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**Fundamentals of business for professionals
of vocational training and adult education I.**

Dr. Gabriella Keczer

**FUNDAMENTALS OF BUSINESS FOR
PROFESSIONALS OF VOCATIONAL
TRAINING AND ADULT EDUCATION I.**

**Introduction to Economics
and Management**

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PREFACE

Fundamentals of Business for Professionals of Vocational Training and Adult Education I. and II. contains fundamentals professionals working in vocational training and adult education need to know about business and organizations. Volume I. is an introduction to economics and management, volume II. discusses the different types of organization in vocational training and adult education: for-profit enterprises, nonprofit organizations and public institutions.

When writing **Fundamentals of Business for Professionals of Vocational Training and Adult Education I. Introduction to Economics and Management**, our aim was to summarize the basics of the economics of education and of the management of educational organizations in a concise, yet comprehensive way tailored for those professionals who work or will work in vocational training and adult education.

The first part, entitled **Fundamentals of Economics for Studying Education Systems**, fills a gap in the literature available for professionals of vocational training and adult education, since it deals not only with the economics of education and the theories of human capital, but also with the labor market and the economy of educational enterprises – issues generally dealt with at least three different disciplines. Our aim was to present all the knowledge a professional of vocational training and adult education needs relating to economics, from the macro level of the labor market, through the medio level of the education system, to the micro level of an institution.

The second part, entitled **Fundamentals of Management for Leading Educational Organizations**, is novel in the literature available for professionals of vocational training and adult education, since it presents the basic management functions – planning, organizing, leading and controlling – specifically tailored for educational organizations. When discussing the different topics, we consistently refer to the special characteristics of education organizations and give examples related to them.

Hence, the first part of the book focuses on education-related economic issues: first we discuss the labor market, then the economics of human capital. These topics are followed by the costs, return and financing of education, and finally we turn to the economy of educational enterprises. The second part of the book is about the management of educational institutions. Here we present the basic management functions: planning, organizing, leading and controlling.

We sincerely hope that you will find the book useful, and it will inspire you to continue studying economics and management.

Szeged, 30. 03. 2013.

Keczner Gabriella PhD.

I. FUNDAMENTALS OF ECONOMICS FOR STUDYING EDUCATIONAL SYSTEMS

1. FUNDAMENTALS OF LABOR MARKET

The labor market and the education system have a multi-faceted relationship. The supply on the labor market – the workforce with its skills – is formed by the education system. On the other hand, the demand for the services of the education system – the training programs – are influenced by the demand on the labor market. Hence, to understand the economic aspects of education, it is necessary to learn how labor market works. (POLÓNYI, 2002. 124.) In this chapter we discuss the fundamentals of labor market.

1.1. The Labor Market

1.1.1. Basic Concepts

Labor market is the total labor demand and the total labor supply and their interaction in the national economy in a given period of time. On the labor market work(force) is traded. (DIETMAR – SOLT, 2004. 65.) The buyers of the work(force) are the **employers**, the sellers of their work(force) are the **employees**. **Labor supply** is the total labor supply of the households, **labor demand** is the total manpower demand of the employers (in the national economy). (POLÓNYI, 2002. 133.)

The most important features of the labor market are the following:

- employees are social beings, so they have rights;
- not each employees are competing each other, because if their skills are different, they cannot replace each other;
- most of the employees are immobile, they are not ready to leave their residence, so they prefer to work locally.

These features influence labor demand and supply (CSEHNÉ ET AL, 2009. 5.)

On the labor market employers and employees agree about the conditions of employment, including one of the most important condition: the price of the service. With a simplification, we can call it **wage** (W). With further simplification we suppose that each labor supply is the same, thus labor market generates a flat wage as the price of an hour's service of any employee. This wage is paid by the employer for each hour's service, and this wage is received by the employee for each hour's effort. We suppose that speaking of a competitive market this wage is a determined (exogenous) condition for both the employers and the employees, so the wage rate of a given moment cannot be influenced individually. (MISZ – TÖMPE, 2006. 41.)

1.1.2. Labor Demand

Labor demand (L^d) is the number of workers employers want to employ. On the demand-side of the labor market are the buyers of labor(force): the organizations. When an organization decides to change its labor demand, it is in connection with its output. When operating on a competitive market increasing the output is reasonable until its **marginal revenue** (MR) is equal with its **marginal cost** (MC)¹: $MC = MR$. Regarding the labor force: the nominal² wage of the last additional employee (it is the marginal cost) may not be higher than the market price (P) of the **marginal product** of his labor (MP_L)³ (it is the marginal revenue). $W = MP_L \times P$.

¹ **Marginal Cost:** The (increase of) cost that results from the production of an additional unit. **Marginal Revenue:** The (increase of) revenue that results from the production of an additional unit. If the marginal revenue is higher than the marginal cost, the production still can be expanded to increase the profit. If the marginal cost is higher than the marginal revenue, the production should be decreased to increase the profit.

² **Nominal wage:** The numerical value of the wage in terms of a given currency. **Real wage:** The real purchase value of the wage: W/P (P : price level).

³ **Marginal Product of Labor:** The change in the output that results from employing an additional unit of labor.

Re-arranging the above equation, the connection can be expressed with the real wage as well: $W/P = MP_L$. It means that for maximizing their profit⁴, the labor demand of the organizations is at the point where the marginal product of labor is equal with the real wage. (MISZ – TÖMPE, 2006. 42.) If the employment was lower, the marginal product of labor would be lower than the real wages, and the profits could be increased with scaling up employment. If the employment was higher than the profit-maximizing level, the marginal product of labor would be lower than the real wages, and the profits could be increased by reducing employment.

Labor demand function assigns organizations' work demand to each real wage.

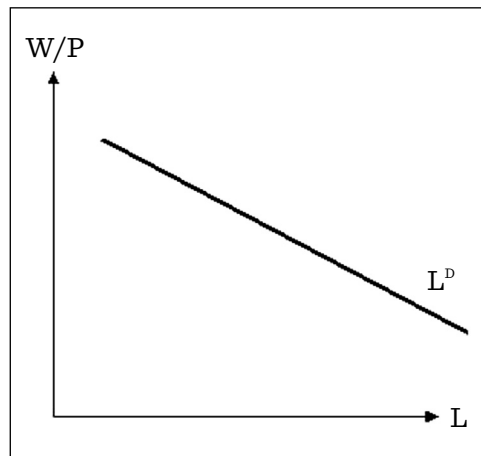


Figure 1: Labor demand function

Source: WWW.SULINET.HU

The negative incline of the function refers to the inverse proportionality between the real wage and labor demand: on competitive labor market lower demand belongs to higher wages and vice versa. (MISZ – TÖMPE, 2006. 43.)

⁴ The profit is the difference of the revenue and the costs.

1.1.3. Labor Supply

Labor supply (L^s) is the total quantity of labor offered to the employers by the households. (DIETMAR – SOLT, 2004. 66.)

The theoretical maximum regarding the individual's labor supply is 24 hours per day. But this timeframe is divided between three different activities of life:

- **physiological time:** needed to maintain one's biological existence, physiological state;
- **work time:** in this category we distinguish:
 1. work time spent on earning money,
 2. work time spent on household duties;
- **free time:** spent on culture, leisure and social activities.

Assuming that his wage is the only source to fund one's consumption, and the individual wants to maximize utility, the economic optimum of time spent on work is where $MP_L = W/P$. In this case he gives up one unit of his free time for the same amount of consumption that he produces during his work time.

