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Management

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1. Introduction to Management

When we decide to work somewhere or get involved in an entrepreneurship or any other kind of organization, the area of management is inevitable. Each and every organization faces the difficulty of managing their processes in different functional areas. The basic skills of management are basic criteria for people who plan to build a long time carrier at an organization. The organisation's manager or managers therefore play an important role in synchronizing the processes of these areas. Sooner or later, we will meet one or more managers, or even become one, by which we can be involved in many tasks from market processes, through human resources, to activities that influence a company's environment and culture also. In this context it is worth thinking about what we mean by the word, manager.

1.1. The purpose of management

What comes to our mind first when we think of the manager himself/herself as a key player in a company or other organization, and what tasks do we associate with this person?

The purpose of the management section of this learning material is to introduce the area of management by answering the previous question. In the past, it was much easier to tell who is a manager and who's not, the differences between the responsibilities were very clear comparing a managerial job to a non-managerial one. Since then according to globally occurred structural and functional changes telling this became difficult. In the old days, managers were the people who told people what to do at work, but today if we examine a position at a company we can detect in many cases that non-managerial jobs can include managerial tasks as well. For example, at virtual companies, it is common not to give job titles, or supervise strongly, which creates the opportunity to any employee to simply start a new project on their own as self-appointed managers or just join one as project team members. Clarifying the concept, we can say that a manager is a person who synchronizes and supervises the tasks according to other people's work so the goals of the enterprises can be achieved (Robbins, Coulter 2018, p. 40).

1.2. Where do Managers work?

When we think about the workplace of a manager we imagine big, medium or small companies, stores, factories, enterprises which are all some kind of organization. But how can we define an organization? By the discipline of management an **organization** is a social unit, which includes a specified group of people, whose work is based on a common activity to fulfil a specific purpose. There are also three main characteristics that we can attribute to almost every organization (Robbins, Coulter 2018, pp. 41-42):

- has specific purpose, distinct goals
- creates deliberate structure for either a limited or a long term existence
- targets efficient functioning by choosing the right employees

When a group of people form an organization they define its purpose, they clarify the reason why they want to start that organization, in a specific business or non-business sector. For example, if somebody creates an online sales website, he has to define that why is this platform needed, what gap does he want to fill with it on the market, what consumer needs

will be satisfied by this platform that his company creates. This is strongly connected with the reason why does he expect profit from this “creation”. Specific goals are tailored to this purpose that the business will adapt to and will carry out its tasks to support it. The structure of this company has to be well considered, for achieving long term existence. For example, when Huawei wanted to enter to international market by creating subsidiaries or divisions abroad, it had to carry out a review to ensure that the company is on a solid base, and also to ensure the long-term expansion of its new sites, with no loss and a long-term stable internal structure. These characteristics led us to effectivity, which means that the expected profit is gained, the goals are reached. To do this, the company needs to select the right number of people with the right skill set and assign the right tasks for them. Also a company can set strict or flexible rules to operate, but either way an internal communication platform and structure has to be set for the people to function effectively.

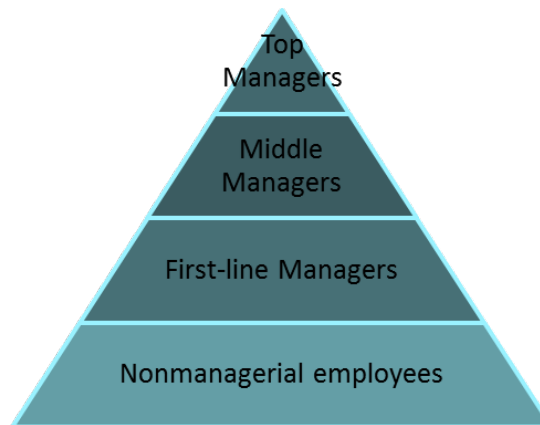
But how does on organization operate? What are the inputs of production, sales, and every internal and external process at a company? We may think that processes are funded from money or products are created from raw material, which are all correct answers to the previous question. We call these altogether the resources of the organization, which provide the input to its existence. We separate the resources in four main categories:

- financial
- physical
- informational
- human resources

Let’s interpret the substance of these resources through an example of the Starbucks company. The company gains its financial resources from its market profit and from investor or stakeholder capital, which is simply money. For physical resources we can identify a wide range of objects at Starbucks like coffee machines, glasses, mugs, tables or cutlery or the coffee itself, but these items we see on average purchases do not contain all the company's physical resources. The factories, offices, office furniture, company cars, or transport trucks, even the foreign apartments they provide to their international workers are completing the set of these type of resources. By informational resource we distinguishes market information, which contains data about sales, profit, stock market, competitors or new products, and inner information which are the statistics and calculated results data created from market information and the inside information about the company’s resource stock. Human resource is the most important resource of the organization, because it differs from other types of resources, it is the core of operation and success.

1.3. Classification of managers

We also separate managers in the managerial area by different responsibility levels and tasks in structured organizations. Usually, we define them in a pyramid, because it is common that more employees are at lower levels of the organization (Figure 1).



1. Figure: Classification of managers

(Robbins, Coulter 2018, pp. 40-41)

The three upper levels show the types of managers that we can classify at a regular company. At the top we can locate **top managers** who take the most responsibility in the company. They are responsible for decisions which affect the whole organization, that is why they have to measure the risk and analyse all the available data before making any kind of decision. These managers usually get titles like: president, managing director, COO: chief operating officer or CEO: chief executive officer (GM: general manager in the United Kingdom).

The **middle managers** are the people who supervise the work of the first-line managers. These managers are so called “transformer managers” who turn the strategy defined by the top managers into action and tasks for first-line managers and their employees. Middle managers usually have titles like: project manager, division manager, or store manager.

At the lowest level of organization management, we point out **first-line managers** who supervise the work of non-managerial employees and are present in the highest number in the organization. The non-managerial employees are the human resource, who usually can be connected with a specific step of producing the service or the product of the company or other organization. First-line managers typically have titles such as: shift manager, supervisor, or department manager. Although we need to mention that there are different classifications in management to categorize managers. For example, another classification distinguishes between senior, middle and junior managers and supervisors.

There is no rule which states that every organization has to stick to the pyramid form. For example several companies create teams that change their members also their managers constantly, thus people fulfilling team positions become ever-changing (different tasks, different goals or supervision). In such cases, it is often difficult to tell exactly who has the managerial responsibility, especially when such a person is not formally appointed by the organization (Robbins, Coulter 2018, pp. 40-41).

1.4. Management

1.4.1. The concept of profession

As the profession of managers, management has been defined in many different ways in the literature. As a **profession** we mean a role where skills are based on understanding the theoretical structure and on the ability to learn and combine gained knowledge in practice. According to the literature of the last 20 years in the field of management, managers can gain as much information as they need from college courses, books, articles to assess the fitting strategy for the processes controlled by them. This opportunity generates the knowledge part of this profession. We also have to mention that this knowledge appears first only in an on-

the-job situation, which means that in the field of management the first challenge comes in the middle of work, not like in other disciplines (e.g. medical practice before working at a hospital or gaining degree). This profession has to contain social responsibility because of the fact that nowadays the business sector is aware of its social role. CSR (Corporate Social Responsibility) is a main component of a company's portfolio, for gaining trust and references on the market. These actions contain charity and volunteering work, where companies contribute their time, financial and human resources to different social causes or foundations. Ethics are important as well. In the managerial profession people, who take these positions have to be aware of the ethical codes of the relevant industry. With their business actions they demonstrate the organization so they need high ethical standards (Hodgetts, Kuratko 1988, pp. 6-7).

1.4.2. The definition of management, the four management functions

Having established some basic characteristics of this profession we conclude its actual definition on which the whole section of this subject is based:

Management means planning, organizing, controlling and leading the organization's financial, physical, informational and human resources to set proper goals and to reach them in an effective and efficient way.

The definition contains the four main management functions by which managers perform their certain activities (Gomez-Mejia and Balkin 2012, pp. 9-10):

- **Planning:** a management function which evaluates the environment to set future goals and map the activities required to achieve these goals. To reach effective operation of the organization, teams and also the management have to be carefully designed. The strategy of the organization is also created by the planning function, which requires detailed environmental assessment that can be performed by different methods like Porter's 5 forces or STEEP (or PEST) analysis.
- **Organizing:** a management function that creates links and relationships between the organization's resources, assigns resources to specific tasks, and also defines tasks of personnel to achieve desired goals. This is the function that sets the job descriptions (defining tasks) of subordinates. Based on the information gained from the environment this is the function that sets the structure of the organization, which will be discussed in the second chapter.
- **Controlling:** a management function that defines the requirements of the processes, measures their fulfilment, evaluates them, and if it is needed it intervenes. (e.g. in business ventures, specifically in manufacturing companies among them in this function managers usually define the profit needed to be achieved, the maximum number of defects or scraps, and the time of completion or production.)
- **Leading:** a management function that is about influencing the behaviour of employees to achieve the goals of the organization. The focus of this function is clearly set on human resource, which is considered an art and also science of aligning the goals of employees with those of the organization. One can do this by reaching the right level of effectiveness can be called a true leader. There are several methods and theories for managerial influence, which will be detailed in the sixth chapter.

There are functions that are only performed by managers working at specified company levels, for example planning a strategy that affects the whole company, can only be performed on the top manager level. We also have to mention that the functions are strongly linked to each other creating a sort of process of reaching the settled objectives. This process is cyclic

and also generates continuous feedback, allowing the processes associated with each function to be improved and modified to achieve greater efficiency.

1.4.3. Effectiveness and efficiency

The definition before also mentions that goals have to be reached in an effective and efficient way, but do we know the difference between these two words? The main discrepancy is the focus of these two adjectives that they refer to. **Efficiency** measures the economy in achieving of our production results. In this case an organization is efficient when it generates the most amount of output from the least input. This means that we have an efficient company when we perform our production from as few resources as possible.

Effectiveness focuses on our goals. It measures whether we truly achieve our planned objectives, fitting to our purposes. This means that an organization is effective if it has actually achieved the result, that have been predefined for it by analysis of the market and the information inside. If this result is worse than expected, changes are needed in planning based on the created feedback. Efficiency concentrates on the “HOW?” (successful, if we measure low waste in resource usage) and effectiveness measures the “WHAT?” (successful, if we measure high attainment focusing on goals) (Robbins, Coulter 2018, p.44).

