investigation is to find out how South African concerns have solved or tried to solve this problem. A theoretical discussion of the problem can point out the advantages and disadvantages in general and to a certain extent can give principles, the acceptance of which is advisable. However, especially the organization problem of centralization and decentralization has shown that the construction or formulation of principles is difficult if not impossible. This problem is so much linked to the individual company that a generalization becomes extremely difficult and the best cannot be defined. So it can be interesting to see how the practitioners, the organisers in the companies, manage the problem. These people are primarily concerned with the success of their company and they try to find that form of organisation which guarantees the optimal success of their company. They might be influenced by theoretical findings but they also might follow their intuition in structuring the company. Whatever their background is, they are primarily concerned with the individual company and the best fitting organisation for it. So the practical investigation of centralization and decentralization tackles the problem from an entirely different point of view. The practice follows

subjective aims while the theory sees the problem objectively.

The organisation-theory cannot exist without the practical application. At least there must be a mutual response.

A comparison of theoretical findings with practical application results in an improvement of both sides.

Thus, although the theoretical analysis does suggest the existence of varying guidelines for centralization and decentralization of decision-making responsibilities, the practical investigation might bring to light which particular guidelines were adopted by the concerns studied and the reasons for doing so. South African business-groups are still in a developing stage. But they have the advantage of knowing the modern sophisticated methods of organization.

How they apply them or which pattern they have developed for their own use is the subject of this part.

## 2. Methods of Research

### 2.1 Selection of Concerns and Design of the Questionnaire

The method chosen to get the necessary information about centralization and decentralization of decision-making responsibilities in South African business-groups was by questionnaire and by interview. Before starting to collect the information two decisions had to be made. The first was which concerns should be selected. The second was the design of the questionnaire.

### 2.1.1 Four Possibilities to Select the Concerns

To a certain extent, the kind of questions must be related to the type of business-groups which should be questioned. Thus, the decision about the types of concerns to be selected had to be made first. There were four possibilities for the selection of the concerns.

#### 2.1.1.1. Selection with Regard to Ownership

The first was to select those concerns only which are owned by South Africans. This possibility had to be rejected because the ownership is difficult to define. Foreign capital is very active in business-groups and concerns which are entirely owned by South Africans do not seem to be frequent. The investigation had to be limited to concerns which are situated in South Africa.

#### 2.1.1.2. Selection with Regard to Economic Activity

The second possibility to select concerns is to choose them with regard to the kind of economic activity. This approach has the advantage that it can bring to light a correlation between centralization and decentralization and kind of economic activity. This approach entails finding those concerns which belong to agriculture, forestry, hunting and fishing; mining and quarrying; manufacturing; construction; transport, storage and communication; wholesale and retail trade; financial services.

This approach too was confronted with difficulties.

Firstly, for a valuable result it was necessary to question an equal number of concerns of every sector. As there is no equal distribution between the different sectors (mining and agriculture are still the most significant sectors of the economy) it is difficult to find a representative number of concerns in each sector.

Secondly, some sectors consist mainly of big groups, whereas others consist mainly of smaller groups. The mining sector is an example of the first fact, the wholesale and trade sector is an example of the latter. It can be expected that the bigger groups have a more sophisticated organisation. They are not comparable with the organisations of the smaller groups in other sectors.

Thirdly, it is difficult to catalogue the concerns with regard to their membership of special sectors because many of them belong to different sectors of the economy at the same time. Through internal or external growth they have become a vertical group or a conglomerate. The trend to diversify is very strong and nearly every concern operates in a field which is not related to its original or main activity.

#### 2.1.1.3 Selection with regard to the Types of Concern

The third possibility to select the concerns is to distinguish between the types they represent. A distinction could be made between vertical, horizontal and conglomerate concerns.

By doing so the correlation between centralization and decentralisation and type of business-group comes to light.

This approach can be regarded as especially interesting because the different set-up of the concerns might give different approaches to the authority-responsibility-relationships.

Although continuous growth makes it difficult to catalogue, and already existing diversified activities do not make it easy to label the groups theoretically, this approach could be realized. The main activity can be taken as a sign for the type to which the concern belongs. <sup>(1)</sup>

#### 2.1.1.4 No True Selection

The fourth possibility to select the concerns is no selection in the true sense. The selection refers only to the fact that it had to be determined whether the group is a concern in the full meaning of the definition without any reference to type, economic activity or ownership. The cataloguing could take place after having received the answers.

#### 2.1.2. The Actual Selection

##### 2.1.2.1. Method Chosen

For this investigation the third possibility was chosen originally but then the circumstances made it necessary to transfer to the fourth possibility. The poor responses of the concerns made it impossible to insist on selected groups only. As only 1/4 of the questioned companies answered, the aims of the investigation had to be modified. Thus, those companies which were believed to be concerns were contacted. (To make sure that the concerns in

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(1) The Financial Yearbook and company reports give enough and profound information.

question fell under the definition of a concern which is used in this study, the definition was stated in the questionnaire. The concerns were asked to confirm that the definition applied to their kind of business-group).

#### 2.1.2.2. Survey of the Concerns which Answered

After having received the answered questionnaires the business-groups were catalogued with regard to their type. By doing this the result is unfortunately so that the vertical concerns are by far more strongly represented than the horizontal and conglomerate concerns.

Vertical concerns questioned:	14
Horizontal concerns questioned:	3
Conglomerate concerns questioned:	3
No Categorization possible:	16

A great number of concerns sent back the questionnaire without disclosing the name of the concern. This made it impossible to define the type of concern. As it was not expected that a great number of the concerns would answer anonymously there was no question in the questionnaire which asked for the type of the concern.

This omission has no important consequences, because the investigation deals with centralisation and decentralisation in general. A relation to the type of concern would have been an additional improvement. But the results at least allow

a correlation between the wettical concern and the organization-problem to be recognized.

The questionnaire was sent to 126 business-groups.

As already mentioned, the response was very poor. Though the accompanying letter confirmed that neither the name of the concern nor the information in connection with the name would be disclosed, only 44 concerns were prepared to answer.

11 did not want to disclose any information. They only stated that they did not want to answer.

5 did not feel that their business-group falls under the definition. The main reason was that the structure of the group had changed in the recent past and they could no longer be called concerns.

36 concerns answered the questionnaire. Among these only 5 situated in Cape Town were prepared to be interviewed personally. These concerns have been interviewed.

