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Functional Authority: A Tool of Decentralizing Corporate Management

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ABSTRACT

Functional authority is a management term that underscores the need to apply authority by an individual, team to play over an individual, department, division in order for them to follow strict principles, procedures to carry out their work within schedule aiming to make the best outcome according to the standard principle of the organization. Through the functional authority an organization's mission, vision, objectives, policy, guideline, procedure, principle, cultures are highlighted. Functional authority is bestowed to those persons by the authority to the effect that they will control specific processes, practices, policies, or other matters to carry out managerial functions as per the decision of the company's policymakers. Delegation of functional authority varies at different types of strategic decisions. First, decisions concerning capital investments are kept more centralized than those concerning the workforce due to the greater number of financial resources and the greater externalities involved in each individual decision. Second, as to decisions concerning investments in capital equipment, the larger the amount of the investments the less likely decentralization. As to decisions concerning a plant's labor force, decision authority is more likely to be kept centralized if decisions affect other units of the firm and decentralized if they have a larger impact on the plant manager's activity. In labor relations matter, decentralization is necessary for the implementation of agreements reached after negotiation and are applicable to all units under their one ownership. On the other hand, centralization is necessary in case labor relations are at the bargaining level only. The concept, expressed as the transfer of authority from the center to subordinate ends, is important both for more effective and productive management of the areas outside the center organization in public administration and for strengthening these areas in terms of democracy conception. Because of the increasing interest all over the world in issues such as ensuring service need compliance, the importance of decisions made by the closest unit to the public and the reduction of bureaucratization have made implementation of decentralized systems a necessity in the local regions.

Keywords: Decentralization, Labor relations, Partnership, Capacity building, Tool, and Capital investment.

INTRODUCTION:

Functional Authority is a management term which is the right that is delegated to an individual or a department to control specific processes, practices, policies or other matters about activities undertaken by

persons in other departments. It is delegated by the project manager to a staff specialist or a manager in another department through writing notes, issue orders to anybody in the organizational hierarchy irrespective of his seniority or juniority to undertake their respon-

sibilities in project work. On the other hand, a functional manager also has functional authority to make decision about promotions, salary recommendations and annual performance appraisal of employees after examining whether they took specific processes, practices, policies in order to achieve organizational goal. Somebody who has specialty in a subject or trade and possesses charismatic value in his work and acceptability to the superiors and control over the levels of the hierarchy may have rare chance to play functional authority.

In this case he is called functional assignee and his counterpart who do not possess functional authority, he is developmental assignee. Compared to functional assignees, developmental assignees are more optimistic about their future career advancement opportunities with their existing employer and also are more optimistic about their career prospects with other possible employers. Because developmental assignees are very much within organization structure compared to functional assignee who with his functional authority is engaged in non-formal organization behavior like giving notes and instruction irrespective of his superior or subordinate let alone go his department employees. With respect to predicting turnover intentions, developmental assignees are more inclined to leave their companies than functional assignees, presumably because they would have better career opportunities available outside their companies. But functional assignees see better career opportunities with other employers. There are a variety of explanations for this finding.

One explanation is that the more important variable is that of outside career opportunities (which are greater for developmental assignees) rather than the gap between inside and outside career opportunities. Another possibility is that developmental assignees may place greater importance on future career advancement opportunities compared to functional assignees. In other words, developmental assignees are more career-oriented and may be more likely to be proactive in terms of their career management strategies and behaviors than the group of functional assignees. With internally-driven career motivations, developmental assignees may be more willing to leave (Lazarova and Cerdin, 2007).

Predictors of turnover intentions in learning driven and demand driven international assignments: The role of repatriation concerns, satisfaction with company support, and perceived career advancement opportunities (Stahl *et al.*, 2009).

Purpose of the Study

- a) To understand various types of functional authority and their uses.
- b) To match functional authority with appropriate situations of the organization.