1.4.4. The difference between the manager and the leader

Management, leadership and controlling are not synonyms even if these terms are often confused in Hungary. If someone is called formally a leader, then we emphasize that the individual has followers, over whom he/she exercises power. A leader can be informal as well, who can influence the activity and behaviour of others based on informal powers, like expertise or prestige. A manager though, plans, organises and also controls besides leading, possessing formal power tools in the organisation, and legitimate to influence the activity of others. So if someone is called a manager, we highlight the whole of his/her activity, not just that part he/she uses to influence others (Gyökér et al. 2014, pp.4-5).

1.5. Manager roles by Mintzberg

Managers can also be separated by Mintzberg's role categorization. Henry Mintzberg did a study about managers, by studying their behaviour at work by concluding what they do and how they do it. He determined that the role of the manager in the company will describe what they will do at work, and how they will behave in taking different actions connected to their position in the company. By this we separate 10 roles which refer to compress actions or behavior which is expected from a manager in a defined position in the organization. The *Monitor*, *Disseminator*, *Spokesperson* are **Informational** roles which include examining, handling and sharing information. **Interpersonal** roles involving *Figurehead*, *Leader*, and *Liason* comprise coordination and interaction with subordinates. The third category forms the group of **Decisional** managers, who are the *Entrepreneur*, the *Disturbance Handler*, *Resource Allocator* and *Negotiator*. Table 1. defines the activities attributable to each role and shows examples to role activity (Jones, George 2007, pp.19-23).

Table 1. Activities and examples to manager roles

Type of Role	Role	Organizational activity	Example of role activity
Informational	Monitor	seeking and obtain work-related information	checking and examining company reports, participating in training occasion (eg.seminars), strengthen personal relationships
	Disseminator	transferring and spreading information to the persons in the organization	sending information documents through the organization, informing employees about different decisions on corporate level
	Spokesperson	transferring and spreading information to the persons out of the organization	participating in conferences and report progress, communicating information to the outside (eg. press conference)
Interpersonal	Figurehead	„symbolic leader”: performing duties in social and legal areas	hosting receptions and events, signing legal documents, welcomes visitors
	Leader	selection, training, direction and motivation of employees	nearly every interaction with the employees
	Liaison	establishing and managing relationships outside the organization	participation on meetings with division representatives (correspondance for harmonisation)
Decisional	Entrepreneur	looking for innovative ideas and launching innovative projects for development	planning and implementing innovations and developmental factors
	Disturbance Handler	solving problems and correcting processes	solving conflicts between employees, overcome crisis
	Resource Allocator	deciding where and when to apply resources	approving plans, schedule, budget
	Negotiator	protecting business interest	directing negotiations within department and organization

1.6. Managerial Grid by Blake and Mouton

The Managerial Grid by Blake and Mouton demonstrates, how managers can assist the organization in reaching its goals based on two factors: paying attention to employees and concentration on production. These factors take place as managerial orientations in the model. Production based orientation describes how much effort the manager makes to reach the production goals of the organization, like the development of a new product, organizing work flows, or prescription of sale-volumes. Paying attention to employees in this context means, how the manager leads employees to reach organization goals. Organisational commitment, building of trust, recognition of personal values of employees, provision of suitable work environment, reasonable salary, and the enhancement of social relations belong here (Blake, Mouton, 1964 in Gyökér et al, 2014). Two factors yield the two dimensions of the model, both of them were evaluated on a 9 degree scale (1 – very low attention, 9 – maximal attention). The model includes the 5 basic management styles:

- **Task Management:** a leader of this kind put great emphasis on work tasks and job expectations, paying lesser attention to people. In this case the employees are the means to reach the goals of the organisation. Communication is mostly based on instructions and directives, making it a result-oriented managerial behaviour.

- **Coutry Club Managemant:** This style is characterised by the high attention to interpersonal relationships and low focus on the organisation of work tasks. Performance is secondary, leaders of this kind are more concerned with the attitude and emotions of employees, and always try to satisfy the personal and social needs of followers. The basic organisational goal is the establishment of a relaxed workplace atmosphere.
- **Impoverished Management:** This kind of impoverished manager pays attentions neither to interpersonal relationships nor to work tasks and performance. The manager is not visible according to his/her actions: anti-interventionist managers do not deal with everyday tasks, and basically keep aloof from everything. This kind of manager has minimal connection with employees, its most important personal characteristics are: neutral, diplomatic, resigned and apathetic.

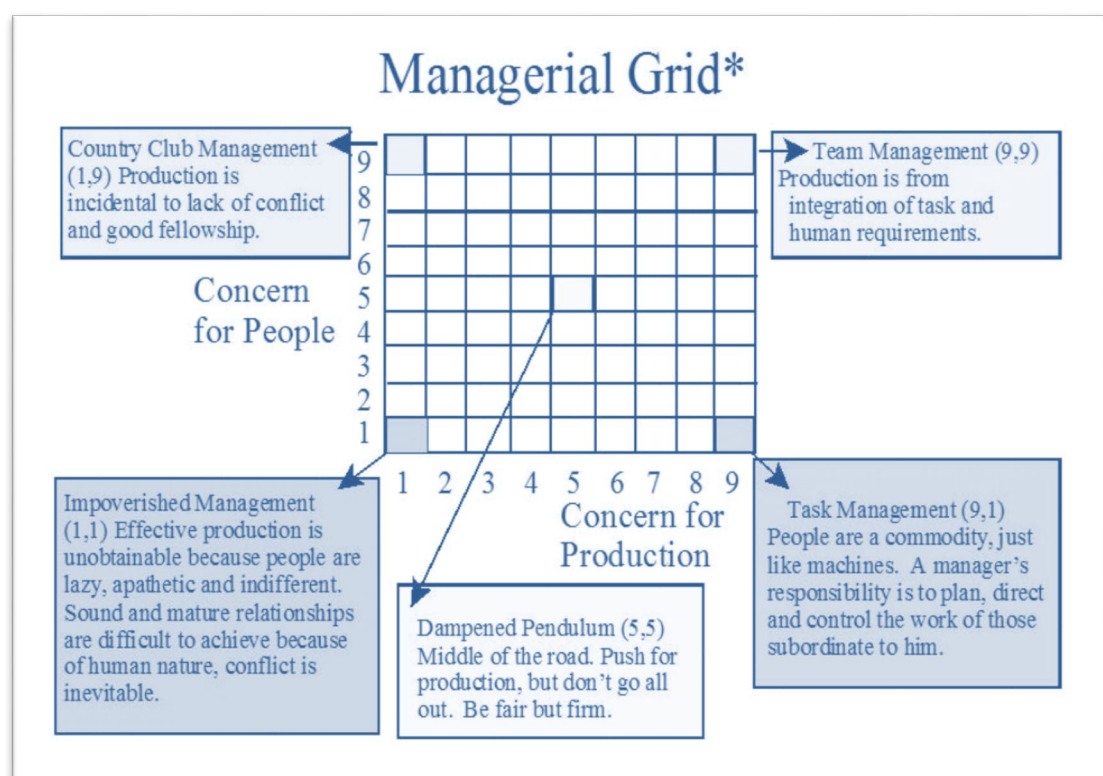


Figure 2. Managerial Grid (*Management and Accounting Web, 2019*)

- **Dampened Pendulum (Middle of the Road) Management:** This kind of compromise-seeking manager shares his/hers attention between people and tasks more or less equally. He/she balances to build uniformly optimal workplace conditions and relaxed interpersonal relationships as well. These managers tend to avoid conflicts, and are well-known of their temperance.
- **Team Management:** This kind of manager put great effort to the organisation of work tasks and to employees as well. Its organisational presence is characterized by continously active contribution and team work. He/she involves other employees shaping and developing their future commitment to the organization. Most important

traits of these managers: promoting contribution, acting confidently, radiates openness, plans and accomplishes accordingly, open minded, enjoys his/her work.

However, there is something important to clarify about the model. It is a common mistake that the task and the good mood of subordinates (relationships) can only be improved on the expense of one factor to another. Because of this mistake, many people imagine a 1.1 - 1.9. - 9.1. triangle on the grid, and think that only this triangle is considered to exist. The „damped pendulum” name of the 5.5 style demonstrates the attempt to dampen the exaggerated leans too much towards the 1.9. style or 9.1. style. Blake and Mouton on the other hand, showed that we did not have a triangle, but instead a quadrilateral, i.e. the team manager 9.9. provides the maximum along both dimensions.

Chapter Summary (1)

1. Definitions to know:

- *organization*
- *resource*
- *top/middle/first line manager*
- *management*
- *planning/organizing/controlling/leading*
- *efficiency*
- *effectiveness*
- *informational/interpersonal/decisional management role*
- *profession*
- *country club/impooverished/dumpened pendulum/team management*

2. Questions for discussion:

- *Identify organizations that you think are, or aren't effective or efficient. Justify your choice and name the main differences.*
- *What can be the main resources of an organization? Name a company and classify its resources into the four main resource categories.*
- *How do you think managers in different levels of the company can contribute to increase effectiveness and efficiency?*
- *If You were a top manager of a company, what actions would you perform considering each function of management to secure effective operation? According to the Managerial Grid how can a manager be developed to become a Team Manager?*

3. Suggested videos for this topic:

- <https://www.youtube.com/watch?v=to6dPqKQan0>
- <https://www.youtube.com/watch?v=X6RObZecBHI>
- https://www.youtube.com/watch?v=uXkME_VXW3Y
- <https://www.youtube.com/watch?v=Z0BVpFrpNgl>
- <https://www.youtube.com/watch?v=Vz5hgX2MYbE>

2. Organizational Structure

In the previous chapter we defined the concept and the specifics of an organization, and we also mentioned, that the structure is the feature that is formed by the organizing function by managers with allocating the resources to fit the organization's purpose. The structure is a key factor from the perspective of a manager, because if it doesn't fit to the company's purpose, it inhibits continuous operation and development. As a framework, it targets the formulations of rules and procedures, authority and also the differentiation of positions. It is known as an overall pattern of structural settlements and components that are managed for the whole organization. It also determines the pattern of roles, positions and communication, that forms the coordination of the technology and subordinates of the organization. In this chapter we will introduce the features that form the company's structure and we also demonstrate the potential combinations of these by discussing the most common organizational forms.