There were some concerns outside Cape Town which were prepared to be interviewed but time and resources precluded doing so. This was regrettable because the interviews were very useful.

Survey of the Concerns questioned	Number	%
Positive answers	36	28.5
(Interviews)	( 5 )	( 4.0 )
(By letter)	(31 )	( 24.6 )
Concerns which did not want to disclose information	11	8.7
Concerns which did not fall under the definition	5	4.2
No answer	74	58.7
Total	126	100%

The information material on which this thesis is based is relatively small. But the information shows a significant trend. However, the result cannot be regarded as definitive.

### 2.1.3. The Questionnaire

The questionnaire<sup>(1)</sup> was drafted with regard to the three different types of concern, thus, the contents were general.

The questionnaire consists of three main groups and some explanatory questions.

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(1) A copy of the questionnaire is in the appendix (the numbers in the text of this thesis do not conform with those on the questionnaire).

2.1.3.1. The Explanatory Questions

The explanatory questions were as follows:

- Q.1. (1) "I define the term 'business-group' as follows:  
'The business-group consists of former independent companies which to enter the group have given up their economic independence, but which keep their legal identity.'  
Would you say that this definition applies to your company?"

This question was necessary to make sure that the concerns belong to that type of company which is dealt with in this investigation. The definition itself was necessary to make sure that really one type of business was questioned. Companies of different nature might have different organisation-structures and different attitudes towards centralisation and decentralization of authority and responsibility.

- Q.2. "Does your company have a plan of the organisation structure? If so may I have the plan or extracts from it?"

This question served the purpose of finding out what attitude concerns have towards scientific organisation in general. Having an organisation-chart, the concern might be open-minded with regard to sophisticated methods. At least it has thought about the best relationships within the group and knows the subject of the questionnaire.

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(1) See footnote previous page.

Q.3. "Would you say that the organisation of your company tends towards a centralized or towards a decentralized organisation?"

This question is interesting in so far as the self-evaluation of a concern might not conform with the facts. Although the concern thinks it is very centralized/decentralized, in reality it is very decentralized/centralized.

Q.4. "Has the introduction of computers in your company favoured the trend towards centralization or towards decentralisation of decision-making-responsibility?"

The influence of the computer on the organisation-structure of companies is broadly discussed in literature. The answers to this question give a possibility for an outlook on the future trends in organisation.

Q.5. "Do you think that your organisation structure is optimal

- (a) for your type of concern?
- (b) generally speaking for every type of concern?
- (c) if you do not think it is optimal, where do the existing problems lie which prevent you from altering respectively the existing structure?"

The last two questions have the same purpose namely to give material for an outlook on possible future organisation trends.

The previous questions were, as already said, more or less

added questions. The main part of the questionnaire consists of three groups of questions.

#### 2.1.3.2. Business-Policy-Questions

The first group of questions was related to the business-policy.

- Q.1. "Who determines the overall objectives of the concern? Does the head-company decide on its own or do the subsidiaries influence the decision?"
- Q.2. "One problem for the business-group is the co-ordination of all members towards the general objectives. Who is responsible for this activity -- the head-company or the subsidiaries?"
- Q.3. "Who decides on which steps have to be taken by every member of the group to fulfil the business-group's plans?"

These questions refer to the three major problems of the concern: the definition of the objectives, their implementation, and the co-ordination of the members. These are vital problems and it has to be seen whether the decisions are made centrally or in a decentralized way.

#### 2.1.3.3. The Operation - Questions

The second group of questions refers to the functions which are performed in the business-groups.

- Q.1. "Decisions in which of the following activities are entirely or partly made by the head-company?"

- a) Finance
- b) Purchase
- c) Production
- d) Sales
- e) Marketing
- f) Personnel"

Q.2. "Decisions in which of the following activities are entirely or partly made by the subsidiaries?

- a) Finance
- b) Purchase
- c) Production
- d) Sales
- e) Marketing
- f) Personnel"

A special question goes deeper into the personnel-field the reason for which will be explained in the relevant chapter of this thesis.

Q.3. "Who decides on the employment of:

- |                       |               |               |
|-----------------------|---------------|---------------|
| a) top-executives?    | head-company? | subsidiaries? |
| b) middle-management? | "             | "             |
| c) lower-management?  | "             | "             |

Q.4. "Does there exist a financial limit which determines the extent to which executives are allowed to make decisions?

a) No

b) Yes

ba) For top-management:

10 Rand

100 Rand

1,000 Rand

10,000 Rand

No limit

bb) For middle management:

10 Rand

100 Rand

1,000 Rand

10,000 Rand

No limit "

**2.1.3.4. The Questions Related to the Decision**

The third complex of questions deals with the characteristics of the decision itself, and the influence of these characteristics on the extent of delegation.

Q.1. "Would you say that the decentralisation or centralisation of decision-making-responsibilities in your company depends on:

(a) the value of the decision?

(The costly or non-costly consequences of the decision are considerable).

Yes:

No:

(b) the interdependence of the decision?

(The decision has an influence on the other members of the group).

Yes:                      No:

(c) the consequences of the decision for future development?

Yes:                      No:

(d) the possibility to correct the decision?

Yes:                      No:                      "

To avoid any difficulties the companies had to answer the questions either with "yes" or "no" or with only a few words.

The following chapters will analyse the answers to the different questions. The results are discussed in general and with regard to the type of concern in particular. However, as regards the type of concern the answers discussed will be mainly with regard to the vertical concern, because only this type is represented sufficiently.

#### 2.1.3.5. The Organization-Chart

The general impression about the concerns was that they are organization-conscious.

Only 12 among the 36 concerns stated that they did not have an organization-chart.

The remaining 24 concerns have an organization-chart although not always in printed form.

Not all of the 24 business-groups sent an extract of the chart. Some argued that this is not possible because the organisation is not static but in a continuous development-process which makes it impossible to give an extract.

### 3. The Decision

#### 3.1. Introduction

Business-activities are realized through a continuous decision-making-process. As the decisions play the foremost important part, it can be presumed that the character of the decisions has an influence on their organization with regard to centralization and decentralization. The decisions must be made at the point where the necessary qualifications can be expected.