METHODOLOGY:

The study includes primary research in the functional authority and decentralization at different organizations nationally and internationally interview with the personnel about their activities in project management, human resource management, finance, etc. where huge functional authority and decentralization happens for timely completion of the project. Secondary research also done in collecting information from journals, company reports about how the company has come at this stage of its products and services through the process of functional authority and decentralization and fulfilling its vision at different stages.

How Functional Authority Emerges

The authorized person of functional authority may be termed as agent and the corporate superior who gives order to the agent and monitors his activities is principal. The transfer of decision authority to the agent depends positively on the information advantage he enjoys as specialist with respect to the principal and the extent of the private benefits he can extract from exercise of decision-making power. The private benefit to a consumer can be expressed at utility, and the private benefit to a firm is profit. Here superior's loss of control over the choice of decisions of the project is attributed to the cost of delegating functional authority to the agent. As the project is a collaborative enterprise involving research and design which needs to be planned carefully in order to get a particular aim, delegation of functional authority to a specialist to oversee the project means transfer of controlling power shifted from principal to agent. The original research and design of the project made by the principal will be

subsequently deviated while being implemented by the agent after the transfer of functional authority from principal to agent. This is the starting point of decentralization of the organization through the process of functional authority unlike through traditional process of decentralization from the superior to subordinate, line manager to staff manager.

How Decentralization Emerges

Decentralization emerges according to the size of the organization warranted by resources, technical assistance, capacity building, and partnership both horizontally and vertically (Smoke, 2015). Rethinking decentralization: Assessing challenges to a popular public sector reform (Smoke, 2015). When vertically expanded organization will have many levels and when the organization will expand horizontally it will have several spans. So, limits of communication and collusive behavior among agents are taken together into account.

Otherwise, centralization dominates decentralization. This decentralization in one way increases agent's initiative and participation, explores agent's competencies, avoids information leaks, and helps timely implementation of directives and on the other hand increases principal's direct loss of control over number of people (Alsuliman and Elrayah, 2021). To sum up, factors that influence benefits and costs of delegating functional authority in the long run make delegation more or less profitable in the form of acquiring control of people. When authority is delegated to plant manager from corporate level it is a recognized fact that decentralization has been an imminent because plant manager makes centralization of decisions relatively ineffective. These I include factors limiting the flow of information within the plant and factors making local knowledge or a quick response important.

For instance, complexity and size of organizations, generating overload of information within the firm, increase the principal's marginal disutility of getting informed, and press him to leave decision-making power to the plant manager who is closer to plant's operations and therefore enjoys an information advantage (Colombo and Delmastro, 2004).

Comparability between Corporate Authority and Plant Manager

We focus on the relationship between the plant manager (the agent) and his corporate superior, where the latter is either the firm's owner or a salaried manager. In the latter case the principal is an intermediary of the owner (s), a situation typical of establishments that are owned by large multi-plant firms. The former case especially applies to small entrepreneurial firms. Further, notice that when firms are very small, there may be no plant manager, at least formally. In such cases the agent is the person responsible for supervising production. Greater physical distance reinforces the information advantage of plant manager on local matters and makes communication with the corporate superior more difficult, thus favoring decentralization of decision making. On the other hand, it also makes it more difficult for the superior to directly check the decisions taken by the plant manager. Absent efficient incentive schemes, this should lead to more centralization for successful diversification of projects under corporate culture. In addition, the information advantage of the plant manager with respect to his corporate superior is greater for decisions about whom to hire, promote, or fire, as such decisions rely on personal, largely tacit knowledge of local conditions within the plant, as opposed to the more codified, technical nature of capital investment decisions.

How Effective Delegation of Authority Needs to Be

The fact that a plant is involved in subcontracting relations with customer (s) is likely to negatively affect delegation of authority to the plant manager due to greater need for coordination. These subcontractors interact with plant manager as various stakeholders such as buyer, supplier, customer, contractor, handling agent, bankers, local government representative, NGOs try to adjust their production operations according to the needs of main customer (s) and in this way plant manager deviates from original directives received from corporate level (Alexander and Robertson, 2004). We expect them to have a more centralized allocation of decision-making power in order to obtain competitive advantage as a dynamic process to transform source of advantage to positional advantage which leads to performance outcomes of the organization as follows **Fig 1**.