2.1. Features of organizational structure

As a manager of the company we have to set (and along with the organization changes also form) the key features of the structure which are (Gyökér et. al. 2014, pp.113-115; Jones, George 2007, pp.242-276):

■ **Work specialization (division of labour)**

While specialising work, we divide work activities into sovereign job tasks. This feature creates the opportunity for organizations to use the diversity of competencies that is gathered by the organization. Some tasks prescribe highly complex skills, and there are others which require just basic ones. For example if we think of a project group at a company whose goal is to create an Android mobile application, the programmers and the graphic experts require different kind of skills with different difficulty. Many of today's managers use work specialization as an important tool of the organizing mechanism, based on the belief and experience that it helps increase the efficiency of subordinates. For example, McDonald's uses high specialization to get its products made and delivered to customers efficiently. However, managers also have to recognize its limitations. That's why companies such as Avery-Dennison, Ford Australia, Hallmark, and American Express use minimal work specialization and instead give employees a broad range of tasks to do. We can identify many complex tasks, which necessitate some kind of division. This means that we have to divide work to fulfill complex tasks in small components, so subordinates can become professionals. The total of the tasks in the organization are divided in specific activities tied to specified jobs. **Division of labour** means the extent that these jobs are specialised. This division can be planned in different contexts which we call *departmentalization*. This is a process in which jobs are mixed together into different functional entities as „departments” based on specialization, to fulfill the purposes of the organisation. Departmentalization can be done e.g. by functions, products or geographical areas/consumer specifics.

- **Functions:** managers can combine jobs by functions of the organization, like sales, production, marketing, HR etc. Mainly, organizations departmentalized by functions operate with higher efficiency (e.g. manufacturers).
- **Products:** in large diversified companies managers categorise jobs by products or on the basis of output of the department (e.g. mobile phones).
- **Geographical areas / Consumer specifics:** managers can departmentalize it by establishing groups based on geographic areas or consumers. Large international

companies are often organized along geographic areas (e.g. food stores). On the other hand the specifics of the customers can be a basis for departmentalizing jobs. This type of job grouping is common at bank or educational institutions (e.g. corporate services, retail services).

If managers departmentalize using one basis, the organization is **one-dimensional** (e.g. functional structure), but if they apply two or three departmentalization basis the organization is **multi-dimensional** (e.g. divisional, matrix organizations).

■ **Authority**

The type of authority is also important in organizational design. **Authority simply means the right to command in the organization.** The right of the workers of the organization to make their own decisions without any approval of higher entity. The right to command is based on the job the individual fills in the company (e.g. tasks, processes, work). The delegation of this authority assigns to decision making, not specifically to do the concrete work or task. This decision defines the degree of the authority delegated to each job and position. We can detect one-line or multi-line authority within an organization. If we have only one leader who commands us, we talk about **one-line authority**, because the production and functional control comes from the same person. The same person makes decisions about professional tasks according to production (eg. length of tasks, number of resources for production) and also about functional control of the employee, like HR (eg. promotion, raise, of length of holiday). In an one-line structure the responsibilities, connections in the company and relationships are defined clearly. In the case of **multi-line** authority production control and functional control is separated, so there is one production manager and one functional manager over one subordinate. Multiple managers come from multiple levels of the company. Because of the multiple authority the responsibilities are not so clear, when a problem occurs it can be difficult to find the person responsible for a mistake. On the other hand because of the multi-line structure, productive conflicts can occur. The one-line structure also has negative aspects such as a manager can be overloaded fulfilling both the production and functional roles.

■ **Coordination**

The work, tasks, and the authority has to be integrated into the organization fitting to the main goals. **Coordination** helps to synchronize the efforts of the organization members (subordinates and groups) to fulfill the intentions of the organization effectively and efficiently. We can differentiate three main types of coordinational tools:

- **Technocratic tools:** planning and budget system, rules and sanctions of the organization
- **Structural tools:** company report system, formation of project teams, structure and size of hierarchy. The size of hierarchy shows the number of management levels in the company. In the case of less than four hierarchy levels we talk about a flat organization, while over four levels we define a tall hierarchy structure. Usually flat organizations have wide command range which means that managers are responsible for more people on a management level than in a tall structure.
- **Employee-oriented (personalized) tools:** motivation, education, culture, problem solving and handling conflicts.

2.2. Main Organizational Structures

There are a variety of organizational structures that can be detected in the business world. These are usually some mixed solutions defined in organizational management by their characteristics. We can encounter organic and static structures according to their flexibility and reaction to business environmental changes (eg. consumer behaviour change, competitor appearance).

Organic (so called dynamic) structures can react and fit to changes, even implement new results which come with these changes: Divisional and Matrix structure. (We also have to mention that the Divisional structure may not always be dynamic in every situation, therefore we can also classify this structure static as well.)

Static (mechanistic) structures are very straight regulated and can hardly adjust to a change: Functional and Divisional structure. Table 2. demonstrates the details according to the main specifics discussed previously.

Table 2. Features of the main organizational structures

Structure type	Division of Labour	Authority	Coordination	Advantages	Disadvantages
Functional	one-dimensional (functions and tasks)	multi-line	technocratic tools (strong regulations)	high efficiency in production by well defined tasks	cannot produce wide range of products, difficult to use in dynamic environment
Divisional	multi-dimensional (products, regions or customers)	can be one or multi-line (strongly centralized decisions in divisions and decentralized between central unit and divisions)	technocratic tools (straight all company involved regulations)	big independency of the divisions, separated tasks within the company	increased number of staff, risk of selfish divisions
Matrix	multi-dimensional (horizontally functional and vertically based on products at the same time)	multi-line (functional and project leaders making decisions together)	employee-oriented tools	dynamic and flexible structure, great implementation of problem solving techniques and changes	possible competition among functional and productional manager, but little amount of taking responsibility

Functional structure is usually formed in static environment while producing a narrow range of products but the skills and expertise are main components of the production.

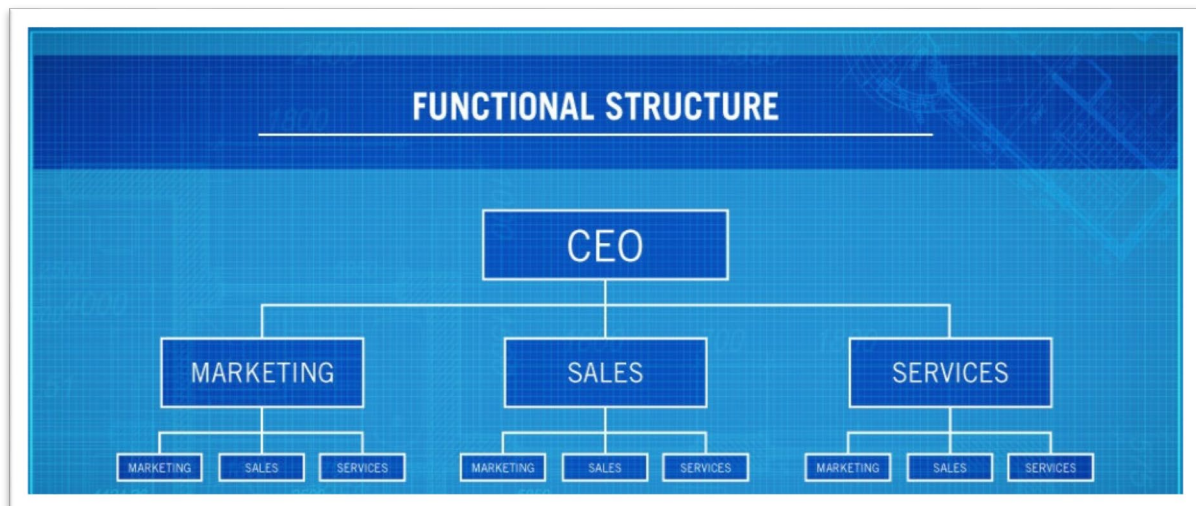


Figure 3. Example of Functional structure
(Point Park University Online, 2018)

The **Divisional structure** helps in the coordination of tasks usually in a world wide or international organization. Divisions (formed and operating as a smaller company within the real company) enclose a complete set of functions, like having their own accounting, sales or HR. Divisions can be specified by product, market or geographic area too. The independence of divisions may vary. Based on this, we distinguish **cost centers** (costs can be traced or segregated to the division and the head of a cost centre will be responsible for the costs only: not revenue or profits); **profit centers** (both costs and revenues are identified in the division and the head of the profit center will also be responsible for revenues, not just costs); and **investment centers** (costs, revenues and also capital investment are identified in the division and the head of the investment center will be responsible for costs, revenues, and capital expenditure (all financial aspects)).

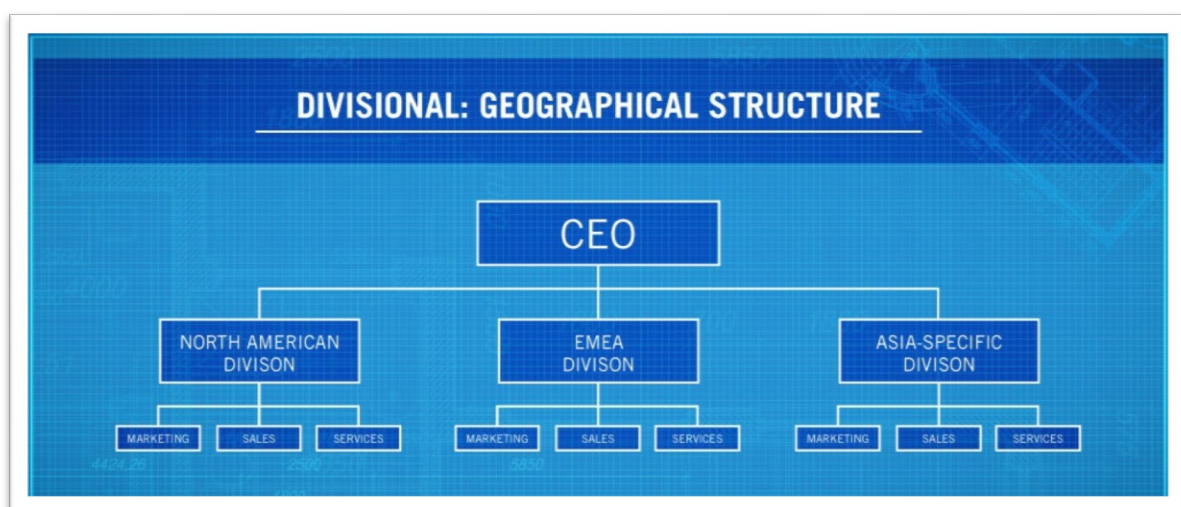


Figure 4. Example of Divisional structure (divisions created by geographical areas)
(Point Park University Online, 2018)

Companies with project-based operation have **Matrix structure**. The structure is based on the multi-line authority thinking by which every step of production involves two managerial decisions (e.g. manager of the project and manager of the functional segment of the organization). The fact that each step of the processes require the opinions of two managers to agree can increase conflict management skills and also can be helpful for innovation, because by solving these conflicts the organization learns (Gyökér et. al. 2014, pp.115-121; Jones, George 2007, pp.242-276; Certo, Certo 2016, pp.184-188).