In the theoretical part of this thesis the characteristics of the decision have been discussed. They are:

- (a) the value of the decision (the costly and non-costly consequences of the decision are considerable)
- (b) the interdependence of the decision (the decision has influence on other members of the group)
- (c) the consequences of the decision for the future development
- (d) the possibility to correct the decision.

The concerns were asked whether they think that these characteristics have an influence on the authority-responsibility relationships. The concerns had to mark those characteristics they think are important.

3.2. Results

3.2.1. Survey of the Results

In general it could be seen from the answers that the concerns regard these characteristics as important.

	Yes Number	Yes %	No Number	No %
Value of the decision	30	83.4	3	8.3
Interdependence of the decision	30	83.4	3	8.3
Future consequences of decision	30	83.4	3	8.3
Possibility to correct the decision	16	44.4	17	8.3
Not applicable	3	8.3	-	-

3.2.2. The Value of the Decision

30 out of 36 concerns regarded the value of the decision as important. This result is not surprising because the costs

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are the factor which determines remarkably the success of the company. So it seems to be necessary to make sure that decisions which involve costs are made on the right level by the right person. This refers mainly to the argument that the head-company can make specialists available who can make those decisions.

From the personal interviews it was gained that decisions which represent a high cost-factor are preferably made by centralized institutions. The bigger the amount of costs involved the more these decisions are centralized. The head-company decides in order to keep the risk small.

One company hopes to be able to decentralise costly decisions in the near future. But this will happen when the parent thinks the subsidiaries to be sophisticated enough to carry out these decisions. Although this is a very vague promise this concern has realized the possible advantage of decentralization.

### 3.2.3. The Inter-dependence of the Decision

The inter-dependence of the decision also determines the centralization or the decentralization.

30 out of 36 concerns consider this criteria as important. The vital characteristic of a concern is the fact that it consists of different companies which together operate for the common success. It is necessary not to disturb the harmony and the

individual activities. A decision which has influences on the other members must be considered with extreme care. As the parent-company is the leader and has the broadest survey over the group it is likely that it will carry out decisions affecting other group-companies. Although also the parent might make a wrong decision the risk is minimized because of the greater knowledge of the parent concerning the interrelationship of the members.

There must be one entity within the group which ensures unity. Not every member can be allowed to make decisions which have consequences on other members. When these decisions are made by the parent only then each single company can feel more certain because it knows that decisions affecting it and its interrelationships with other member-companies can only come from one direction, namely the head-company. If this would not be so then, for example competition inside the group starts, which could ruin the whole group.

In the interviews this point was strongly confirmed. There was a consensus of opinions about this problem.

#### 3.2.4. The Future Consequences of the Decision

The same is valid for the future consequences of the decision. 30 out of 36 business-groups felt that this characteristic of the decision has an influence on centralization or decentralization.

A concern, like every other business, must have in mind its future development. All activities which are carried out in the present serve a future purpose. A distinction must be made between those decisions which affect the near future and those which affect the further future. For the latter more knowledge is necessary. But not only knowledge but also imagination. At least there must be a united expectation of the future development of the group. So it is likely to centralize these decisions the more they refer to future needs.

In the interviews the impression arose that the parent-companies do not let the subsidiaries make any decisions with future consequences. The parent makes these decisions on its own and denotes the subsidiary to being an operating unit only. The subsidiaries are allowed to make suggestions but not more.

### 3.2.5. The Possibility to Correct the Decision

Whereas the first three characteristics of decisions were strongly regarded as having an influence on centralisation and decentralisation, the fourth characteristic of a decision, namely the possibility of correcting the decision did not find this strong support.

16 out of 36 concerns regarded this characteristic as important, 17 felt that this has no importance at all.

Probably this characteristic seems to be the most general of the four with regard to the special situation of the concern.

The other characteristics (value, interdependence, future consequences) obviously affect the business-group most vitally. However, the question of ability to correct a wrong decision has relevant consequences for centralization and decentralisation. Not the wrong decision itself is dangerous but the wrong decision with regard to a special problem can be critical and should be avoided.

Every decision bears the possibility of being wrong.

The more important a decision is the more difficult it becomes to correct it. But there can also be less important decisions which only can be corrected under big difficulties.

However, this characteristic as a criterion for centralization or decentralisation of decision-making must be regarded as significant. It is much easier to say that decisions in a special field have to be made by either the head or the subsidiaries only, than to find out whether the decision can be corrected or not and then decide who has to make the decision.

Taking the possibility to correct the decision as a criterion the concerns would be able to decentralise more and by doing so enjoy the already mentioned advantages of this organisation form.

When a big number of the business-groups does not regard this characteristic as important this ignorance must be criticised. But the results show that the opinion is weighted equally in either direction. Nearly as many concerns regard the possibility

to correct decisions as being important, as do not so.

### 3.3. Conclusion

The question was rather difficult to answer, especially because there are other factors as well which enter the decision-making-process. The alternatives mentioned in the questionnaire are not the only ones and there might be other decisive factors. The questions tried to relate to the special situation in the business-group only but they did not take those factors which come into existence because of special circumstances relating to a particular industry (e.g. industrial relations, wage agreements, price control, etc.).

So it cannot be assumed that these factors are overriding and alone determine whether the decisions will be delegated or not.

But it can be concluded that these factors are of importance and influence the pattern of authority. However, the degree of their importance depends on the influence of other factors, as the above mentioned, on the organization of the concern. The four characteristics must be regarded as the basic criteria.

From the interviews it was gained that value, inter-dependence and future consequences of the decision influence centralized decision-making-responsibility. The possibility to correct

the decision is considered by the firms interviewed to be of lesser importance. (But the validity of this is open to doubt!)

#### 4. The Business-Policy

##### 4.1. Introduction

The first group of questions deals with the business-policy.

Who decides about the overall objectives? Who is responsible for the co-ordination within the group? Who decides about the activities with which the objectives shall be reached and realized?

Whereas these problems can be solved in every normal business without difficulties, the business-group must create a pattern which is obligatory upon its members. Every member may be qualified to make these decisions, but for the good of the concern it is not possible that every member makes the decision. There must exist a clear understanding centrally determined about the strategy the group wants to follow. This means that there must exist a pattern.

In an independent business the manager who thinks that he does not take part enough in the decision-making-process can resign. In a business-group the companies have to remain in the group and it is necessary that a policy is created with which

they are satisfied and work efficiently for the success of the group.