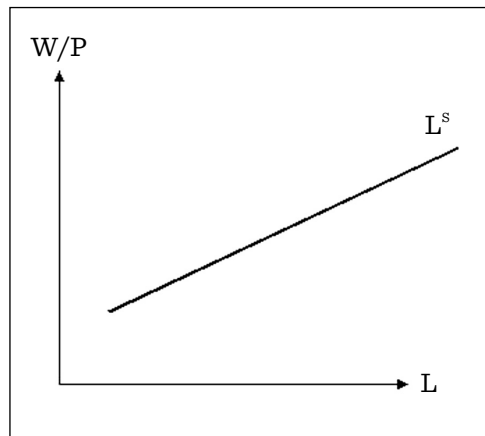


Figure 2: Labor supply function

Source: WWW.SULINET.HU

Hence, from economical point of view, labor supply is determined by the real wage, just like labor demand. (MISZ – TÖMPE, 2006. 45–46.)

Labor supply function assigns households' work supply to each real wage.

The positive incline of the labor supply function refers to the fact that at higher real wages the labor supply is higher. The minimum point of labor supply is at the minimum wage rate. People are not willing to work for wages below subsistence level, therefore the labor supply curve never starts from the origo. The maximum of labor supply is the economically active population. (See chapter THE DIFFERENT GROUPS OF POPULATION ON THE LABOR MARKET.)

1.2. Labor Market Equilibrium and Disequilibrium

1.2.1. Labor Market Equilibrium

Labor market is in equilibrium when the aggregate labor supply equals to the aggregate labor demand. It is represented by the intersection of labor supply and labor demand curves. (MISZ – TÖMPE, 2006. 47.)

Labor market is in equilibrium at **equilibrium real wage**. Equilibrium real wage is the level of wage where everybody who wants to work for that amount of money is employed, so labor demand equals labor supply (it is the equilibrium workforce count).

When real wages are higher than the equilibrium wage rate, there is **surplus** (unemployment) on the labor market: more people want to work than organizations want to employ. When real wages are lower than the equilibrium wage rate, there is **shortage**: less people are willing to work than organizations want to employ. In case of overdemand, employment equals labor supply, in case of oversupply, it equals labor demand.

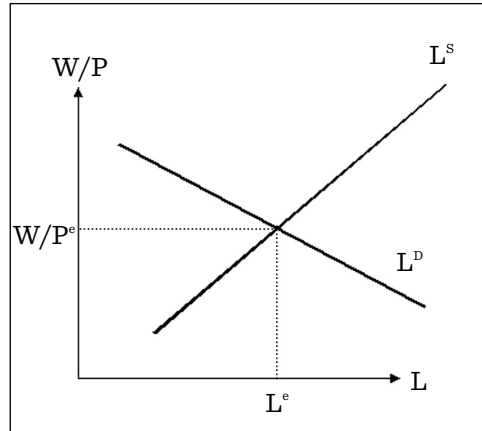


Figure 3: Labor market equilibrium

Source: WWW.SULINET.HU

1.2.2. Labor Market Disequilibrium: Unemployment

1.2.2.1. Unemployment: Definition and Reasons

Unemployment means that there are people on the macro-level labor market who are willing to work at the given wage rate, but are not employed, or get employed only after a shorter or longer period of time.

Why has unemployment become a permanent phenomenon in modern economies?

- a) One of the most common explanations is that downwards wages are inflexible. In economic expansion wages rise, but when the boom is over and labor demand decreases, wages do not fall to the equilibrium rate. The reason is the collective bargaining of employees and the resistance of trade unions. Hence, in the average of the economic cycles there is labor surplus on the labor market.
- b) Another explanation concerns the additional public dues (pension and social security contribution, pay leave) of the wages. According

to this theory these extra costs must be added to the wages in the $W = MP_L \times P$ equation. Hence, with the additional public dues of the employers employment is lower at a given wage rate than it would be without them.

- c) The third explanation says that good performance on behalf of an employee is not guaranteed, so employers must spend money on controlling and encouraging effective work. Plus, employers have to pay higher wages to one part of the employees to motivate them to work hard by being afraid of losing their well-paid jobs.
- d) Another explanation says that in recession employers do not decrease the wages because they hope the crisis is only temporary, and they are afraid of losing their well-trained workforce, losing their investment as well (e.g. the cost of training). (POLÓNYI, 2002. 136.; GULYÁS, 2005a. 89–96.; GULYÁS, 2005b. 89–96.; GULYÁS, 2005c. 87–96.)

1.2.2.2. Definition of "unemployed" and its Index

"Unemployed" is the part of the labor supply that is not demanded in the national economy. **Unemployment rate** is the ratio of unemployed in the economically active population. (DIETMAR – SOLT, 2004. 71.)

But unemployment rate does not give a clear picture of the labor demand of the economy. For example the same unemployment rate must be interpreted differently at increasing and at decreasing employment. Unemployment rate alone does not show how serious and general unemployment is. It can be the result of many people's short term unemployment, or less people's long term unemployment (the latter is a greater problem). And it could be regionally, socially (regarding age, gender, education) and professionally homogenous or heterogeneous unemployment (the latter is a greater problem). It is also important what ratio of the unemployed was forced to leave their jobs (not quitting voluntarily) and what ratio is a career starter (these are considered to be serious problems) (POLÓNYI, 2002. 135.)

1.2.2.3. Types of Unemployment

Unemployed can be classified several ways (DIETMAR – SOLT, 2004. 71–73.).

On the basis of their individual attitude to unemployment there are:

- **voluntarily unemployed:** people who lost their job do not want to find a new one, e.g. because the wages are too low;
- **involuntarily unemployed:** people who lost their job want to find a new one, but can not.

On the basis of the economic reasons there is:

- **frictional unemployment:** People changing workplace cannot find a new one immediately, so they are unemployed between their two jobs. This type of unemployment is present in every economies, even if the labor market is in equilibrium.
- **conjunctural unemployment:** It results from the volatility of the output. Organizations employ less workforce when they lose their markets and they have to reduce their production.
- **structural unemployment:** Labor supply and labor demand differ regionally or professionally. It can appear even if globally the labor market is in equilibrium.

1.3. The Different Groups of Population on the Labor Market

Part of the population is able to work, they are the **workforce**. Others are not able to work, either because of their age or because of their mental or physical state. Part of the workforce is **economically active**, they are ready to sell their work on the labor market. The **economically inactive** part of the population does not want to do it, they fund their living from other sources (work in the household, live on their fortune, are dependants or full-time students, etc.). **Activity rate** shows the ratio of economically active people in the

workforce. Part of the active population has a job, they are **employed**. Others want to work, but they cannot, they are **unemployed**. Part of the employed are working at the moment, so they are **active wage earners**, others are **temporarily on leave** (e.g. on unpaid vacation).