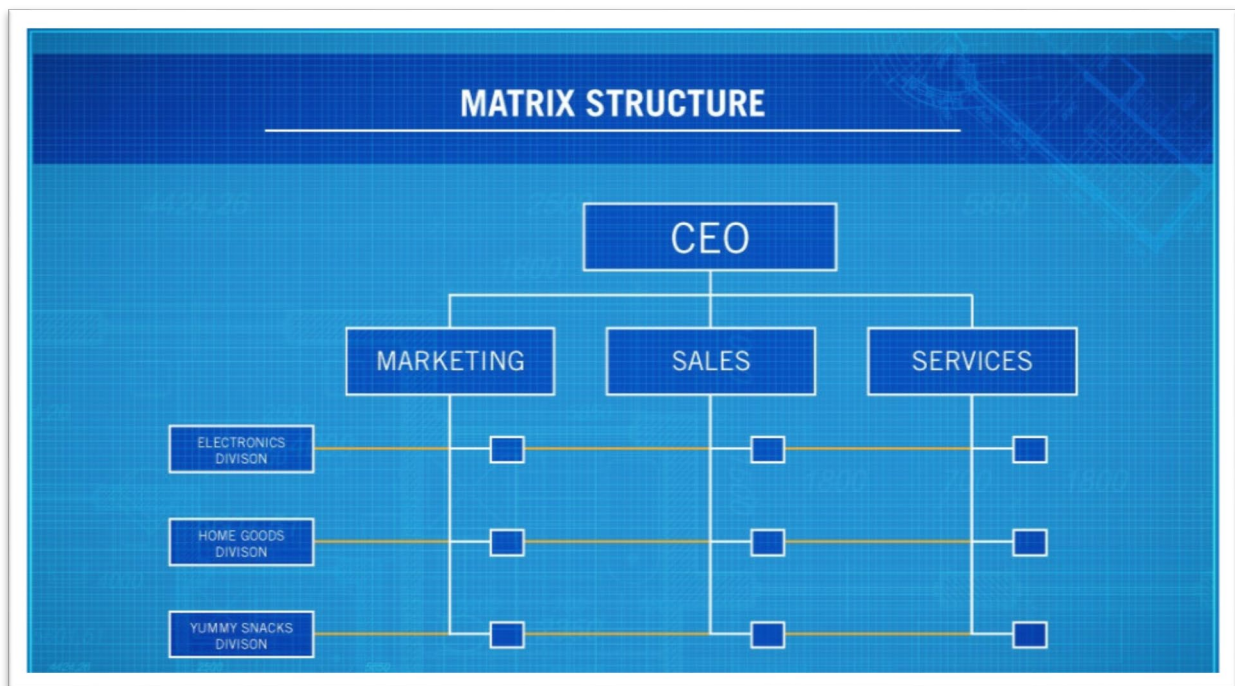


Figure 5. Example of Matrix structure (departmentalized by product and function)
(Point Park University Online, 2018)

2.3. The relationship of environment and structure

The company exists in a particular environment, which environment's elements have an impact on the organization. These elements are:

- The elements of the macro (wider) environment, such as economic processes, legislation, government, a technological development, politics, international relations, state regulations (elements can be identified with PEST/STEEP analysis).
- Elements of the micro (narrower) environment such as consumers and suppliers, competitors, substitute product manufacturers and new actors on the market (elements can be identified with Porter's 5 forces analysis).

According to Thompson & Duncan (1967) the most important environmental dimensions to consider are the following (in Gyökér et al. 2014, p.125):

- The *Simpleness* (few elements only – weak influence) and *Complexity* (many elements – strong influence): A simple environment contains few elements, so it changes the organization relatively little, while a more complex environment can affect it in many ways and with different strength.

- *Static* (not too many changes) & *Dynamic* (several changes) environment: Few changes are expected in a static environment and frequent changes in a dynamic environment are expected more predictable than the latter.
- *Uncertainty*: we do not have enough information about the environment so we cannot appreciate the environmental factors realistically.

2.4. Production type and Strategy

Production type is an important content of organizational structure. In this context **the type of production** consists of the tools, techniques, which convert the raw material into a finished product.

Companies are divided into three groups according to their production type: unique, mass, and standardised manufacturers. Successful companies in the field of mass production have a static structure (bureaucratic organic, decentralized, adaptive) while in the case of single and serial production, organic (decentralized, adaptive) organizations are preferred. Examining the interaction between strategy and structure, it is concluded that strategy defines the structure, and the effect of the structure on the strategy is very weak. Changes in strategy over the past decade have resulted in typical structural consequences. The product diversification, decentralization and growth strategies indicated redesign (in our case flatter organization) (Griffin 2015, pp.-37-41).

Chapter Summary (2)

1. Definitions to know:

- *division of labour (one-dimesional/multi dimensional)*
- *authority (one-line/multi-line)*
- *coordination (technocratic/structural/employee-oriented tools)*
- *organic structure*
- *static structure*
- *functional structure*
- *divisional structure*
- *cost/profit/investment center*
- *matrix structure*
- *production type*

2. Questions for discussion:

- *What type of structure would be appropriate for the following organizations: 1, international fashion company; 2, innovative tech company? Explain your choice.*
- *What do you think, what can be the main characteristics of a situation when managers have to change structure?*
- *Imagine a company of your own by identifying the main structure and features. Explain the reasons why you choose this structure.*

3. Suggested videos for this topic:

- https://www.youtube.com/watch?v=wO_-MtWejRM
- <https://www.youtube.com/watch?v=Chb3Mk7wVVQ>

3. Organization Culture

3.1. Defining culture

With the goal of reaching effective and efficient operation, managers have to pay attention to the culture of the company by examining the impacts from other culture levels (see in Figure 5). This culture formed by national, group or the individuals own culture effects, the relationships of companies and behaviour on the market. A nation's culture influences how transactions are handled within the organization (e.g. sales, recruitment, reward programs, innovation). Under national culture we can detect culture of different societal groups or industrial sectors which also affect companies, like culture of medical doctors or construction workers. Within these sectors we can detect the own cultures of organizations, which can involve different subcultures tied to different job aspects. Also we have to mention that the own culture of every individual (family, friends, childhood) affects the company's culture as well.



Figure 6. Levels of culture

Organizations began to pay attention to the presence and effects of culture in the 1970s. The best-known explanations are "The way we do thing around here" and "The glue that holds the company together." In management literature Schein's (2010) definition is used to define culture which states that: **organizational culture** is a philosophy, a system of norms that underpins the organization's policies, rules within the organization, affects the workplace's climate, and even influences the physical layout. Culture is the "soft" factor of the organization. It is based on beliefs, common values, and accepted rules of conduct. We also have to state that, there is no single "type" of organizational culture, it varies widely from

one company to another. Culture is based on the following statements (Gyökér et al. 2014, p.127):

- It is created as a result of change, which change can be continuous or rare, large or small as well
- It consists of shared experiences.
- The power of hypotheses: culture starts to work unquestionably, we become emotionally captured because we have created it ourselves.

Research into the significance of culture has shown that organizational culture as well as organizational structure influences organizational strategy.

3.2. Cultural models and theories

Organizational culture often differs significantly from one country, market, industry and cultural area to another. Cross-border operations and the emergence of multinational companies in the internal market require a predominantly behavioral examination and understanding of cultural differences. In addition, organizations operating in the same national culture show significant cultural differences. Below we present two equally prevalent but contradictory cultural theories of corporate culture that differ in defining the components and types of culture.

3.2.1. Schein's cultural model

The levels of organizational culture (Schein) tend to resemble to an iceberg. Three levels of culture can be distinguished, the first is the level of visible features that every external and internal observer will clearly experience, and the second is the level of values displayed in the invisible region, which usually has clear and conceptual content for the members of the organization. The third level is the set of subconsciously cultural elements that influence our actions. On the visible (1) level we can detect **artifacts and creations** that are such actions that are repeated on a regular basis that display and confirm the organisation's core values, showing important goals, and set the rules of operation and behavior, appearance, and language. **Values** (2) can be expressed explicitly in the minds of the members of the organization. It can be examined with the help of questionnaires. Subconscious cultural elements (3) involve **basic beliefs**, unspoken convictions of people. Its examination is done by participant observation, with the help of cultural anthropological methods (Schein 2010, pp. 23-35).



Figure 7. The IceBerg Model (Schein)
(Barker, 2013)

3.2.2. Schein culture types

Schein (1980) distinguishes the following two organisational culture based on the differences in core values (Schein, 1980 in Pataki, 2002, pp.45-46):

■ „A” type organisational culture

Core values of „A” type organisations:

- Everyone can have a good idea.
- People are generally responsible, motivated, and able to keep things under their control.
- People can put across their notions, only if they fight for them in the group they belong to.
- This continuous inner fight is sustainable and possible, because members of the organisation consider themselves a big family and they take care of each other.
- That is why competing and fighting with each other is feasible on the long term.

In type „A” organisations working spaces are open, people continuously interact with each other, there is constant conversation and debate during work, and a relaxed informal atmosphere is characteristic.

■ „B” type organisational culture

Core values of „B” type organisations:

- New initiatives and ideas always derive from leaders and managers.
- People accomplish assignments loyally and meticulously like it was prescribed.
- Relationships are mostly horizontal or verticals.
- Everyone has its own invincible role and place in the organisation.
- It is the responsibility of the organisation to take care of its members.

In the workplace of a type „B” organisation there is silence and peace. Everyone resides in his/her office quietly doing the job. Employees do nothing without first, consulting and coordinating with their managers. Differences in status are official and real among organisational members. The atmosphere is formal and official.