So there are three problems to be solved. The first is to develop a policy which is acceptable for all members.

(Question: Who determines the overall objectives of the concern?)

The second is to co-ordinate the members of the group. (Question: Who is responsible for the co-ordination towards the general objectives?)

The third problem is to make clear how the single members have to implement the policy. (Question: Who decides on which steps have to be taken by every member of the group to fulfil the plans?)

There are different possibilities for the solution of these problems in the group. They can be applied to all three problems and therefore will be discussed with regard to the determination of the policy only.

a) The first is that the parent-company decides upon the overall objectives. The parent-company is the initiator on the formation of the group. It alone has participation in the ownership of all the other members. The single firms are combined with one another only by virtue of being members of the group. <sup>(1)</sup>

The question of ownership in itself favours the fact that the parent-company decides upon the business-policy.

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(1) However, there can be single companies in the group which own shares of other member-companies but this does not affect the principle discussed above.

It can be presumed that the growth of a concern is at no stage finished. New companies can enter the group all the time. These new companies generally are not very important in comparison to the existing group.<sup>(2)</sup> They have to accept the existing policy. Only when the objectives are newly formulated then they can participate in the process.

But also in this case the parent-company takes the leading part.

- b) The second possibility is that the parent-company together with the members makes the decision. In this case the majority decides which objectives shall be accepted. All voters have an equal right. Or there can be a difference of rights with regard to the importance (economic or non-economic) of every single company.

This process guarantees the biggest possible regard to all interests. Also the qualifications of all members are taken into consideration. The realization of the objectives is easier because the realistic facts are included to a high degree. This possibility is the most democratic one.

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(1) Despite this it is possible that the entrance of a new member which has economic importance may well change the existing policy.

e) The third possibility is that the members bring proposals for the objectives but the parent-company has the right to make the final decision. This is a combination of the two first possibilities. In principle all members decide upon the objectives but the incorporation of these proposals in the final policy depends on the decision of the parent-company. The difference from the first possibility is that the members take an active part in the decision-making-process.

From the theoretical point of view this possibility seems to be the best. The unity is preserved but the members take part.

As already mentioned theoretically the same possibilities exist for the co-ordination problems and the task of deciding how the objectives shall be implemented.

4.2. Results

4.2.1. Overall Objectives

4.2.1.1. Results

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	Number	%
Head-Company	9	25
Subsidiaries	Nil	-
Both	26	72.2
Not applicable	1	2.8
	36	100%

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9 out of 36 concerns said that the overall objectives are made by the parent-company alone.

26 reported that the subsidiaries together with the head-company participate in laying down the overall objectives.

No group has the subsidiaries deciding on their own.

The majority favours the participation of all members.

But the participation seldom is more than making proposals.

All concerns stated that the subsidiaries have an influence only

but not an active part in making the decisions. They are asked their opinions and possibilities to realize special objectives. Relying on these suggestions the parent company makes the decision.

Sometimes there exists a stronger influence of the subsidiaries on the decision when their managing-directors are on the board of the group. Then their part in the decision is active. But in a large group not all managing-directors can be represented on the board, which means that only a few members can take part in the decision-making-process.

One large mining-group has a very sophisticated system. Its head-company determines the general objectives for the group as a whole. But then every single company has its own objectives which are drafted especially for the potentialities of these companies. The determination of each single group-member's objectives takes place with the advisory help of the particular company concerned.

The objectives for the group as a whole and the individual objectives together with the different organisation-charts are printed and the little book is given to each company. The objectives for this concern as a whole for the year 1969 looked as follows:

"Consolidation of Resources

To consolidate all the resources of the company and to pay particular attention to improving the company's financial liquidity and marketability of its investments in order that the company may fulfil its role in the development of new enterprises in future years.

Management of Investments

To make every effort to assist managed companies so that their liquidity, productivity, profitability and competitive standing will be at the highest possible level for 1969 consistent with long term performance expectations.

Development of The Group Concept

To develop and maintain a sound Group spirit with the object of promoting the profitable growth of the constituent companies and particularly by improving the interchange of information within the divisions and companies of the Group.

Future Investments

To investigate the acquisition of additional investments and generally to provide for future expansion by improving knowledge of the potential in companies of the Group, selecting suitable areas for investment, studying personnel requirements and investigating means of raising money.

The underlying organisational requirements to achieve these objectives throughout the ..... Group are:-

- (a) Improved in-company management.
- (b) More effective control by operating management.
- (c) Stress on responsibility and accountability at all levels.
- (d) Commitment to objectives at all levels.
- (e) A dedication to cost reduction and profit improvement.
- (f) Conspicuous and positive direction of activities.
- (g) Improved communications." (1)

The objectives for the other group-members differ from one another. They are related to the special circumstances of the single company. They are either primarily concerned with the operation-activities of this company or with the possibilities of growth in these companies. Objectives for the operations are specified and it is always pointed out which contribution the companies have to make to the progress of the group as a whole.

Another business-group has a very interesting concept for the participation of members in making policy-decisions. The participation of the subsidiaries is dependent on the merits of these companies. The merits are obviously related

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(1) Extract from the objectives of the concern.  
The name of the concern is known to the author but shall remain undisclosed.

to the economic success of these companies. The more successful a company is the more active is its participation. This seems to be a very valuable principle. It is based on the idea that a successful company is not only able to decide policy-problems but that it is also necessary to let this company participate because its importance for the group is growing. The advantage of decentralization which means that participation gives initiative, ideas, enthusiasm is utilized.

#### 4.2.1.2. Conclusion

From the results it could be gained that the trend in business-groups is to centralize decisions which concern the overall objectives of the group. The influence of the group-members is limited to more or less advisory functions.

The principle of "management by objectives" which is underlying the managerial process is partially realized in that way that there is full participation down the line in setting the objectives, though of course the ultimate decisions are made by the head-company, which sometimes means by the board on which the subsidiary-companies are represented.

4.2.2. Co-ordination of all Members towards the Overall Objectives

4.2.2.1. Results

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	Numbers	%
Head-Company	26	72.3
Subsidiaries	Nil	-
Both	8	22.2
Not applicable	2	5.5
	36	100%

---

26 out of 36 business-groups said that the head-company decides about the co-ordination. 8 companies stated that the head-company together with the subsidiaries makes the decision. None of the companies had these decisions made by the subsidiaries alone. The majority of the business-groups have co-ordination-decisions made by the head-company. This is not surprising because the head-company is the initiator of the group and as such primarily interested in the co-ordination. Beyond it the head-company has the broader outlook and is better informed about what is going on in the group than every single company.