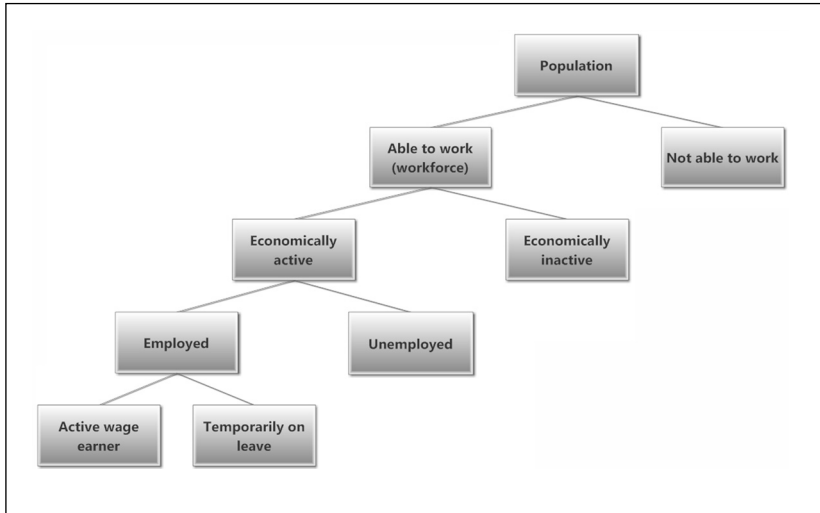


Figure 4: The different groups of population on the labor market
Source: Own construction

2. THE ECONOMY OF HUMAN CAPITAL

Human capital is the stock of competencies of the population embodied in the ability to produce economic value. (GÁSPÁR, 2000. 11.) In this chapter we discuss the economic aspects of human capital.⁵

2.1. Economic Theories of Human Capital

Although human capital was dealt with even in the classical economics, analysis and research concerning the economic role of human resources started to boom in the 20th century. Pioneering studies published at that time are still thought to be the basics of the issue. (POLÓNYI, 2002. 18.)

Theories concerning the economic role of human resources can be grouped into three categories (VARGA, 1998):

- **Theory of human capital:** Human capital is the exploitable part of human resources, their physical, spiritual and social skills. (GÁSPÁR, 2000. 15.) Human capital can be accumulated by developing human resources. (GÁSPÁR, 2000. 38.) According to the theory of human capital accumulating human capital (by spending on education, health care etc.) is profitable both for the individual and the national economy.
- **Screening theory:** Education does not contribute to the increase of productivity, but informs employers about the skills of the

⁵ Human resources management is discussed in the second part of the book dealing with the management functions.

potential employees. Thus, employers screen employees with higher productivity on the basis of the information of the education system.

- **Theory of labor demand:** Economic growth needs manpower with skills and education.

We discuss the theory of human capital in details.

2.2. Theory of Human Capital

2.2.1. Human Capital

The most significant theorist of the relation of human investment to incomes and capital accumulation is Schultz. (POLÓNYI, 2002. 19.)

According to Schultz human knowledge (crucial in the economic role of labor force) is a result of a long and expensive process. Several of our activities are investment in our human capital, such as:

- using health care services –it influences our lifetime, vitality, strength;
- on-the-job training;
- formal primary, secondary and higher education;
- adult education;
- migration in order to adapt to the changing work opportunities.

The accumulation of human capital is an investment, by which one's productivity will be higher, thus one's income and the productivity of the national economy increase. (POLÓNYI, 2011. 77–78.)

The special features of human capital are the following :

- Human capital can not be separated from its owner.
- Human capital can be acquired by investing in people. Private benefits of human capital are attractive, they motivate individuals and families to invest in their human capital. Social benefits are also attractive, they motivate public investment in human capital.
- Human capital consists of two parts: inherited and acquired skills. In developed countries acquired skills form the major part.

- Human capital is invisible, only its impacts are visible. They can be grouped into two types:
- **Internal impacts** (education, training, work expertise, health, information) increase private benefits of human capital.
- **External impacts** foster economic growth by increasing the productivity of both human and physical capital. These external impacts explain state subsidizing of education (see chapter INVESTMENT DECISIONS OF THE STATE CONCERNING EDUCATION). (SCHULTZ, 1993, cited in POLÓNYI, 2002. 20.)

2.2.2. Investment Decisions of the Individuals concerning Education

When one decides on investing in his human capital he chose between present and future consumption. If he decides on investing in his human capital he decreases his present consumption to be able to fund his education, and increases his future consumption by earning more with better skills and education. (VARGA, 1998)

Education increases productivity, therefore one's wages will be higher, one's employment will be safer, and these two factors increase one's potential **lifetime earnings**. (BARIZSNÉ – POLÓNYI, 2004. 19.)

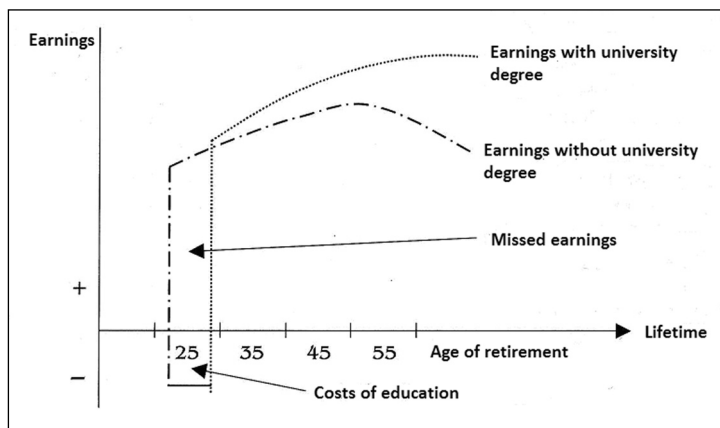


Figure 5: University studies as investment
Source: Own construction based on Bod, 2006. 159.

The figure shows the difference between the lifetime earnings of people having and not having university degree. University studies mean significant direct costs. Missed earnings add to them, as when students study, the others already have income. But after starting to work, people with university degree get better-paid jobs, and the cumulate earnings advantage of those with lower education starts to decrease. Statistics prove that people with university degree get employed more easily and their wages are higher. (OLÁH – HUTÓCZKY, 2012) People exploiting their physical abilities reach their maximum wages at the age of 30 or so, but earnings with university degree may increase until retirement. (BOD, 2006. 158.) Better chances to get a job is one of the most important motivations to obtain a university degree (PAP – KOTOSZ – KOVÁTS, 2009). Education has non-financial advantages as well, such as the pleasure of knowledge, better work conditions, more challenging jobs. Thus, investment in education can not be measured only by cost/benefit. (CSEHNÉ, 2008a. 145.)

What are the explanations for the differences in lifetime earnings curves according to the human capital theory?

- a) Lifetime earnings curves are set higher with higher education because more human capital is accumulated, thus productivity is higher.

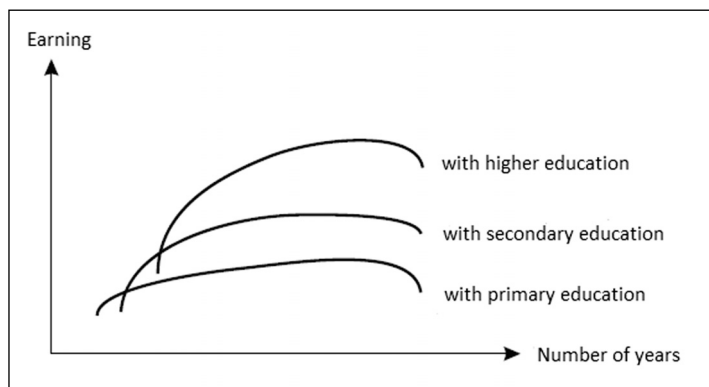


Figure 6: Lifetime earnings with different education
Source: Own construction based on VARGA, 1998. 15.

- b) The shape of the curves is determined by the fact that human capital investment does not terminate with formal education. People cumulate human capital with on-the-job trainings and work experience, so human capital is increasing with getting older. But on the other hand human capital is amortizing because of the obsolescing of knowledge. Thus, human capital is increasing until the point where the value of freshly acquired knowledge is more than its amortized value.
- c) Lifetime earnings with higher education start later and have larger incline. People with higher education enter the labor market later, so they start to earn later. Their earnings increase faster, but with getting older, they spend less time with investing in human capital.⁶ People with lower education have already spent more time with working, so their earnings are increasing at a lower rate.
- d) With higher education lifetime earnings peak later, because after finishing school, people's wages increase due to on-the-job training and work experience. As they enter the labor market later, they acquire work experience at an older age.
- e) Differences in earnings increase with education. The higher-level education one has, the later he enters the labor market, and the less time he spends there, so the less time he has for utilizing the benefits of learning. (VARGA, 1998. 41–43.)