3.2.3. Deal and Kennedy's Cultural Model

In their work about corporate culture, Deal and Kennedy suggest that the basis of culture is a mix of six cultural elements which are (Deal, Kennedy, 1982 in Pataki, 2002, pp.47-48):

- **Business environment** - Every company has a different business environment on the market, depending on the specifics of its products, competitors, customers, technology, government and also influence, etc. The environment in which the company operates determines what it needs to do to succeed. This business environment has by far the strongest influence on corporate culture.
- **Values** - The values of the organization are its core concepts and beliefs, which form the heart of the organization's culture. Values give employees a clear sense of what they need to succeed and thus form the requirements of performance in the organization.
- **Heroes** – Related to stories are the employees and managers whose status is elevated because they embody organizational values. These heroes serve as role models and their words and actions signal the ideal to aspire to.
- **Rituals and Ceremonies** – Ceremonies are the things that employees do every day that bring them together. Examples include Friday afternoon get-togethers or simply saying goodbye to everyone before you leave for the day.
- **The Cultural Network** – The informal network within an organization is often where the most important information is learned. Informal players include:
 - Storytellers, who interpret what they see happening and create stories that can be passed on to initiate people to the culture.
 - Gossipers, who put their own spin on current events and feed people a steady diet of interesting information. Employees know not to take the information at face value; however, they enjoy the entertainment value of a gossip's story.
 - Whisperers, who have the ear of the powerful people in the organization. They can be used by anyone with a message they want taken to the top but who doesn't want to use formal communication channels.
 - Spies, who provide valuable information to top management, and let them know what really happens on a daily basis.
 - Priests and priestesses, who are the guardians of cultural values. They know the history of the company inside out, and can be relied on to interpret a current situation using the beliefs, values and past practices of the company.

3.2.4. Deal & Kennedy culture types

Deal and Kennedy (1982) observed hundreds of companies and identified four types of typical organizational culture based on the risk to the company and its employees as a whole, and also based on feedback time that how quickly their decisions and strategies were proven to work for the company. Altogether the two main factors on which cultures are typified (in Gyökér et al. 2014, p.127):

- **Risk:** While risk and uncertainty are well borne by some, others hate it. Although it is a powerful incentive for everyone to deal with and manage uncertainty. If its level is low, people will only engage in insecure situations up to their own acceptable level, and if it's high, members of the organization will acquire the ability to manage risk and behave accordingly to it.
- **Feedback:** It is very important for members of the organization to know whether their actions are right or wrong, and for this they need feedback. If this arrives within a short period of time, it is possible to correct ineffective behavior, which leads to a consistent culture. On the other hand, if this feedback is slow, then the culture will encourage long-term thinking and focus on the final result (while potential mistakes can remain).



Figure 8. Deal-Kennedy culture types

Deal-Kennedy Culture types:

- **Tough-guy (Macho) culture:** This is the world of individualists who regularly take high risks and get quick feedback on how successful they are. Stress in this culture arises from high risk and the possibility of losing rewards. Members of the organization focus on the present rather than the future. Organizations such as the police, construction, sports, management consulting, advertising, film, TV, entertainment are typical of such a culture.
- **Work-hard, play-hard culture:** A good mood and activity is typical of this culture, where employees take low risk and get quick feedback. This culture encourages them to work very diligently on relatively low-risk activities. Examples of such a culture are organizations such as real estate agencies, car dealerships, home agents, consumer goods retailers.
- **Bet-the-company culture:** In this culture, decisions are a big stake and it can take years for employees to find out if their efforts have been paid off. Although long-term thinking is typical, it is much more about the safe accomplishment of planned

processes. Organizations such as oil companies, mining and metallurgy, public insurance companies, IT development.

- **Process culture:** This is a world of low feedback, where it is difficult to measure the effort of the subordinates and instead what they done, the focus goes on how they have done their job. Work is not characterized by stressful situations, but rather comfortable and safe working conditions. In this culture we can speak of bureaucracy, which existence is key to maintain the status quo in the organization. Stress also stems from bureaucratic processes, and the focus is on the security of the past and the future. Organizations such as highly regulated industries (such as the pharmaceutical industry), credit banks, insurance companies, ministries are examples of such a culture.

No culture is good or bad in general, different cultures may be appropriate in different circumstances, organizations or organizational units. In addition, no type of culture appears one hundred percent clear, but rather a combination of cultures is usually detected.

Chapter Summary (3)

1. Definitions to know:

- *organization culture*
- *Schein's levels of culture: artifacts/values/basic beliefs*
- *Schein's culture types: „A” type/ „B” type*
- *Deal and Kennedy's cultural model elements: business environment/values/heroes/rituals and ceremonies/cultural network*
- *Deal and Kennedy's culture types: tough guy/work-hard,play-hard/bet the company culture*

2. Questions for discussion:

- *What are the most important components of organizational culture according to Schein? Give examples for each level.*
- *According to Deal-Kennedy's typology what is the culture of the following organizations: post office, bank, police, oil company*

3. Suggested videos for this topic:

- <https://www.youtube.com/watch?v=eJnSSDcQKhk>
 - <https://www.youtube.com/watch?v=cjziCs-R2S4>
-

4. Group Work

Groups are omnipresent parts of organizational life. They make up the framework for most of the work that is done, and they evolve both inside and outside the organization's structural borderlines. The definition of a **group** in brief is two or more people who interact with each other. A group whose members interact to achieve a common purpose or goal is called a **team**. Teams are a special form of task group that have become increasingly popular. The purpose of a team may range from preparing a new marketing strategy, to making important decisions, or fulfilling social needs.

4.1. Reasons for joining groups

People join groups for multiple reasons. Once inside the organization, they are assigned to jobs and roles, and subsequently become members of functional groups. People in existing functional groups are asked, or volunteer to serve on committees, task forces, and teams. People join informal or interest groups for many different reasons, most of which are quite complex (Griffin, 2015, pp. 398-400):

- **Interpersonal Attraction** One reason people choose to form informal or interest groups is the mutual attraction towards each other. There are various factors that contribute to interpersonal attraction. When people see a lot each other, proximity itself increases the likelihood that interpersonal attraction will develop. Attraction is increased when people have similar attitudes, personalities, or economic standings.
- **Group Activities** People may also be motivated to join a group because they are fond of the activities of the group. Jogging, participating in ball games (football, basketball, squash, etc...), bowling, discussing politics, going out, or flying model airplanes are all activities that some people enjoy. It is more enjoyable to participate in many of them as a member of a group, and most require more than one person. For instance, Exxon Mobil and Apple have a football, softball, or bowling league. A person may join a bowling team, not because of any particular attraction to other group members, but simply because being a member of the group allows that person to participate in a pleasant activity. Of course, in a certain scenario, when the level of interpersonal attraction is low in the group, a person may choose to carry out an activity on his/her own, rather than joining the team.
- **Group Goals** The goals of a group can be a motivating factor as well. Fund-raising groups are good examples. Members may or may not be personally attracted to the other fund-raisers, and they probably do not enjoy the activity of knocking on doors asking for money, but they join the group because they endorse its goal. Workers join unions such as the United Auto Workers because they support their goals.
- **Instrumental Benefits** Another reason people join groups, because membership sometimes can serve as an instrumental in providing other benefits to the individual. For example, it is quite common for college students entering several professional clubs or associations because the presence of such memberships on a résumé may enhance the chances of getting a good job. Sometimes, managers join a club to obtain important and useful business contacts. For, instance joining a racquet club to play tennis is an instrumental in establishing those contacts.
- **Need Satisfaction** The final reason for joining a group is to satisfy the need for affiliation. New residents in a community may join the Newcomers Club partially as a way to meet new people and partially just to be around other people. Likewise, newly divorced people often join support groups as a way to have companionship. This need also plays a role in why some people use Facebook and other social media venues.

4.2. Types of Groups

In general, we differentiate formal, informal or interest groups (Griffin, 2015, pp.394-398):

- **Formal Groups:** A formal group is a permanent group created by the organization to achieve a number of organizational goals with an unspecified time horizon. The

management department at Iowa State University, the advertising department at Starbucks, and the nursing staff at the Massachusetts Medical School. The advertising department at Starbucks, for example, seeks to plan effective advertising campaigns, increase sales, run in-store promotions, and develop an unique identity for the company.

- **Informal Groups:** An informal or interest group is created by its own members for purposes that are not necessarily relevant to organizational goals, with an unspecified time horizon. A group of employees for example, who lunch together every day may discuss production, local politics or sports. As long as the group members enjoy eating together, they will probably continue to do so. When lunches are no longer pleasant, they will seek other company or a different activity. Informal groups can be a powerful force that managers cannot ignore. During and after the Hurricane Sandy in 2012, literally dozens of incidents were reported portraying how informal groups emerged to help those in distress. In recent years, the Internet has served as a platform for the emergence of more and different kinds of informal or interest groups. As one example, Google and Facebook includes a wide array of interest groups that bring together people with common interests.

Table 3. Features of formal and informal groups

Dimension	Formal	Informal
(1) Major objectives	profit, efficiency, service	member satisfaction, member security
(2) Origin	planned by organization	spontaneous
(3) Influence on members	position authority, monetary rewards	personality, expertise
(4) Communication	flows from top down, uses formal channels	grapevine, person-to-person, using all channels
(5) Leader	appointed by organization	emerges from group
(6) Interpersonal relations	established by job and workflow pattern	developed spontaneously
(7) Control	reliance on threat, use of monetary rewards	strong social sanctions

4.3. Team types

Table 4. lists and defines some of the various types of teams that are being used today (Griffin, 2015, pp. 397-398):

Table 4. Team types

Type of team	Definition
Problem-solving team	Most popular type of team; comprises knowledge workers who gather to solve a specific problem and then disband.
Management team	Consists mainly of managers from various functions like sales and production; coordinates work among other teams.
Work team	An increasingly popular type of team; work teams are responsible for the daily work of the organization; when empowered, they are self-managed teams.

Virtual team	A new type of work team that interacts digitally; members enter and leave the network as needed and may take turns serving as leader.
Quality circle	Declining in popularity; quality circles, comprising workers and supervisors who meet intermittently to discuss workplace problems.