One business-group which itself consists of other business-groups has the head-companies of these groups deciding about the co-operation and then these reporting to the head-company. This method had to be chosen because the size of the group makes it impossible for the head-company to co-ordinate every single company.

Some of the concerns reported that there was a participation of the subsidiaries. But the participation has the character of being co-operative. Without the subsidiaries' co-operation the head-company cannot act successfully.

#### 4.2.2.2. Conclusion -- Co-ordination

Also this problem seems to be solved in the same way in nearly every concern. The co-ordination of the member-companies lies in the hands of the head-company alone. The participation of the subsidiaries is limited to their active co-operation. The way or the method of the co-operation is decided by the head-company.

#### 4.2.3. Implementation of the Overall Objectives

4.2.3.1. Results

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	Number	%
Head-Company	23	63.9
Subsidiaries	7	19.4
Both	5	13.9
Not applicable	1	2.8
	36	100

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23 out of 36 concerns reported that the head-company decides on the steps which have to be taken to fulfil the overall objectives. 7 said that the subsidiaries decide and 5 said that the decisions are made together by both the head-company and the subsidiaries.

Also here the majority of business-groups have the head-company deciding on these problems. This means that the head-company has a very strong direct influence on the operational activities of the subsidiaries. The centralization goes so far that even the individual activities are limited by the head-company. It leaves very little initiative to the subsidiaries.

The number of companies which say that they let the subsidiaries decide is very small.

Remarkable is the number which states that head and subsidiaries decide together. Here the decision-making process is a joint process dependent on discussions and not on decisions handed down from above.

#### 4.2.3.2. Conclusion

The majority of concerns has a strong centralised attitude towards the steps which have to be taken to fulfil the overall objectives. The number which let the subsidiaries decide is marginal.

Despite this it is worth noting that in several concerns these decisions are made by the head-company and the subsidiaries together.

#### 4.3. The Attitude of South African Business Groups Towards

##### Centralization and Decentralization of Business-Policy-Decisions

Decisions concerning the business-policy are generally made by the head-company. The determination of the policy, the co-ordination of the members, the ways of implementing the policy, are decisions with high cost consequences, very inter-dependent and they affect the future development.

The centralization of the determination of the policy has different degrees in the different concerns. Some give the subsidiaries advisory functions and discuss the problems with them.

In some companies the subsidiaries are represented on the board and so have a direct influence on the decision-making-process.

In some concerns the subsidiaries have no right to participate at all.

The majority favours a strong centralisation with regard to the determination of the overall objectives, as well as the realization of the overall objectives as well as the co-ordination of the members within the group.

It can be gained that the centralization in this field of decisions is the most popular one at the moment in South Africa.

One might like to think about the reasons for this attitude.

The theoretical part of this thesis showed advantages of centralisation which might be the fact for this choice. It seems as if the concerns investigated have concluded that these advantages override the disadvantages of centralisation. Centralized decision-making with regard to policy-decisions fosters the uniformity of the policies. And a uniform policy strengthens the business-group. For the head-company it also seems to be a question of prestige to define the course of action.

Beyond it policy-decisions are very valuable, have a high degree of interdependence and strong consequences for the future. These decisions require specialized decision-makers, who are more likely to be found in the head-company, for example in the form of staff-departments.

## 5. Functions

### 5.1. Introduction

The second group of questions refers to the decisions made in the different departments or functions in the business-group. The question is whether there exists a relationship between centralization and decentralization of decision-making-responsibilities and the functions.

As the concerns interviewed belong to different sorts of industry these functions had to be chosen which with the biggest probability are existent in every company. Although from case to case the one or the other function did not apply to the company the functions chosen were existent in general. The following functions were chosen : Finance, purchasing, production, sales, marketing, <sup>(1)</sup> personnel.

There are obviously other functions too. For example, research, training, public relations. But these are functions which not every concern has. The stage of development limits the existence of these functions. But the above mentioned

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(1) 'Marketing' does not include sales

functions are the conventional and vital ones for nearly every sort of business activity.

However, there are also differences. For concerns belonging to the finance-sector the purchase- and selling-functions are of less importance than for a concern belonging to the production-sector. Though, especially the selling-function is gaining more recognition.

The companies were asked to state in relation to each of these different functions, which decisions are either entirely or partly made by the head-company or entirely or partly made by the subsidiary.

The function 'personnel' was dealt with separately.

Everybody who makes the decisions in this function has a big influence on the company. The influence by means of personnel decisions is indirect only, but can be very strong. The centralization or decentralization can be strengthened very much by using the power to employ those people who will follow and realize the interest of the employer.

To check the grade of centralisation and decentralization of functions the last question of the group deals with the financial limits top- and middle-management has to accept.

It can be doubted whether one can call the decisions decentralized when there exist very strong financial limitations and because of this the managers can actually make no decisions because they have no possibilities to implement their decisions, because funds have to be available for implementing any decision.

On the other hand the fact that there exist no financial limitations at all can hardly conform with centralization. But in this case it seems possible that there exist other limitations which limit freedom so much that also here is no decentralization.

**5.2. Results (Excluding 'Personnel')**

**5.2.1. General Results**

	Head-Company				Subsidiaries			
	Entirely		Partly		Entirely		Partly	
	Number	%	Number	%	Number	%	Number	%
Finance	29	80.5	5	13.9	2	5.6	5	13.9
Purchase	4	11.1	11	30.6	21	58.3	11	30.6
Production	4	11.1	11	30.6	21	58.3	11	30.6
Sales	4	11.1	12	33.3	20	55.6	12	33.3
Marketing	4	11.1	11	30.6	21	58.3	11	30.6

These different functions will now be discussed.

### 5.2.2. Results: Finance - Function

It is obvious that the finance function is strongly centralized. 29 of the concerns said that decisions in this function are entirely made by the head-company. No concern reported that decisions are entirely made by the subsidiaries. Only a small percentage says that both head-company and subsidiaries are deciding together.

The finance-function is a very vital function for the concern. Firstly it is the function where the success is measured and secondly it is an important if not the only control-instrument within the group.