2.2.3. Investment Decisions of Organizations concerning Training

Organizations can obtain part of the skilled workforce they need on the labor market, and they simply hire it. But some forms of the human capital is not available on the labor market, some special skills can be acquired only by on-the-job training. So employees also invest in human capital by providing on-the-job trainings. According to the human capital theory organizations do so because

⁵ Human resources management is discussed in the second part of the book dealing with the management functions.

on-the-job training increases the productivity of employees. But it also has costs, and they decrease the net income of organizations. So a profit-maximizing organization spends on training only if the training's future benefits will be sufficient, or if it will sufficiently decrease future production costs. (VARGA, 1998)

From this point of view **general training** and **special training** have to be differentiated. General training increases the productivity of an employee not only in the given organization, but in other organizations as well. Special training increases the productivity of an employee only in the given organization. (VARGA, 1998)

Employers support general training only if it is paid by the employee. But employees are willing to finance it, because it increases their earnings. In the case of special training, employers share both its costs and its benefits with the employees. Theoretically all the cost should be paid by the employers, but if the employee leaves the organization after the training, employers would lose their investment. So they cover part of the costs, but do not give a full pay rise that equals with the increase in productivity. (BARIZSNÉ – POLÓNYI, 2004. 26–27.)

2.3.4. Investment Decisions of the State concerning Education

All the states invest in human capital, some part of the education system is supported by the state in each country.

State support is explained primarily by the **external benefits**⁷ of education. It means that education has benefits not only for the individuals, but for the whole community.

The most important external benefits of education are:

- a) Citizens are skilled and well-informed, so democratic institutions function effectively. (For example people can prepare their tax

⁷ An external benefit occurs when producing or consuming a good causes a benefit to a third party.

declaration unaided, so there is no need for a large and expensive central administration.)

- b) Employers can adopt to new technologies easier. And when the labor market gets misbalanced, people can adopt to changes faster, thus to reach a new equilibrium is easier.
- c) The rate of crimes are lower, because people have better work and pay perspectives (except the so-called "white collar crimes"). Thus, law enforcement is cheaper.
- d) Social, health care and unemployment services are cheaper, because with higher education people are of better health, and the probability of unemployment is lower.
- e) Certain services are provided by the civil sector. People with higher education are more willing to do voluntary work, so e.g. social care for the elderly are provided not only by the state. (VARGA, 2008)

Another explanation for state intervention to education is the so called **cobweb cycle**. Cobweb cycle in education is the fluctuation in the number of students, because their choice of profession depends on the momentary demand and wages on the labor market.

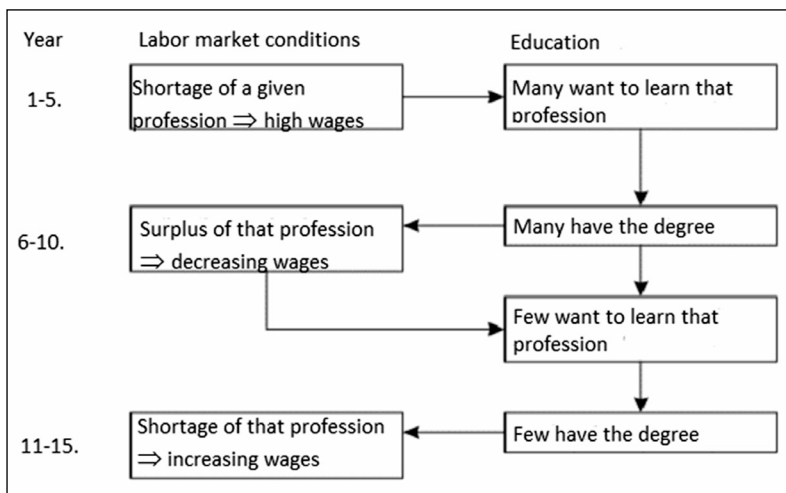


Figure 7: The cobweb cycle in education

Source: Own construction based on VARGA, 1998. 41.

Cobweb cycle in education appears where

- certain jobs need special education,
- the training is relatively long.

In the above example the timeframe of education is 5 years. If there is a shortage of a given profession on the labor market (and replacement is not possible because of the special and long education needed) wages paid for that profession are increasing for 5 years – that is the date when the new workforce that entered the education system in the zeroth year shows up on the labor market. During these 5 years people chose this profession on the basis of the high wages on the labor market. At the end of the 5th year a large number of professionals show up on the labor market, thus wages decrease, and less people chose the given profession. It will influence the labor market in the 11th year, when there will be shortage again, and the process restarts. The longer the timeframe of a given education is, the larger the peaks and depths are.

State intervention to soothe the cobweb cycle can be:

- forecasting labor demand;
- making education more general;
- shortening the timeframe of education;
- adjusting student numbers to labor demand.

But the form and degree of state intervention is controversial.

Another explanation for the active role of the state in education is the objective of fighting poverty. Subsidizing human capital investment is the cheapest means in fighting poverty, since it is only a one-time investment, and it ensures equal opportunities. (VARGA, 1998. 30–41.)

3. THE ECONOMICS OF EDUCATION

This chapter discusses the two basic issues of the economics of education: the costs and return, and the financing of education.

3.1. Costs of Education and the Return of Investment

3.1.1. Costs of Education

Individual and social costs of education consist of **direct** and **indirect costs**.

Individual costs include the direct expenditures people pay for their education, such as:

- tuition and administrative fees,
- transport, accommodation, clothing etc. necessary to taking part in education,
- equipment needed during classes.

Part of the students gets non-refundable support for their education. It reduces individual costs, so it must be subtracted from them.

Indirect individual cost of education is the missed earning. It is counted from the age a person can legally work for his living in a given country. It is measured by the net wages of people with the same education. For example a first-year-student's missed earning is the net wage a person of the same age with secondary education

gets as a full-time employee. Part of the students work part-time during their education. Their earning is subtracted from their estimated missed earning.

The social costs of education are higher than the individual costs. Social costs include budgetary funding of education (that makes possible to study free of charge or with reduced tuition fees) and the individual costs, so social costs include all the expenditures spent on education, irrespective of who pays it.

Most of the **direct social costs** are current expenditures, for example students' hostel.

Indirect social costs include the missed earnings of students, because if people do not work, the output of the economy is lower. The missed earning as a social cost is measured by the real wages. It is very difficult to calculate, it is based on estimation, so the accuracy of these calculations is questionable. (TÓTH, 2011. 168–170.)

3.1.2. The Return of Investment

Interpreting education as an investment means that its return can be calculated the same way as that of any physical capital. The so-called **cost-benefit analysis** is based on the assumption that the return of educational expenditures are measurable both on individual and social levels. When calculating **individual return**, we want to know how profitable learning is for the individual. When calculating **social return**, we want to know how profitable it is for the society to spend on the different levels and programs of education. (VARGA, 1998. 45.)

In the last 40 years several surveys were delivered in several countries. The results are the following:

- The rate of return of educational investments is higher than of other investments because of state subsidizing.
- The rate of return of educational investments is higher in developing countries.
- The rate of return of educational investments decreases with the increase of per capita income.