4.4. Stages of Team Development

In the beginning, members of a new team are not yet familiar with how they will function together and are tentative in their interactions. In a team with substantial experience, members know and are adapted to one another's strengths and weaknesses and are more sure in their roles in the group. The former group or team is generally considered to be immature, whereas the latter is considered mature. During the progression from the phase of immaturity to the mature phase, a group or team must pass through different stages of development. The first stage of development is called **forming**. The members of the team get acquainted and begin to test which interpersonal behaviors are acceptable and which are unacceptable to the other members. The basic ground rules for the team are established, and a tentative team structure emerges. The second stage of development, which emergence is often delayed, is **storming**. During this stage, there may be a general lack of unity and uneven interaction patterns. At the same time, some members of the team may begin to exert themselves to become recognized as the group leader or at least to play a major role in shaping the group's agenda. The third stage of development, called **norming**, usually begins with a burst of activity. During this stage, each person begins to recognize and accept her or his role and to understand the roles of others. Members also begin accepting each other and a sense of unity arises. There may also be temporary regressions to the previous stage. For example, the team might begin to accept one particular member as the leader. If this person later breaches important norms or risks his or her claim to leadership, conflict might reemerge and the group may reject this leader and searches for another. **Performing** is the final stage of group or team development, a quite slow phase in development. At this stage, the team really begins to focus on the problem in question. The members enact the roles they have accepted, interaction occurs, and the efforts of the group are directed towards the goal. The basic structure of the group or team is no longer an issue but has become a mechanism for accomplishing the purpose of the group (Tuckman, 1965 in Griffin 2015, pp.400-402).

Chapter Summary (4)

1. Definitions to know:

- group
- team
- formal group
- informal group
- problem solving/management/work/virtual/quality circle team
- stages of group development: forming/storming/norming/performing

2. Questions for discussion:

- What are the reasons for joining a group? Why would You join?
- What are the main differences between formal and informal groups?
- Explain the stages of team development demonstrating on a company example.

3. Suggested videos for this topic:

■ <https://www.youtube.com/watch?v=2QbXc6E08H4>

■ <https://www.youtube.com/watch?v=TmLNTioqQ-0>

5. Leadership

Leadership is defined as a process, when the leader shapes the behaviour of the members of the organisation to achieve a certain goal, making it basically a procedure of influencing. Leading is a function of management, that focuses on the members of the organisation in order to maintain their motivation and performance. Like mentioned before the manager and the leader are not the same concepts, moreover they are often represented by different individuals in some specified tasks. There are some managers endowed with special managerial tasks, who delegate some of the managerial functions to others. Nowadays among the global competition, deregulation, disruptive technological innovations and financial crises, we seek for answers for the old questions with increased momentum: can leadership be taught? How can we select potential leaders? **An important component of leadership performance is that how the individual can affect the employees and how he/she can influence their activity** (Gyökér et al. 2014, p. 53).

5.1. Leadership Traits approach

The basic principle of the Leadership Traits approach, based on the concept, that „leadership is a form of art” and „leaders are born”, so the success of leadership is imprinted in personality seems to be false. It is now clear, that in efficient leading the capability of adaptation to a continuously changing environment is also as essential, as personality. It is also true that the lack of some basic leadership attitudes can be replaced by others, and most of the skills can be mastered by rigorous practice. It is also proved that some skills contributing to successful leading may be developed through training and learning. Skills are classified in 4 groups (Fiedler, 1967 in Gyökér et al., 2014):

- **Intellectual skills:** logical thinking, integration of thoughts, abstraction.
- **Business skills:** performance motivation, skill to act, initiative skills stb.
- **Socio-emotional skills:** self-control, independency, objectivity, stability, adaptation.
- **Interpersonal skills:** confidence, trust, social skills, communication skills, influencing skills. However the presence of the aforementioned skills on their own is not a guarantee for efficient leadership.

5.2. Leadership Behaviour approach

Representatives of the Leadership Behaviour approach focus on the actions and behaviour of leaders instead of their attributes. During the examination of leadership behaviour they tried to distinguish different styles, and how the actions of leaders influence the behaviour of employees. One of the oldest theory studying leadership behaviour (Lewin, Lippitt, White, 1939 in Gyökér et al.) examines the efficiency of the three leadership styles:

- **Autocratic** leadership style: The leader designates the objectives and task-groups on his/her own, controls, assesses, evaluates, decides, promotes and punishes without listening to the opinion of others.

- **Democratic** leadership style: The leader allows the will of employees to prevail until certain a level. The extent of involvement varies.
- **Laissez-faire passé** style: The leader does not apply impositions, instead he/she gives a free hand to employees in performing their operative tasks. The leader provides the resources, and –if necessary- interferes.

Furthermore we can reveal connections between group performance, satisfaction and leaderships styles. In groups, where the leadership is democratic job-satisfaction and the quality of performance is better. Autocratically lead groups perform better in quantity, but require tight and constant control, plus group members tend to show aggressive behaviour sometimes. According to studies in certain situations one leadership style can be better than the other. In urgent and potentially dangerous situations the autocratic style prevails.

5.2.1. Ohio State University Leadership Model (Ohio State Studies)

Researchers of Ohio State University examined leadership stlye according to the relationship to employees and tasks. During the evaluation of leadership style by questionnaires they seperated two independent dimensions: the dimension of „the aspiration of structuring tasks” and dimension of „the importance of positive human relationships”, then they classified leadership behaviour based on these dimensions. Behaviour aimed to initiate structure in tasks shows in what extent the leader like to determine objectives and their special structure in order to achieve organizational goals. „The importance of positive human relationships” dimension on the other hand shows how much the leader tries to establish a friendly and supporting working environment, and how considerate of his/her employees emotions. The studies had several interesting results (Gyökér et al, 2014,p.56):

- Those, who achieved high scores in the dimension „the importance of positive human relationships”, had higher employee satisfaction values; less discipline problem, complaint and fluctuation. It is also worth to mention that the latter two values did not changed significantly over a certain level.
- Lower attention directed to emotions of employees is obviously coupled with bad effects: deteriorating the leader-employee relationship, triggering dissatisfaction towards leaders.
- Those who achieved high scores in both dimensions were the most successful, so they proposed the training of leaders/managers towards according to these results.

5.3. Situational Approaches

Although Leadership Behaviour theories were mostly widespread in the world, studies after the 1960s started to show, that circumstances of leadership have increasingly stronger effect on leading altogether. The contingency or situational approach attributes the success of leaders to more than one leadership behaviours, stating that efficiency depends on how leadership styles are matched to the actual situational context. According to the theory, it is essential to comprehend the situation in which we interpret and evaulate leadership performance.

5.3.1. Fiedler's Contingency Theory

The fundamental statement of Fiedler's Contingency Theory, group performance depends equally on leadership style and situation. Among the factors of leadership situations he took into consideration their advantageous or disadvantageous nature. He drew attention to 3 situational factors, that can influence the components of the leadership situation (Fiedler 1967, in Gyökér et al. 2014):

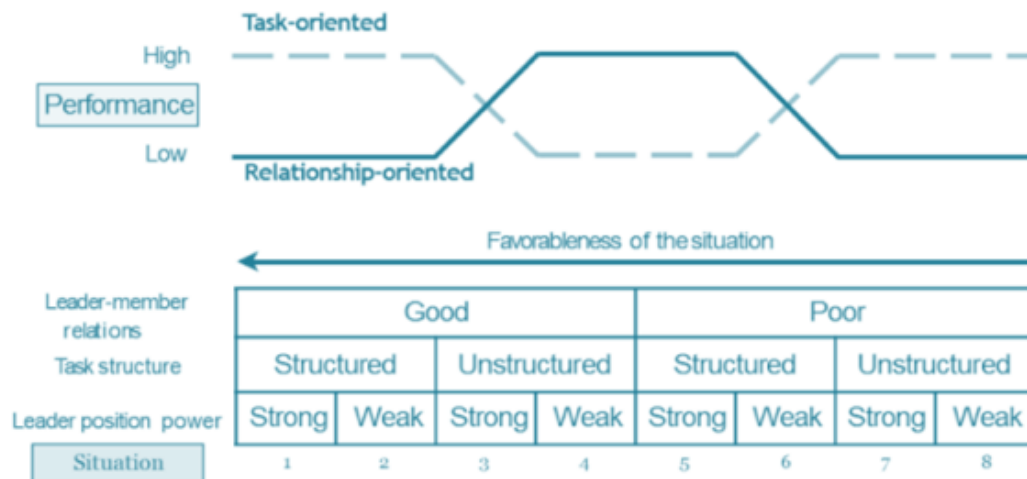


Figure 9. Fiedler's contingency theory

- **Leader-member relations:** group atmosphere, level of trust, loyalty, attraction of followers to their leaders. The approval rate of the leader can be high or low. If the atmosphere is relaxed, employees trust each other, and are on common grounds with their superiors, then we can depict the leader – member relations as good. If the atmosphere is tense and detectable friction is present among team members, then we can depict the leader – member relations as bad.
- **Task structure:** The extent of clarification of requirements and circumstances of the task. Depending on the precise formulatedness and structuredness of the tasks, they can be well-structured and ill-structured. Well-structured tasks are clear for everyone, people know what they should do, the way of performing the task can be easily illustrated and there is a limited number of possible solutions. In the case of ill-structured tasks exactly the opposite is true, making members insecure and uncertain about what they should do and how.
- **Leader position power:** it shows to what extent the leader can live with the possibility of promoting or punishing members. This power can strong or weak depending on the nature of the organisation or the position of the leader.

Fiedler distinguishes two types of leadership style: task-oriented and relationship-oriented. Assessment of leadership style was carried out according to an attitude-questionnaire, aiming to define and evaluate the **LPC (Least preferred Coworker)**.

- Task-oriented leadership comes with low LPC number, so for these employees finishing the task is much more important, than interpersonal relations.

- Relationship-orientedness though comes with a high LPC number, therefore they are motivated in keeping up a good relationship with their coworkers.

As major conclusion Fiedler revealed that in different situations, different leadership styles could be optimal. In advantageous leading situations (1, 2, 3 octant) and in disadvantageous situations (7, 8 octant) task-orientedness would prevail, while in stressful, uncertain and miscellaneous situations (4, 5, 6 octant), supportive leading decreases employee dissatisfaction, and by creating a relaxed workplace atmosphere obstacles in performing can be relieved.

5.3.2. Hersey-Blanchard Situational Theory

According to Hersey and Blanchard leadership is the mixture of two behavioural components: the task behaviour and the relationship behaviour, that need to be applied with adequate measures according to the situation. The leader needs to assess the employee's engagement and competency, and decide accordingly how much he/she „uses” from the two behaviours. The gist of the model therefore – besides that it is necessary to be able to utilize more than one leadership style –, that the leader needs to assess the maturity level of employees and adapt to their commitment and competencies when using leadership styles on them.