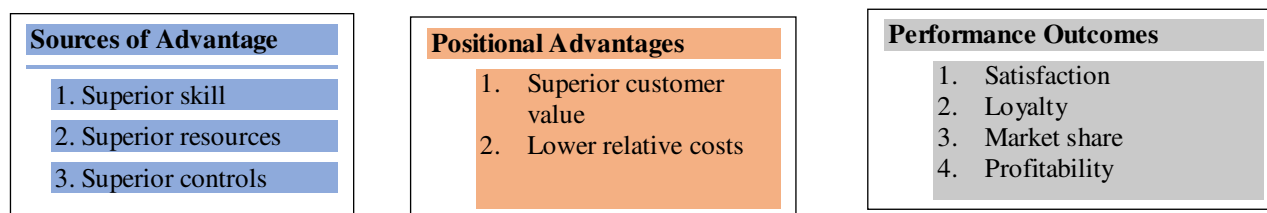


Fig 1: competitive advantage as a dynamic process to transform source of advantage to positional advantage which lead to performance outcomes of the organization.

CONCLUSION AND RECOMMENDATIONS:

Company’s source of advantage comes from individual who has special skill in finance, HRM, marketing and various other managerial functions. Functional authority is bestowed to those persons by the authority to the effect that they will control specific processes, practices, policies or other matters to carry out managerial functions as per decision of company’s policy makers. Delegation of functional authority varies at different types of strategic decisions. First, decisions concerning capital investments are kept more centralized than those concerning the workforce due to the greater number of financial resources and the greater externalities involved in each individual decision. Second, as to decisions concerning investments in capital equipment, the larger the amount of the investments the less likely decentralization.

As to decisions concerning a plant’s labor force, decision authority is more likely to be kept centralized if decisions affect other units of the firm and decentralized if they have a larger impact on the plant manager’s activity. As to decisions concerning investments in capital equipment, the larger the amount of the investment the less likely the assignment of decision-making power to the plant manager. As to decisions-making on labor, delegation of decisions is more likely when the decisions do not affect other units and have a direct impact on the plant manager’s activity, such as decisions relating to the careers of plant employees and to a lesser extent to the hiring and dismissal of a plant’s workers. Overall, these results provide support to the view that different types of decisions, having a different importance both to the corporate superior and to the plant manager, are allocated following different patterns. When a plant’s organization is complex, consisting of a high number of managerial levels, the superior’s information regar-

ding the plant’s internal activity is limited. This raises the stimulus toward delegation of authority to the plant manager, who is closer to and so has greater knowledge of the plant’s activity. As decentralization is among the most globally ubiquitous public sector reforms, agent and principal have been emerged from process of functional authority where principal is the corporate head and agents are the managers. The transfer of decision authority to the agent depends positively on the information advantage he enjoys as specialist with respect to the principal and the extent of the private benefits he can extract from exercise of decision-making power. The private benefit to a consumer can be expressed at utility, and the private benefit to a firm is profit. Decentralization emerges according to the size of the organization warranted by resources, technical assistance, capacity building, and partnership both horizontally and vertically. Company’s source of advantage comes from individual who has special skill in finance, HRM, marketing and various other managerial functions. A project stakeholder is someone who gains or loses something (could be functionality, revenue, status, compliance with rules, and so on) as a result of that project. In other words, a stakeholder is much more than a product’s eventual “user.” A stakeholder can be someone who finances the project; someone whose skill is needed to build a product, such as a network specialist or a usability expert; an organization whose rules developers must obey, such as a tax lawyer firm or a standards institute; or an external organization that can influence project success, such as an environmental group or a competitor. All types of stakeholders who are engaged in the activities mentioned above are directly and indirectly involved in decentralizing the authority of the entire organization through the implementation of strategies ultimately modeling the stakeholders and their differing involvements.

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CONFLICTS OF INTEREST:

Authors do not have to report any conflicts of interest.

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