- The rate of return of educational investments is lower on higher educational levels.
- Expanding education does not cause a significant drop of the rate of return of educational investments, but on long-term it has a decreasing tendency. (VARGA, 1998. 62.)

3.2. Financing Education

The funding of education is one of the most controversial issues. The way education is financed in a given country is influenced by historical, cultural and political factors.

Market-based financing of education means that the burdens are beared by the individuals. One's education is financed by his, or his parents' income or savings. Society expects parental contribution until a certain age of the children. But parental contribution depends on the financial limits of the families, on the economic situation of the country, and on social traditions. The wealthier a family is, the longer it can finance the children's education. The more developed a country is, the more wealthy families it has.

Most of the countries contribute to the educational burdens of individuals. The lower the level of education is, the higher the rate of state contribution is. Primary and secondary education is heavily subsidized in most of the countries. Higher educational levels are subsidized to a smaller extent, and only in the case of young people.

Ways and sources of funding education have changed dramatically since the '70s in the developed countries. Economic crisis of the welfare states forced them to reduce their expenditures. Funding education is more and more based on the performance of the educational system, and the economic independence of educational organizations is increasing. With reducing budgetary funding, the state encourages institutions to raise funds from alternative sources.

State funding of education can be indirect and direct. **Indirect funding** means that not the institutions, but the students are supported. There are several ways:

- grants, scholarships and student loan;
- voucher (but it is rather rare);
- tax allowance (used mainly in adult education).

The main advantage of indirect funding is that it fosters competition among educational service providers, and quality and efficiency. But in spite of the advantages its use in the European developed countries is limited.

Direct funding means that the state supports the institutions. It has several forms:

- **Institutional financing:** Funding covers the costs of the inputs (personnel, equipment etc.) that are necessary to deliver the services. The basic problem with institutional financing is that funding is not based on the performance of the institutions, or on the quality of their services. It is based on either the input or the budget of the previous year, and has nothing to do with efficiency.
- The above problem is to be solved by **normative funding**. State support is based on measurable performance indicators and norms (e.g. the number of students). It has two types:
 1. Funding is based on one single norm.
 2. Funding is calculated by formulas that define the costs of education for different students. This type of normative financing is used in the OECD countries, and has been recently introduced in Hungary. (POLÓNYI – TÍMÁR, 2006. 74–75.)

4. THE ECONOMY OF EDUCATIONAL ENTERPRISES

Enterprises manage – purchase, transform, sell – resources in order to maximize their profits. It is measured by **economic efficiency**.

Economic efficiency has two aspects:

- revenue/cost shows the amount of revenue an enterprise obtains by spending one unit of cost,
- cost/revenue shows the amount of costs need to be spent in order to obtain one unit of revenue.

Thus, when managing the resources the aim is twofold: to maximize revenue and to minimize costs.

In this chapter we discuss the three major issues of the economy of enterprises: the relations of cost, revenue and profit; the accounts of assets, profit-loss and cash flow, and the most important aspects of investments.

4.1. Cost, Revenue, Profit, Hedge

Revenues have to cover the costs in every organization. If costs are higher than revenues, the organization is loss-making. If the revenues are equal to the costs, the organization is break-even. If the revenues are higher than the costs, the organization is profit-making. So the first question is, what kind of costs an organization has.

4.1.1. Types of Costs

In an organization different types of costs occur. They can be grouped by their physical appearance, that is, what we bought for the money: raw material, services, equipment, manpower etc. From this aspect, there are three types of costs: **costs of materials, staff expenses** and **amortization**. Amortization means writing off a tangible asset investment over the projected life of the asset. **Depreciation** is the cost accounted as the amortization of an asset in a year. (KÖVESI, 2007. 256.)

4.1.2. Product Costing in Education

It is also important to know how much it costs to produce one unit of our goods or services, so what is the **product cost**. In product costing we define how much of the different types of costs fall to a product. From this aspect, costs belong to two categories:

- **Direct costs** can be allocated to the different products easily, because it is obvious that they emerged in the production of a certain merchandise or service. Raw materials of a product, hourly wages of teachers hired for a certain training program belong to this category.
- **Indirect or general costs** do not emerge in the production of a certain merchandise or service, but serve the operation of the organization and the production of all the goods or services. The costs of the management, the maintenance, the amortization of the buildings belong to this category. These costs cannot be immediately allocated to a certain product, but they have to be divided among the different products periodically. (KÖVESI, 2007. 258.)

Thus, product costing is calculating the direct costs of a certain product and the allocation of indirect costs to the different products.

In education, the following should be considered:

- The unit of production is the student. Costs are calculated by academic years or semesters. Thus, the unit of measurement is cost per student per semester or academic year.

- Students are not trained individually, but in groups or classes, so costs are first calculated for the groups or classes, and then are divided by the number of students.
- Cost calculation is based on the schedule of the training program.

Direct costs of education are:

- **Hourly wages of teachers.** The wages can be different according to the qualification of teachers (assistant lecturer, associate professor, professor) or according to the type of service (lecture, seminar, examination).
- **Hourly wages of the support staff**, but only of those, who work by schedule and are paid by the hour.
- **Public dues** of the hourly wages.
- **Direct material costs** of the training, that can be allocated to the groups or classes.
- Other direct costs, e.g. rent of the classroom, cost of the diplomas.

Indirect costs of education emerge in different places. (POLÓNYI, 2002. 222–223.) They can be allocated to training programs or groups or classes in two ways: in proportion with the direct costs, or with the revenues.

The budget of a training program may include:

- staffing costs,
 1. lecturer wages
 2. wages of the administrative staff
 3. wages of other contributors
 4. public dues
- costs of tangible assets,
- cost of teaching materials given to students,
- marketing costs,
- costs of administration. (HENCZI, 2005. 285.)

4.1.3. Fixed and Variable Costs

Another way to group costs is based on their relation to the output of production. From this aspect, there are two types of costs. **Fixed costs** (FC) do not change along with the increase or decrease of production, they are stable – at least in a certain range.⁸ Fixed costs include expenditures that are in connection with the physical and intellectual capacity of the organization: rent of the buildings, monthly wages of employees – these are independent from the output of a certain period. (KÖVESI, 2007. 265–266.) **Variable costs** (VC) increase with the expansion of production and decrease with the fall of output. Differentiating between fixed and variable costs is important in order to see, how the increase of the production will affect costs. Fixed costs and variable costs are the **total cost** (TC).

4.1.4. Revenue and Profit

Total revenue (TR) of an organization is the multiplication of the price per piece (p) of the product and the quantity (q) sold: $TR = p \times q$.

A revenue-maximizing organization seeks the combination of price and saleable quantity that provides the highest total revenue. If the organization increases the price, the demand – thus the saleable quantity – probably decreases.

The total profit ($T \pi$), of an organization is the difference of the total revenue and the total cost. $T \pi = TR - TC$.

The profit is the highest when the marginal product is equal to the marginal revenue: $MC = MR$. When the marginal cost is lower, the production can be increased till the costs increase slower than the revenue. When the marginal cost is higher, at least one unit is produced that induces more cost than revenue.

⁸ Fixed costs are stable only in a certain range. If the output is to be significantly increased, additional capacity – building, equipment, staff – is needed. It causes a sudden leap of the fixed costs, but then they settle on the new level and stay stable until another significant expansion of production.