Remembering that the financial consequences, the future consequences and the interdependence of the decision influence centralization and decentralization, one can say that this function includes all these characteristics. It follows that from the character of finance decisions it is clear that these decisions are better made in the head-company, for the reasons given in the discussion of the characteristics of centralization and decentralization.

### 5.2.3. Results of the Other Functions

With regard to the other functions the picture is also clearly out.

For purchase, production and marketing the numerical results are similar.

4 concerns say that decisions regarding these functions are made entirely by the head-company.

11 say that they are made partly by the head and the subsidiaries.

21 say that they are entirely made by the subsidiaries.

Only a small number of companies has the decisions made entirely by the head. A relatively big number make the decisions together with the subsidiaries.

But the majority has the decisions about purchase, production and sales made entirely by the subsidiaries.

The production-function is likely to be the most and first decentralized function in a concern. As normally the different firms are locally dispersed and the production takes place in every single firm, the local decentralization is followed by delegation of authority. "As the production scale increases or as the processes become more complex, authority is likely to be further decentralized."<sup>(1)</sup>

The purchase-function can be centralized within a group when the different firms show equal needs with regard to the material, the purchase-markets, the suppliers and the way of purchase.

The sales-function is decentralized primarily because of geographical necessities. The single companies of the concern are normally geographically dispersed and they have to meet the local markets. The advantage that decentralized decision-making

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(1) Koontz H.D./O'Donnell G.J.: Principles of Management

can easier adapt to the situation on the special markets may have favoured the trend to the decentralized organisation. But one must bear in mind that there can be decisions in this function which are made centrally. This refers especially to price-decisions.

*Supposed*  
*could*

From the results it can be deduced that these functions tend to be decentralized. But as in a remarkable number of concerns the head-company takes part in the decision-making it cannot be said that decision-making is purely decentralized. The influence of the subsidiaries is fairly strong because they operate on the spot and know better than the head-company what their necessities and possibilities are.

This was strongly confirmed in the interviews.

It was stated that the head-company relies very much on the advice of the subsidiaries and that these are granted much individual initiative with regard to decisions in these functions.

The results concerning the marketing-function show the same results as the preceding functions. However, in the interviews it was suggested that this function will become more centralized in future. Concerns have realized the value of common product image and this can easier be achieved by having a centralized marketing.

**5.2.4. Results with Regard to the Type of Concern**

It is interesting to see whether there is a different answer on these questions from the different types of concern. It is possible that a vertical, a horizontal or a conglomerate business-group has a different approach because the structure of these concerns differs and might require different authority-responsibility-relationships.

The following tables show the above mentioned results split with regard to the types.

As already mentioned the horizontal and the conglomerate are very poorly represented in the survey and the results in these cases must be seen critically.

VERTICAL BUSINESS-GROUP

Function	Head-Company		Head-Company		Subsidiary		Subsidiary	
	Entirely		Partly		Entirely		Partly	
	Number	%	Number	%	Number	%	Number	%
Finance	10	27.8	4	11.1	-	-	4	11.1
Purchase	2	5.6	10	27.8	4	11.1	10	27.8
Production	-	-	4	11.1	10	27.8	4	11.1
Sales	-	-	4	11.1	10	27.8	4	11.1
Marketing	-	-	6	16.7	8	22.2	6	16.7

HORIZONTAL BUSINESS-GROUP

Finance	3	8.3	-	-	-	-	-	-
Purchase	-	-	1	2.8	2	5.6	1	2.8
Production	-	-	-	-	3	8.3	-	-
Sales	-	-	-	-	3	8.3	-	-
Marketing	-	-	-	-	3	8.3	-	-

CONGLOMERATE BUSINESS-GROUP

Finance	2	5.6	1	2.8	-	-	1	2.8
Purchase	1	2.8	-	-	2	5.6	-	-
Production	1	2.8	-	-	2	5.6	-	-
Sales	1	2.8	-	-	2	5.6	-	-
Marketing	1	2.8	-	-	2	5.6	-	-

Generally it can be seen that the financial decisions are made centrally. In the vertical type the percentage of concerns which give the subsidiaries a strong participation is relatively high.

But this result is surprising. The vertical group is that type of concern where one should expect that all these functions are centralized. The main theoretical argument which favours this expectation is the economic advantage of centralizing. For example, the purchase for all the members together saves costs and is very economical. This argument does not seem to be accepted.

No vertical head-company makes decisions in purchasing, production, sales and marketing entirely on its own. Most of these decisions are entirely decentralized.

However, the decentralization could be expected from the theoretical point of view. Not so much the economies are the reasons for the vertical groups but more the market position. To reach a satisfying position the arguments in favour of decentralization seem to be stronger.

### 5.3. Conclusion (Excluding "Personnel")

The decisions made with regard to the finance function are centralized in most of the questioned concerns. There was no concern which has this function entirely decentralized.

Although many concerns reported that they give the subsidiaries

possibilities to co-operate this is only a marginal departure from the principle of centralisation.

The decisions concerning the functions purchasing, production, sales and marketing show a more decentralized tendency. Most of the concerns have combined decision-making of head and subsidiaries. But also a remarkable number of concerns leave the decision-making-responsibility entirely to the subsidiaries. The tendency goes into the direction of decentralization. The surprising result in the vertical business-group was that these decisions expected to be centralized are more decentralized in reality.

5.4. Results and Conclusion Concerning the Personnel-Function

	Head-Company				Subsidiaries			
	Entirely		Partly		Entirely		Partly	
	Number	%	Number	%	Number	%	Number	%
Personnel	4	11.1	28	77.8	4	11.1	4	11.1

4 out of 36 concerns said that decisions about the personnel function are made entirely by the head.

4 said they are made entirely by the subsidiaries and 28 which is the majority said that head and subsidiaries make the decisions partly.

The result becomes much clearer when taking into consideration the answers about the employment of different management levels.

Decisions about the employment of the following personnel are made as follows :

	Head-Company		Subsidiaries		Both	
	Number	%	Number	%	Number	%
Top-executives	36	100	Nil	-	Nil	-
Middle-management	10	27.8	16	44.4	10	27.8
Lower-management	4	11.1	30	83.3	2	5.6

All concerns stated that the head-companies decide upon the employment of top-executives. The attitudes towards the employment of middle-management differs: 10 each said that the head-company or both head-company and subsidiaries decide.