Figure 10. Hersey- Blanchard theory

In the model, the maturity level of the employee is crucial: the professional and psychological maturity and the levels of the controlling and planning leadership behaviour, with its four levels; and the bell-curve superimposed on these factors. Hersey and Blanchard distinguished four leadership styles accordingly: telling, selling, participating and delegating styles. The task- and relationship behaviour means the framework and basis of these styles. The essence of the task behaviour is that leaders assist employees in reaching organizational

goals by instructing them, defining their roles, establishing evaluation criteria and deadlines. In this case the leader tells the employee exactly what to do, how and what kind of resources he/she can use to achieve these goals. Relationship behaviour of leaders allows employees to practise their jobs in a comfortable way, performing tasks in a relaxed workplace environment according to their needs, providing workers social and emotional support.

The four different leadership styles:

- **S1 – Telling (low relationship, high task behaviour):** leaders make effort to communicate achievement and performance, and spend less energy on supporting employees. Instructions and continuous supervision is typical.
- **S2 – Selling (high relationship and high task behaviour):** communication is bidirectional: partly about performing tasks, partly about supporting employees emotionally. This kind of leadership strategy requires high levels of involvement from leaders
- **S3 – Participating (high relationship, low task behaviour):** in this case leaders do not focus particularly on performing tasks and accomplishing objectives, instead they try to encourage employees and parlay the maximum potential from their abilities. Typical behavioural patterns: attention, commendation, input-seeking, feedback provision. Everyday decisions are mostly made by employees.
- **S4 – Delegating (low relationship, low task behaviour):** The role of leaders are more inferior in this case: they provide information, but does not prescribe the way tasks should be performed. The leader participates less and less in organization, supervision of details and in clarification of goals. As soon as an employee (or group of employees) creates a plan to solve a problem, the leader authorizes the operation and gives a free hand in its solution.

Maturity level of employees can be classified into four groups:

- **M1 (low professional and psychological maturity):** Although these employees are not experts yet in their area and do not have the tenacity and perseverance to perform, they are usually very enthusiast and diligent. This kind of passion though is not matched with skills, so in order to avoid a dangerous leadership trap, the Telling leadership style (S1) needs to be utilized.
- **M2 (increasing professional maturity, low psychological maturity):** These employees have already learnt a thing or two and have some beginner experience, the initial failures dips them into a transitional phase of apathy and disappointment loosing some of their motivation. To get over and manage accordingly this phase the leader needs to use the Selling leadership strategy (S2).
- **M3 (increasing professional maturity, increasing psychological maturity):** most of the basic competencies of the job are already acquired by the employee this time, though they still can become inconfident and uncertain so they still need some support. In this case the participating leadership style (S3) is recommended.
- **M4 (high professional maturity, high psychological maturity):** These employees are already increasingly independent because of their competencies, experience and

psychological stability. Only a minimal level of intervention is required from leaders, so tasks can be easily Delegated (S4) to them.

Leadership styles need to be matched with corresponding maturity levels: M1 maturity level – S1 style, M2 maturity level – S2 style, M3 maturity level – S3 style, M4 maturity level – S4 style. Incorrect matching of maturity levels and leadership styles leads to unsuccessfulness, low efficiency, failures, and finally to the losing of employees.

Chapter Summary (5)

1. Definitions to know:

- *leadership*
- *leadership traits approach (leadership skills)*
- *leadership behaviour approach*
- *autocratic/democratic/laissez faire passé leadership styles*
- *Ohio State Studies*
- *Situational approach*
- *Fiedler's Contingency theory*
- *Hersey-Blanchard theory (leadership styles and employee maturity levels)*

2. Questions for discussion:

- *Point out the main differences in the three main categories of leadership styles.*
- *What is Your personal opinion? Can leadership be taught or it is something we are born with?*
- *Who is a successful leader in Your opinion?*
- *Give examples to autocratic, democratic and laissez faire passé styles.*
- *According to the Hersey-Blanchard theory which style has to be used when a new subordinate arrives at the company?*

3. Suggested videos for this topic:

- <https://www.youtube.com/watch?v=H1SiGs-SVdA&t=69s>
 - <https://www.youtube.com/watch?v=1AZMiq6Mq-k>
 - <https://www.youtube.com/watch?v=uVJpHqqGEww&t=113s>
-

6. Motivation

It is obvious that motivation is part of the leadership function, but depending on our curriculum, we discuss it in a separate section demonstrating the associated theories.

6.1. The concept of motivation

Motives of our actions are basically the impulses created by the manifestation of a need. Motives that address behaviors reducing needs, are called altogether motivation. In a broader sense, every targeted behavior is considered motivated behavior. In addition to biological motives (survival, hunger, procreation) there are many motives in our system that are results of learning and socialization (learned motives). In this case too, the motivation is to reduce psychological tension in the individual, so these motivations are often stronger than biological motives. A stronger urge is coupled with a greater ability to act. It is an important question for all leaders how the motivation level of the employees can be increased, because motivation can increase organizational performance. As employees, it is also in our interest to

be aware of ourselves and motivating others and understanding their behavior, that leads to successful cooperation with them (Finna, Gyökér, 2013 in Szabó, 2013). We use the concept of motivation in two ways:

- **Psychology:** fulfilling inner drives
- **Management:** the leader stimulates subordinates toward the achievement of goals of the organization

Every individual is different in some way, that makes the interpretation of motivation a difficult task.

6.2. Performance and motivation

Performance in organizations is generated by talent, obtained skills and motivation altogether in a special environment in question. Even a wide range of skills won't lead to results without the will to perform, just like the strongest determination and motivation without the required abilities is not enough to generate performance.

$$\text{Performance} = \text{ability} \times \text{motivation}$$

Skills of the organisation is determined by the interaction of individual and organisational factors. The so-called **input factors** are based on individual abilities and needs of employees, plus the group effects among them. Personal characteristics of employees are strongly influenced by the traits of the organisation as well. Organisational structure impacts input factors, because structural features can restrict individual space of employees (in reaching achievements too!). The developmental level and dominance of technology can affect work flows, that can ultimately set aside personal capabilities and human factor in decisions.

Motivational strategy is a managerial action that aims to change employee behaviour in order to get them to achieve better results. A manager must choose a motivational strategy that pays attention to individual capabilities and their variability, just like the effects generated by group norms on them.

Input factors conveying organisational skills and a well-chosen motivational strategy together creates two outstanding results in the organisation: performance, and satisfaction (**output factors**). Employee satisfaction is mainly influenced by the work task itself, the relationship with others, and the expectations from the job (e.g. salary) (Tosi, Carroll, 1986 in Gyökér et al. 2014, pp.30-31).

Each of the motivation theories seeks an answer to the question: what explains the behavior of people? Below we highlight some of the many possible answers and models. We focus on two models: content theory and process theory, and then we present an integrative model.

6.3. Content theories

Content theory models examine the factors that influence motivation, looking for the content elements (motivations) of the motivated behavior.

6.3.1. Maslow's hierarchy of needs:

According to Maslow, people tend to satisfy their needs in a specified order, from the most to the least basic. In an ascending order, the needs are (Maslow, 1968 in Gomez-Mejia, Balkin 2012, pp.365-367):

- physiological needs, such as food and shelter.
- safety or security needs, such as danger avoidance, steady jobs, and a healthy work environment.
- social needs, such as friendships, supervisory support, sense of belonging and affection.
- esteem needs, such as personal pride, a positive self-concept, status and prestige.
- self-actualization, or the desire to use the potential of one to the maximum

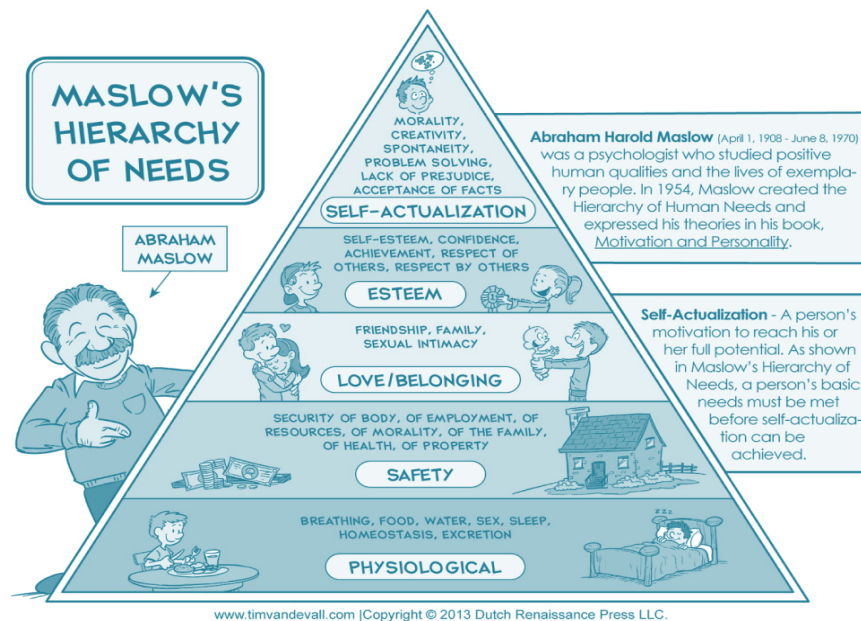


Figure 11. Maslow's hierarchy of needs

Maslow states that each lower level need has to be satisfied before the higher level need becomes motivating. For instance, a person in hunger is highly motivated to do whatever it takes to secure food, even taking actions that jeopardize safety, such as involvement in hazardous deals or breaking the law. A person who cannot obtain the bare minimum to survive is not likely to be overly concerned with social status. The policy implication of Maslow's hierarchy is that providing additional rewards to meet a need will motivate people only if the need has not already been satisfied. Also, when needs of lower level are not yet satisfied, providing rewards for a higher level need is not capable of motivation. According to Maslow, the only need that can never be fully contented is self-actualization, at the highest level. People keep advancing and learning as long as they have the opportunity, for example they are placed in an interesting and challenging work environment that continuously promotes personal growth and development. Although empirical research has failed to prove the notion that one needs to fulfill the requirements of different levels in the exact order as Maslow specified (and the fulfillment of more than one need can motivate simultaneously, not just the one higher), there is general agreement about two important points: (1) a dominant or salient need will motivate people more than a less important or weaker need, and (2) managers should make an effort to give employees opportunities for self-actualization, since personal advancement is likely to keep people interested in learning and developing their talents over time. In other words, rewards associated with lower level needs (e.g., higher pay) can only go so far in motivating people unless the work itself is stimulating and exciting.