Tuition (HUF)	Registered students (person)	Total revenue (HUF)
10 000	100	1 000 000
20 000	70	1 400 000
30 000	50	1 500 000
40 000	30	1 200 00
50 000	15	750 000

Figure 8: Total revenue of a training program with different tuition fees
Source: Own construction

When the total revenue covers both the fixed and the variable costs (i.e. the total cost), it is the **break-even point**. Higher total revenue means profit-making, lower total revenue means loss-making. When the total revenue covers the variable costs but not the fixed costs, it is financially neutral on the short run whether the organization goes on with the production. Fixed costs are independent from the production and variable costs are covered by the total revenue. But when the total revenue does not cover even the variable costs, it is the **shutdown point**, production has to be terminated.

4.2. Assets, Profit-loss and Cash Flow Statements

Organizations prepare **accountancy statements** in every business year. The major statements are that of the assets, the profit-loss and the cash flow. These statements give a clear view of the actual value and the yearly operation of the organization.

4.2.1. The Balance Sheet of Assets

The balance sheet of assets is a statement recording the economic operations of a given period that effect the assets of the organization. It includes the assets and their sources, and the profit or loss of the

given period. The two sides of the balance sheet are the **assets** (in money terms, grouped by their physical form) and the **liabilities and equity capital** of the organization (the sources of the assets).

Assets are the valuables with market value owned by the organization. They are the resources the organization operates on. The sources of the assets are the liabilities and the equity capital of the organization. The liabilities are the debts or obligations a company must pay. The equity capital is the resources provided to the organization by the owners. The assets are funded from the liabilities and equity capital. The profit and the loss increases or reduces the sources. Since both sides of the balance sheet represent the same assets, their sum total must be equal. (CHIKÁN, 2000. 422-425.)

4.2.2. The Profit-loss Statement

The profit/loss statement is the account of the organization's **incomes** and **expenses** related to a certain period. It shows the financial performance of the organization in a business year. (CHIKÁN, 2000. 425–426.)

4.2.3. The Cash Flow Statement

The cash flow statement is the report of the actual flow of incomes and expenditures in a certain period. Profit-loss and cash flow statements are different, because the booked incomes and the actual incomes, and the booked expenses and the actual expenses are separated in time. An accounted income may arrive only later, and an accounted expenditure may be due only later (e.g. amortization). The cash flow statement is also important to show whether a profitable organization actually has its money, or it is not able to collect its receivables. In the latter case the organization has **liquidity** problems, cannot pay its liabilities. (CHIKÁN, 2000. 427.)

4.3. Investments

Investment means locking up the financial instruments of an organization for a given purpose. **Long-term investment** means locking up in permanent assets, buying other enterprises, long-term securities. **Short-term investment** means locking up in operational costs, current assets⁹, mobile securities.

When deciding on investments, three methods can be applied to measure the options:

- **Payback period** shows how many years the investment needs to payback on the basis of its annual rate of return. This method gives an exact result only if the net present value method is also applied (see below). The shorter the payback period is, the better the investment is.
- **Net present value** is the discounted sum of expenditures minus the incomes. The returns of the investment that are due in the future have to be **discounted** to the present. It is necessary because the value of incomes that are due in different times is different, money has **time-value**.¹⁰ The difference of the expenditures and incomes is the profit of the investment.
- **Internal rate of return** is a profitability indicator. An investment is good if its internal rate of return is higher than that of other, similarly risky investments. (CHIKÁN, 2000. 437.)

⁹ Current assets take part in the production only for a short time, they amortize quickly.

¹⁰ Time-value of money means that an income that is due now is more valuable than an income that is due later. It has several reasons. An income that is due now is safer, it can be invested again so it can start to earn money again, and an income that is due later is influenced by the inflation.

II. FUNDAMENTALS OF MANAGEMENT FOR LEADING EDUCATIONAL ORGANIZATIONS

1. INTRODUCTION

1.1. Organizations of Vocational Training and Adult Education

In vocational training and adult education there are several types of organizations: **public institutions** (secondary schools and higher education institutions, regional training centers), **for-profit enterprises** (such as limited liability company, incorporated company), **non-profit organizations** (such as society, foundation), and the **on-the-job trainings** of corporations. (HENCZI, 2005. 74.)

1.2. Management of Organizations of Vocational Training and Adult Education

1.2.1. Management of Educational Organizations

Education management became an independent discipline due to a new approach: management training can improve the efficiency and quality of educational organizations. There is a debate whether the management of educational organizations differs from that of other types of organizations. There are two approaches: one considers the management of educational organizations as one field of general management, the other regards it as an individual discipline:

- **Theory of common principles:** management has general principles appropriate in every organization.
- **Theory of special case:** management of educational organizations is special enough to train their leaders specifically. (BUSH, 2009)

Seven features can be listed that make the management of educational organizations definitely different from that of others'. (Based on BUSH, 2009):

- a) Defining the objectives in educational organizations is more difficult than in the business enterprises. In non-profit educational organizations do not have the clear objectives of the for profits: maximizing output and profit. Plus, they are expected to develop individual skills, while they should educate people to meet the norms of the society. In for-profit educational organizations educational objectives may confront with business objectives.
- b) It is difficult to tell whether education has attained its objectives or not. Success can not be measured in financial terms, in sales, profit or dividend.
- c) The fact that "the student" is in the center in an educational organization causes some difficulties. Students can be regarded as clients, but also as the raw material of the production. But students are different from industrial raw materials: they can not be processed, teaching and learning are based on personal relationships, are loaded with individual characteristics, and the result is impossible to predict. This human volatility makes the evaluation of performance even more complex.
- d) Teachers also have characteristics that causes difficulties for management. Leaders and teachers of schools have common education, professional roots, values, experiences. Plus, teachers demand a certain amount of autonomy in the teaching process, and their relationship with the students is difficult to define or control.
- e) The agent-client relationship of teacher and student is different from that of other agents and clients. Student-clients have only limited opportunity to chose their teacher-agents. And satisfying students' expectations does not always serve their true interests.

- f) External actors strongly influence the decisions of educational organizations. And in large organizations the different training programs, locations and semesters are all decision points. These two factors make decision-making and allocation of responsibility difficult.
- g) Many top and middle managers in educational organizations do not have enough time to deal with leadership issues. They often have lectures and other education-related tasks, so their time spent on managing the organization is limited, and it has serious consequences.

When appreciating the extent an educational organization differs from a typical business organization we can rely on Carlson's categories (1975). He describes **domesticated** and **savage** organizations. If pupils are automatically sent to the local school, the school is a domesticated organization, the society it serves protects it from the negative factors of the environment, it does not have to fight for its survival. Like a domesticated animal, it is fed and cared for, its existence is guaranteed. Although it has to compete for its resources, its funding is not connected to the quality of its services. Savage organizations on the other hand are permanently fighting for survival. Their existence is not guaranteed, they may close down any time. Their funding depends on the quality of their services, and there is no guarantee for new clients.

Education systems have shifted toward being savage recently. Nowadays not only market-oriented, for-profit organizations compete for clients and funds. Non-profit and public institutions also have to find alternative funding. Their existence also depends on how attractive they are for the clients.

Hence, we think that although the management of some organizations of vocational training and adult education differs from that of the business enterprises in some aspects – mainly because of the special regulations concerning public institutions and the lack of profit-orientation in the non-profits –, the basic management functions are applied even in the non-profit organizations and public institutions.¹¹

¹¹ This is reflected in the so-called New Public Management.