16 groups have the subsidiaries alone deciding.

Through the employment of personnel the concerns have a strong position regarding the influence on the member-companies.

A strong head-company can give the whole group a one-sided outlook by employing only those people who can and will represent the aims of

the head. This is more an indirect influence but in this meaning very important.

Without any doubt all companies must have the head-companies decide on top-executives. This is necessary although it might be regarded as authoritarian because the company which has to work with the persons must have the biggest say in the decision. The result of the questionnaire shows clearly that these decisions are only for the head itself. No concern reported that there was an influence of the subsidiaries.

The answers about the employment of middle-management are not so direct. Three possibilities are realized: the decisions are made entirely by the head-company, by the subsidiary or by both.

In the majority of concerns the subsidiaries decide on the employment of middle-management and only in a minority either both or the head decide.

A very strong head-company might decide on the employment of middle-management whereas a weaker head might leave the decisions to the subsidiaries.

Certainly the size of the concern has an influence on the pattern of decisions in this field. The bigger and more dispersed the group is the more difficult it becomes for the head-company to have a say in the employment of middle-management.

One should think that it is enough to decide on a policy for the employment of middle-management, and then let the single company do the employment. The top-management of the single company

surely will act according to the will of the head-company.

It seems as if a double effort is wasted. The head company should diminish its activities with regard to the employment and concentrate on more important problems.

Perhaps more favourable is the possibility that both head company and subsidiaries work and decide together. But also here is a waste of effort and time. Only a small amount of companies operate in this way. But one must say that when there are the right executives in the subsidiaries then they must be able to decide alone.

There seems to be no doubt about the employment of lower-management. 30 concerns said the decisions are made entirely by the subsidiaries, 4 said that decisions are entirely made by the head and 2 said that both are making the decisions.

It seems as if there exists a strong trend towards decentralization.

From the interviews it was gained that the head-companies think that these decisions not only can be made but also must be made by the subsidiaries. They know much better than the head-company what sort of staff they need. And lower-management reports only to the member-company's head and not to the head-company.

The conclusion of this paragraph is that in practice the head-companies decide on the employment of top-executives and the subsidiaries on the employment of lower management.

The tendency in the employment of middle-management goes into the direction of a decision by both the head and the subsidiaries.

### 5.5. Financial Limits - Results and Conclusions

The possibility to make decisions in all functions can be very much limited by the fact that the managers have no financial freedom. Decisions can only be made when there exists a fair possibility to carry out the decisions, which involve expenditure of finances. In the concern the managers who are supposed to make decisions must be backed by financial authority because nearly every decision has expenditure implications.

The financial authority can be given to the executives in the form of unlimited disposal or in the form of defined sums of money. Another possibility is the financial independence within approved budgets. This means that the subsidiaries have to produce a budget for the following year which has to be approved by the head-company. Under the conditions of this budget the subsidiaries can make decisions.

Financial Limit	Top-Management		Middle-Management	
	Number	%	Number	%
No	8	22.2	8	22.8
10 Rand	-	-	-	-
100 Rand	-	-	12	33.3
1,000 Rand	6	16.7	-	-
10,000 Rand	6	16.7	4	11.1
More than 10,000 Rand	2	5.6	-	-
The limit varies	12	33.3	12	33.3

The table does not show a very clear-cut picture.

Generally it must be said that most of the concerns have set financial limits for the decisions of their members.

The results can be divided into several groups.

The one group has a numerical limit which is fixed by a certain lump-sum.

The second group states that the limits vary from subsidiary to subsidiary. Size and character as well as the whole structure are criteria for the limitations.

And the third group says that the subsidiaries have the expense-budget as financial limit.

The last possibility seems to be most favoured in South African business-groups.

As these budgets play an important part of decentralisation policy this shows that the concerns give room for individual initiative.

This result backs the statements made on the different functions, which except for the finance function tend to be decentralised.

From the answers given no special limitations dealing with top- and middle-management can be deduced. Both management levels seem to be subject to equal limitations.

IV. CONCLUSION OF THEORETICAL ANALYSIS AND PRACTICAL INVESTIGATION

The practical investigation showed that none of the questioned concerns has the decision-making-responsibilities either entirely centralized or entirely decentralized. Centralization and decentralization do exist together.

Questioned whether they would say that their organisation tends to the one or the other side 14 business-groups said that their organisation tends towards centralization, 18 said theirs tends towards decentralization and 4 thought it to be impossible to decide.

Comparing this self-evaluation with the answers these concerns gave on the different questions one can see that their judgment is right. But their judgment in most of the cases would also have been right if they had given their organization the opposite label! As both organization elements exist together it is obviously a question of accentuating one side. Perhaps one can interpret the judgment also in that way that it shows which direction the concern would like to go. As such it would mean that the appreciation of centralization and decentralization is nearly equally dispersed.

As there cannot be noticed a definite tendency in the direction of either centralization or decentralization from the investigation it could be gained that there are special decisions which the majority of the business-groups does not delegate at all or only to a marginal extent.

These special decisions concern the business-policy, finance and personnel.

The strongest centralization was found in the field of business-policy. The major outlines of the policy are decided upon in the head-company. The subsidiaries only have advisory participation. There exist gradual differences in the degree of centralization with regard to the formulation of the policy, the co-ordination and the realization of the objectives. However, in principle the business-policy-decisions are centralized. This attitude of South African concerns is in accordance with the approaches of international companies.

An interview with international top-managers brought to light that there exists a consensus of opinions that business-policy-decisions are never delegated but reserved for the head-company. (1)

Another decision not being delegated is the decision about financial matters.

The finance-function represents the control-instrument of the head-company and as such powers regarding this function are not delegated. Finance-decisions like policy-decisions are regarded as affecting the whole business-group and as such centralized.

Also personnel-decisions are mainly centralized in South African business-groups. The head-company decides on the employment of top- and middle-management and/or determines the conditions

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(1) "Welt"; 15.1.1970

for the employment. For example, salary-scales are laid down by the head-office, and the manner in which the scales are to be used, when and how increments are to be granted is prescribed. But decisions on individual increments lie with local managements, except for top posts.

Decisions about personnel also imply a control instrument for the head-company.