6.3.2. Alderfer's ERG theory

Alderfer's research proved the invalidity of the hierarchy in Maslow's model. Alderfer's revised need hierarchy is called ERG theory, in reference to three groups of core needs: existence, relationships, and growth. The **existence** group means the material demands for survival, corresponding to the physiological and safety needs in Maslow's theory. The **relationship** group of needs comprises the desire of individuals for social support, personal relationships, and positive recognition by others. These needs more or less correspond to Maslow's social and ego (or esteem) needs. Alderfer suggests a third set of needs as well that he refers to as **growth**, or people's intrinsic desire to use and advance their talents. This set somewhat overlaps Maslow's self-actualization category, although it also includes several elements of the ego category such as the drive to achieve. The most important difference between the two models is that Alderfer does not assume a rigid hierarchy in which one need has to be completely satisfied before other ones can become effective. Instead, according to Alderfer, all three categories of necessities can operate simultaneously. Also, Alderfer claims that if a need is not being met, people may demand more rewards to satisfy other needs. Alderfer's view of needs is more universally valid than Maslow's based on cross-cultural evidence. A good example for this is the situation of workers in Spain and Japan, who are likely to place social needs before physiological requirements according to studies (Alderfer 1972, in Gomez-Mejia, Balkin 2012, p.367-368).

6.3.3. Herzberg's two-factor theory

According to Herzberg (1959 in Gomez-Mejia, Balkin 2012, p.367-368), employee performance is affected by two major sets. According to the study, different factors caused satisfaction and dissatisfaction: therefore satisfaction and dissatisfaction can be measured on two independent scales. Satisfaction causes are more related to the content of the work, on the other hand causes of dissatisfaction are rather associated with working conditions factors.

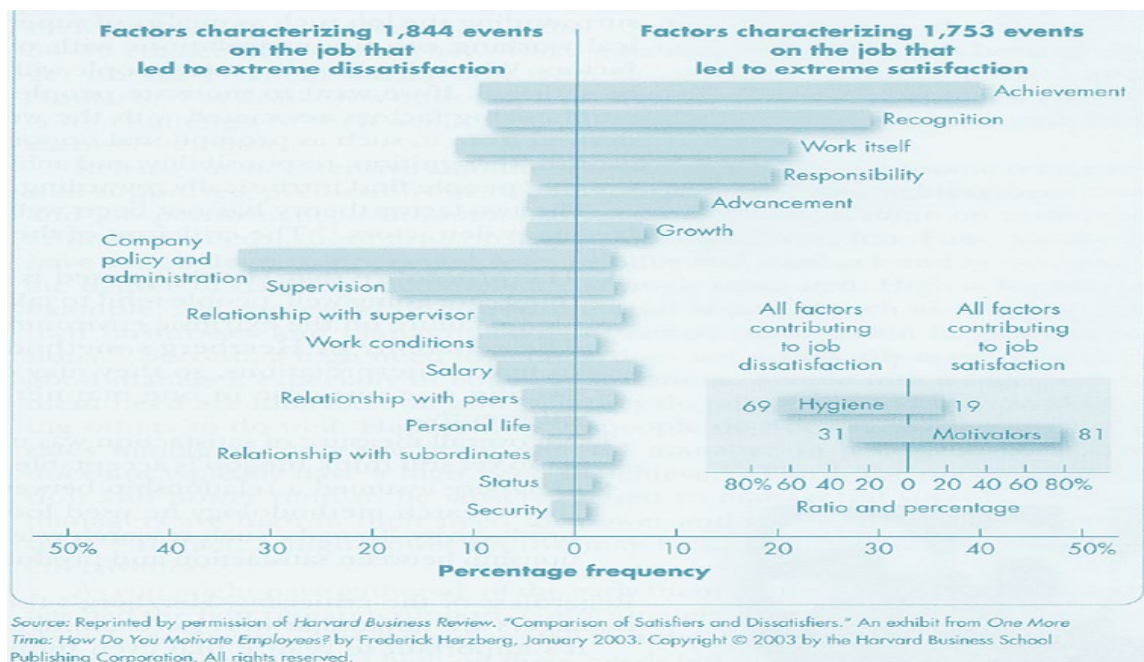


Figure 12. Comparison of satisfier (motivator) and dissatisfier (hygiene) factors (Herzberg, 2003)

The first set, which is labeled **hygiene** factors by Herzberg, corresponds to the lower level needs in Maslow's theory. Hygiene factors are contextual or extrinsic aspects of jobs, such as salary, fringe benefits, company policies, working conditions, and interpersonal

relations with coworkers and supervisors. There is a possibility that employees become dissatisfied if they are not adequately met, but they can not motivate people to improve their work performance. If the hygiene factors are appropriately managed, the key is to deliver **motivators**, or intrinsic rewards derived from the work itself to the workers, that provide continuous stimulation to aspire for the best possible performance level. According to Herzberg, such motivators include the nature of the work, responsibility for a task well done, feedback and recognition, opportunities for personal growth and learning, and feelings of achievement derived from task completion. Herzberg claims that these are the motivators that can improve job satisfaction, and that removing dissatisfying traits from a job does not necessarily make the job satisfying. The notion that the two sets of factors are distinct and the statement that only intrinsic factors motivate people is a basis for controversy. A raise is an extrinsic reward, or a hygiene factor, and it may also act as a form of recognition from the management (an intrinsic reward, or a motivator factor). However the theory has not been supported by most studies, Herzberg's work is widely referenced, and many managers argument that it is a helpful way to depict motivational problems at work. It reminds managers that intrinsic rewards are too often ignored.

6.4. Process theories

The common feature of **process theory models** is that they focus on the fundamental processes in which develops motivation.

6.4.1.Expectancy theory

From the many models of motivational theories probably the most widely accepted explanation is Vroom's expectancy theory. According to this theory, the strength to act depends on the beliefs of people that their actions will produce outcomes they find valuable and attractive. For example, employees make more effort at work if they believe that hard work will lead to recognition at work and promotion. As illustrated in the theory examines three linkages (Vroom 1964, in Hodgetts, Kuratko 1988, pp. 294-296):

- **Effort–performance** relationship: The subjective probability or expectancy that exerts more effort will improve performance. The term subjective is essential in the theory, because people may underestimate or overestimate the extent to which working harder will lead to better performance (can be affected by working conditions).
- **Performance–outcome** (reward) relationship: The degree to which individuals expect that performing at a certain level will lead to outcomes or rewards they find attractive (the correlation between the two is not always clear and measurable, making its assessment difficult sometimes).
- **Valences** (importance of rewards to achieve personal goals): The extent to which rewards that are contingent on performance satisfy an individual's personal goals or needs.



Figure 13. Expectancy theory

Expectancy theory may explain why certain people merely do the minimum necessary to get along, while others seem to do whatever it takes to perform in their jobs. First, expectancy theory recognizes, that there is no universal way to motivate people, because personal beliefs and perceptions play a major role in how people see the connection between effort, performance, outcomes, and their attractiveness. These beliefs may be influenced by the organization (for instance, through training and incentive programs), but other factors such as family background, culture, education, and personality are likely to play the prime role. Second, a number of employees may not give a maximum effort because they don't think that the organisation will assess them accordingly. For instance, supervisors often do not differentiate high from low performers or may include personal factors in their evaluations. Third, organizations are often afraid to reward people based on performance because of the difficulty and pitfalls of performance evaluation. Last, rewards that are individualized are more motivating. Not all employees want the same thing. For instance, a working mother may place a high value on a flexible work schedule and may work harder to obtain flexibility.

6.4.2. Equity theory

The equity theory states, that people develop beliefs about the fairness of the rewards they receive in concordance with their contributions. Equity theory proposes that perceptions of individuals about fairness depend on their subjective, personal assessment of outcomes and inputs. Rewards such as recognition, promotions, and pay are considered outcomes. Inputs are contributions like effort, education, and skills. Employees have a general expectation that the outcomes or rewards they receive will be proportionate to the inputs they provide. This judgment is reached by people in a relative sense by using others as a reference point. A comparison person may be a coworker inside the firm or a friend who works for a different company in a similar job.

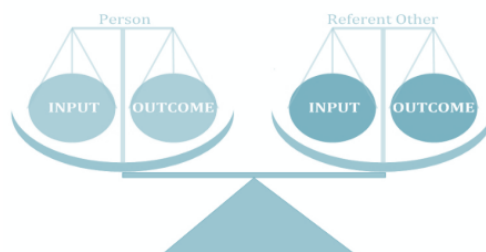


Figure 14. Compared equity

Fairness is achieved when the ratios of inputs and outputs are equivalent. Ratios that are not equivalent produce a psychological state called cognitive dissonance, creating

dissatisfaction, resulting in attempts to bring the ratios back into balance. People who perceive that their treatment is not equitable, use one of four strategies to change these ratios, or they can mentally reassess the situation and decide that it is equitable after all. One option is to reduce inputs by cutting back on the level of effort, and if the imbalance becomes too great, finally they can even leave the firm. A second option is to influence the outcomes. Third, a person can decrease the outcomes of others. For instance, a dissatisfied employee may spread rumors about people in order to reduce their outcomes. Finally, a person who feels that he or she is getting more than deserved may increase effort levels to reduce the dissatisfaction resulting from guilt. We can depict thus two important observations from the Equity theory. First, motivation depends extensively on the perception of fairness in the exchange process between the contribution and the benefits a person yields or receives. Second, people are constantly comparing themselves to others, and the way they see their input–outcome exchange relative to others will affect their behavior (Adams 1965, in Hodgetts, Kuratko 1988, pp. 298-299).

Chapter Summary (6)

1. Definitions to know:

- *motivation (psichological and managerial definition)*
- *factors of motivation (input and output factors)*
- *performance*
- *motivational strategy*
- *content theory models*
- *Maslow's hierarchy of needs*
- *Alderfer's ERG theory*
- *Herzberg's two-factor theory: motivator/hygiene factors*
- *process theory models*
- *Expectancy theory*
- *Equity theory*

2. Questions for discussion:

- *How can You define motivation in your own words?*
- *How do content theories differ from process theories of motivation?*
- *What is the most important component of Vroom's expectancy theory? Why?*
- *How valuable is to measure motivation at work according to equity theory in Your opinion? Defend your answer.*

3. Suggested videos for this topic:

- https://www.youtube.com/watch?v=O-4ithG_07Q
- https://www.youtube.com/watch?v=ClhJ0Gqf8_w&t=22s
- <https://www.youtube.com/watch?v=lpnzW06shsM>
- <https://www.youtube.com/watch?v=QfovAw6lx2s&t=2s>

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