1.2.2. Management of Services

Education is a service, therefore understanding the management of educational organizations one has to be aware of the specialties of the management of services. The most adequate definition of "service" is: "A service is an activity or performance one offers to another. ... Performance is intangible and it does not entail the ownership of the resources of the production. Service is a business activity that creates value and provides advantages to the customer ... by accomplishing the change the client wished." (LOVELOCK – WRIGHT, 2001. 6.) Education is a **professional service**, because it is labor-intensive, interaction and client-orientation is significant, and it is a **mutual service**, because it is not possible without the active cooperation of the client. In the management of services the priority is the quality perceived by the client. Thus, the principles of the management of services are the following: (Based on HEIDRICH, 2006. 35–37.):

- a) Profit is created by the quality perceived by the client, so the business objective is not external efficiency, productivity or the economies of scale¹² (in fact, large output – too many students – can be a drawback), but **total efficiency**. It is internal efficiency and external efficiency – including for example customer relations.
- b) Decision points in the organization have to be close to the client-organization **interfaces**. **Front staff** dealing directly with the clients (administrators, teachers) must have the authority to make prompt decisions (like in decentralized organizations, see chapter ORGANIZING).
- c) Organizational culture must focus on total efficiency and must show flexibility in order to mobilize resources for supporting customer relations.
- d) Quality and performance is less standardized than in industrial organizations, because individual customers need individual solutions. Thus, working by **guidelines** is better than by rigid

¹² Economies of scale refers to the reduction of per unit costs by increasing the output.

directives. Consequently, taking responsibility and making decisions on the part of the employees is more important than strictly obeying the protocols. This influences the proper leadership style as well (see chapter LEADERSHIP).

- e) The basis of performance assessment and control must be the satisfaction of the clients (see chapter HUMAN RESOURCES MANAGEMENT).

2. MANAGEMENT, MANAGER

2.1. Definition of Management

Management is the attainment of organizational goals in an effective and efficient manner through **planning, organizing, leading** and **controlling** organizational resources. (DAFT, 2008. 5.). (These are the management functions to be discussed in detail.) Thus, managers are responsible for establishing and/or operating an **entire system** (the organization). A good manager creates conditions that enable others to perform their tasks efficiently, and a system that survives the manager.

2.2. Manager Skills

Managing needs several and complex skills. (GULYÁS, 2008a. 107–108). They can be grouped to three categories (ROÓZ, 2001. 20.):

- **Conceptual skills** enable the manager to handle issues in a complex way, to see the organization as a whole, to define goals, coordinate activities, understand and solve problems.
- **Human skills** enable managers to lead and motivate people, find the proper leadership style, effective communication – in short: to be a good leader. These skills are extremely important in organizations of vocational training and adult education, because these are labor-intensive services, therefore human resources are dominant.

- **Technical skills** means that the manager has a certain field of expertise, can apply the proper technical solutions, understands and controls processes. In educational organizations it refers to organizing and accomplishing training programs.

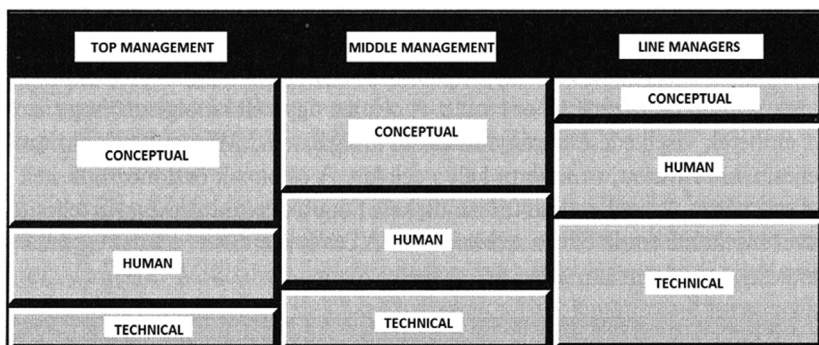


Figure 9: Managers' skills on the different levels of management
Source: Own construction based on Roóz, 2001. 21.

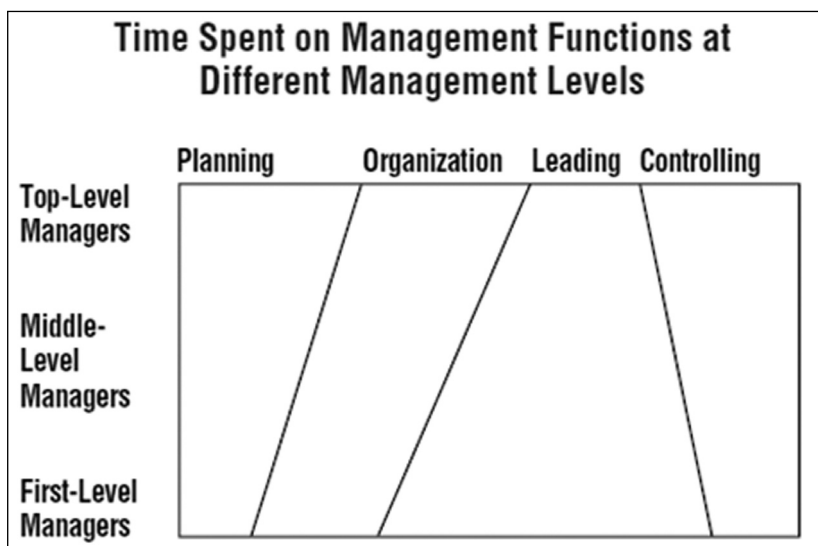


Figure 10: Involvement of the different management levels in the management functions
Source: ENCYCLOPAEDIA, 2009. 525.

The above skills are needed in different proportions on the different levels of management. Top managers use the conceptual skills the most, and technical skills the least. From top to bottom the importance of conceptual skills decreases and that of technical skills increases.

The different management levels are different regarding their involvement in the four management functions as well. Top managers are mainly involved in planning and controlling, while in the case of line managers leading is dominant.

2.3. Manager Roles

Managers have different roles when having the organization's goals attained. These roles can be grouped to three categories: **intrapersonal**, **informational** and **decisional roles**. (DAFT, 2010. 18.). The three categories include ten manager roles.

Category	Role	Activity
Informational	Monitor	Seek and receive information, scan periodicals and reports, maintain personal contacts.
	Disseminator	Forward information to other organization members; send memos and reports, make phone calls.
	Spokesperson	Transmit information to outsiders through speeches, reports, memos.
Interpersonal	Figurehead	Perform ceremonial and symbolic duties such as greeting visitors, signing legal documents.
	Leader	Direct and motivate subordinates; train, counsel, and communicate with subordinates.
	Liaison	Maintain information links both inside and outside organization; use e-mail, phone calls, meetings.
Decisional	Entrepreneur	Initiate improvement projects; identify new ideas, delegate idea responsibility to others.
	Disturbance handler	Take corrective action during disputes or crises; resolve conflicts among subordinates; adapt to environmental crises.
	Resource allocator	Decide who gets resources; schedule, budget, set priorities.
	Negotiator	Represent department during negotiation of union contracts, sales, purchases, budgets; represent departmental interests.

Figure 11: Manager roles
Source: DAFT, 2010. 18.

3. MANAGEMENT FUNCTIONS

Though – as we said – management includes several activities and complex roles, the basic management functions are:

- **planning,**
- **organizing,**
- **leading,**
- **controlling.**

These management functions are widely considered to be the best means of describing the manager–s job as well as the best way to classify accumulated knowledge about the study of management. Although there have been tremendous changes in the environment faced by managers and the tools used by managers to perform their roles, managers still perform these essential functions. (ENCYCLOPAEDIA, 2009. 519.)

3.1. Management Functions 1.: Planning

3.1.1. Definition of Planning

Planning is the function of management that involves setting objectives and determining the course of action for achieving these objectives. (ENCYCLOPAEDIA, 2009. 518.)