The strategy seems to be as is stated in the annual report of a South African concern: "Our basic philosophy is to operate with tight centralized financial control but decentralized operational control with divisional management having a high degree of autonomy."<sup>(1)</sup>

The theoretical investigation had two approaches to the delegation of decision-making-responsibility. The first was the character of the decision itself and the second were the advantages and disadvantages of centralization and decentralization. The practical investigation showed that it is impossible to separate both approaches. "In endeavouring to decide where certain decisions should be made, the executives will first want to ask themselves which decisions will make or break the company."<sup>(2)</sup> Concerns obviously regard business-policy, finance- and personnel-decisions as such key-decisions.

It seems as if the basis for the delegation of these responsibilities

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(1) Rennie's Consolidated Holdings Ltd.  
65th Annual Report 1969

(2) Jones, M.H.: Executive Decision Making

is the character of the decision itself.

But beyond it there is no doubt that the head-company by centralizing these decisions wants to make clear who has the leading part.

On the other hand decisions concerning the functions (purchasing, production, sales, marketing) seem more to be based on an analysis of the advantages and disadvantages of both organization-patterns.

With regard to the above mentioned decisions the majority of the questioned concerns obviously has realized that for the successful development of the concern it is advisable to have them be made either partly or entirely by the subsidiaries.

In summarizing it can be said that centralization of business-policy-decisions seems to be preferred by South African business-groups, whereas operational decisions tend to be decentralized.

Behind the question what the concerns themselves think about their organization was the purpose to get an idea of where they think are the weak points and what they wish to be the future development.

Unfortunately the questions were answered only by a few of the questioned business-groups and because of this no representative conclusions can be drawn. But nevertheless some of the

answers are interesting.

Generally most of the concerns are satisfied with their present organization although they confirmed that the existing structure is not definitive but open to changes. The organization has to be changed continuously because of changes in the concern itself as well as of the environment. The majority does not regard their organization good for every type of concern.

One company stated: "Our structure is unorthodox and heavily dependent on the type of person in the company who works informally and with a strong co-operative spirit. Continuation of this is safeguarded by careful attention and selection of senior executives who, in turn, will employ this type of person down the line." In this case the reason why the organization of this concern is not applicable to every type of concern lies in the fact that it seems to be very much dependent on individual personalities.

Other business-groups stated that they believe that their organization is especially built for the special requirements of their companies.

From both statements it can be gained that those concerns admit that their organization methods are not generally applicable, but are suitable to their own particular circumstances.

Problems for an improvement of the organization lie in the shortage of labour (skilled and unskilled) and in the time-factor.

While the first argument refers to a generally accepted critical situation of the South African Economy the latter refers to the difficulty to determine an organisation chart which considers developments that are expected to take place in the future.

The question arises in which direction the future development of the organisation will go. Has a trend towards centralisation or towards decentralisation to be expected?

A forecast is difficult to make. Based on the influence of the introduction of computers of many concerns, it can be concluded that it will favour centralisation.

Although one school of thought holds that the computer itself is neutral with regard to the organisation-structure and can be used for the implementation of both alternatives <sup>(1)</sup> the majority of the questioned business-groups reported that the computer has favoured the trend towards centralization. Thus, one can deduce that with stronger participation of computers in the organisation centralized decision-making will be favoured. However, this opinion can be questioned. As most of the concerns had the computer in the financial field, they might have come to the conclusion that the computer will have a centralizing influence on other parts of the organisation too.

In principle there are other factors with probably more significance which influence the character of the organization. One must take into consideration the economic power of the different subsidiaries, the size of the business-group and the

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(1) Sanders, Donald H.: Computers in Business

economic and political environment. Beyond it there are all those arguments discussed in the theoretical analysis of centralization and decentralization to be weighted.

The conclusion is that one cannot forecast which of the organisation alternatives will be the future one in South African business-groups.

APPENDIX

QUESTIONNAIRE

If you like, please use the left space for the answers.

- 1) I define the term 'business-group' as follows:

'The business-group consists of former independent companies which to enter the group have given up their economic independence, but which keep their legal identity.'

Would you say that this definition applies to your company?

- 2) Does your company have a plan of the organisation structure?  
If so may I have the plan or extractions of it?
- 3) Would you say that the organisation of your company tends towards a centralised or towards a decentralised organisation?
- 4) Who determines the overall objectives of the concern? Does the head-company decide on its own or do the subsidiaries influence the objectives?
- 5) One problem for the business-group is the co-ordination of all members towards the general objectives. Who is responsible for this activity - the head-company or the subsidiaries?
- 6) Who decides on which steps have to be taken by every member of the group to fulfil the business-group's plans?
- (a) Head-company:  
(b) Subsidiary companies:

7) Decisions in which of the following activities are entirely or partly made by the head-company?

- (a) Finance
- (b) Purchase
- (c) Production
- (d) Sales
- (e) Marketing
- (f) Personnel

8) Decisions in which of the following activities are entirely or partly made by the subsidiary companies?

- (a) Finance
- (b) Purchase
- (c) Production
- (d) Sales
- (e) Marketing
- (f) Personnel

9) Who decides on the employment of:

- |                       |          |          |
|-----------------------|----------|----------|
| a) top executives?    | Head-Co? | Sub. Co? |
| b) middle-management? | Head-Co? | Sub. Co? |
| c) lower-management?  | Head-Co? | Sub. Co? |

10) Does there exist a financial limit which determines the extent to which executives are allowed to make decisions?

- a) No
- b) Yes
- ba) For top management:

- 10 Rand :
- 100 Rand :
- 1,000 Rand :
- 10,000 Rand :
- No limit :

bb) For middle management:

- 10 Rand :
- 100 Rand :
- 1,000 Rand :
- 10,000 Rand :
- No limit :

11) Would you say that the decentralization or centralization of decision-making responsibilities in your company depends on:

a) the value of the decision?

(The costly and non-costly consequences of the decision are considerable).

Yes :            No :

b) the interdependence of the decision?

(The decision has an influence on the other members of the group).

Yes:            No :

c) the consequences the decision has for future development?

Yes :            No :

d) the possibility to correct the decision?

Yes :            No :

12) Has the introduction of computers in your company favoured the trend towards centralization or towards decentralization of decision-making authority and responsibility?

13) Do you think that your organisation structure is optimal

a) for your type of concern?

b) generally speaking for every type of concern?

c) If you do not think it is optimal, where do the existing problems lie which prevent you from altering respectively the existing structure.

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