Planning means identifying goals for future organizational performance and deciding on the tasks and use of resources needed to attain them. A **goal** is a desired future state that the organization attempts to realize. A **plan** is a blueprint for goal achievement,

specifies the necessary resource allocations, schedules, tasks and actions. Goals specify future ends, plans specify today's means. Managerial planning defines where the organization wants to be in the future and how to get there. So planning includes both determining organization's goals and the means for achieving them.

For each goal that an organization sets, it also sets objectives. An **objective** is a short-term target with measurable results. Without clearly-defined goals and objectives, organizations will have trouble coordinating activities and forecasting future events. (ENCYCLOPAEDIA, 2009. 348.)

3.1.2. Levels of Goals and Plans

The planning process starts with defining the **mission**. Organizational mission describes the basic purpose of the organization, the organization's reason for existence. It describes the organization's basic business scope and activities, its purposes and operations, as well as its values, aspirations. It distinguishes the organization from similar types of organizations. Without a clear mission goals and plans may be developed haphazardly and will not take the organization in the direction it needs to go. The formal mission statement is made especially for external audiences (**mission statement**). It focuses on market and customers, and identifies desired fields of endeavor. It can describe corporate characteristics such as product quality, location of facilities and attitude towards employees. (DAFT, 2010. 163.)

The mission is the ability of the vocational and adult training organization to create values that distinguish it from other organizations. It names its most important partners, services, philosophy and internal values. (HENCZI, 2005, 205.)

Before writing a mission statement, leaders in the organization must have an idea of what is in store for the future. This **vision** is the foundation for the mission statement. The vision provides a strategic direction, which is the springboard for the mission and its related goals. A **vision statement** differs from a mission statement. Vision statements are a view of what an organization is striving to become. Vision statements guide an organization into the future,

while mission statements are a reflection of the present. (ENCYCLOPAEDIA, 2009. 580.) International and national experience suggests that the timeframe for vision may be 4-5 years. (MÉSZÁROS, 2011. 119.)

The mission is the basis for the strategic (corporate) level of goals and plans, which shapes the tactical (unit) level and the operational level. **Strategic plans** reflect the commitment to organizational achievements, efficiency and effectiveness. The timeframe for strategic plans is 2-5 years. **Tactical plans** focus on the major actions a given unit must take to fulfill its part in the strategic plan. The timeframe for tactical plans is 1 year. **Operational plans** focus on specific tasks and processes that help to meet tactical and strategic goals. They define the daily operation of the units. Top managers are responsible for establishing strategic plans, tactical plans are the responsibility of middle (unit) managers, and operational plans are developed by front-line managers and supervisors. Planning at each level supports the other levels. (DAFT, 2010. 160–166.)



Figure 12: Levels of goals and plans
Source: DAFT, 2010. 161.

3.1.3. "SMART" Goals

"SMART" goals are:

- Specific: well-defined;
- Measurable: tangible;
- Agreed: by the key stakeholders¹³;
- Realistic: not exaggerated but challenging;
- Time-bound: scheduled, having milestones. (HENCZI, 2005. 208.)

3.1.4. Strategic Management

Strategic management refers to the set of decisions and actions used to formulate and execute strategies that will provide a competitively superior fit between the organization and its environment so as to achieve organizational goals. The first step of strategic management is to define an explicit strategy. **Strategy** is the plan of action that prescribes resource allocation and other activities for dealing with the environment, achieving a **competitive advantage**, and attaining organizational goals. Competitive advantage refers to what sets the organization apart from others and provides it with a distinctive edge for meeting client needs in the marketplace. Strategy must build on the organization's core competence. **Core competence** is a business activity the organization does especially well in comparison to its competitors. (DAFT, 2010. 188.)

The process of strategic management is shown below.

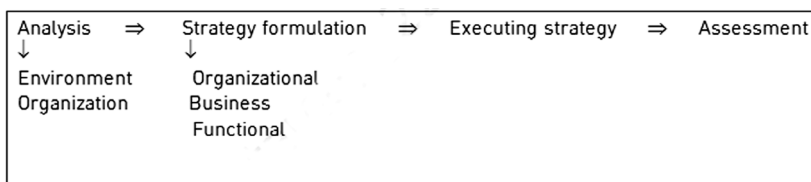


Figure 13: The process of strategic management
Source: Own construction

¹² **Stakeholder:** any actor – corporate or individual – who can affect or be affected by the actions of the organization. Owners, clients, managers, employees, business partners, competitors, suppliers, citizens, media, authorities etc.

3.1.4.1. Strategic Analysis

Strategy formulation has to be preceded by a thorough analysis, otherwise the strategy will not be grounded. Analysis should cover the **macro-** and **micro-environment** and the **organization** itself.

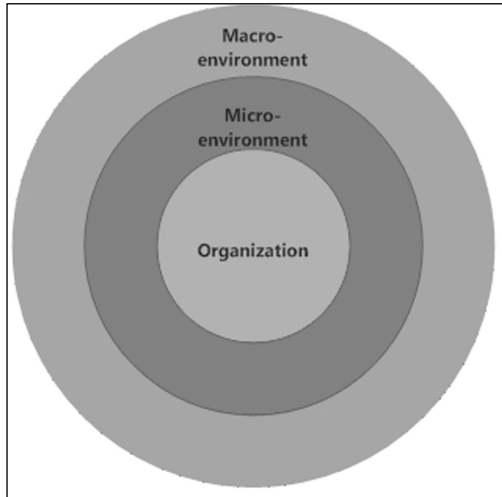


Figure 14: The organization and its environment
Source: Own construction

The macro-environment of an organization includes factors that can not be influenced by the organization directly, thus, the organization has to adapt to them. A generally used analysis of the macro-environment is the **PEST**. It describes four factors influencing the strategic options of an organization:

- **Political** factors;
- **Economical** factors;
- **Socio-cultural** factors;
- **Technological** factors¹⁴.

¹⁴ Recently this analysis has been called PESTEL, listing the legal factors (earlier discussed among the political factors) separately and adding environmental factors to the list. Since in the case of educational organizations environmental factors are not very important, we stay with PEST.

In the case of organizations of vocational training and adult education these factors are probably the following.

Political factors:

- concepts and policies of the European Union and the national government regarding vocational training and adult education;
- laws and regulations regarding vocational training and adult education;
- laws and regulations regarding the given organizational form (for-profit enterprise, non-profit organization, public institution);
- laws and regulations regarding the given profession and field of knowledge,
- educational policy of the given region, city;
- the stability and predictability of the above factors.

Economical factors:

- price of resources used in vocational training and adult education;
- taxes, public dues and tax allowances;
- available tenders and loans;
- the labor market;
- the market of vocational training and adult education (demand, supply, prices, competition);
- rate of return of education;
- the major employers of the region, their labor demand.

Socio-cultural factors:

- geographical trends;
- education and competencies of population;
- competencies expected by employers;
- the attitude to (lifelong) learning;
- motivations of people to study;
- characteristics of primary, secondary and higher education.

Technological factors:

- IT solutions applicable in teaching and learning;
- infrastructure of education;
- digital competencies and IT usage of students;
- technological background of the professions taught.

The micro-environment of an organization is the industry it is operating in. A commonly used model to analyze it is that of **Porter**. According to Michael E. Porter there are five competitive forces in the organization's environment that determine the organization's position vis-à-vis competitors in the industry environment:

- potential new entrants;
- bargaining power of buyers;
- bargaining power of suppliers;
- threat of substitute products;
- rivalry among competitors (depends on the preceeding four forces and on cost and product differentiation). (DAFT, 2010. 197.)

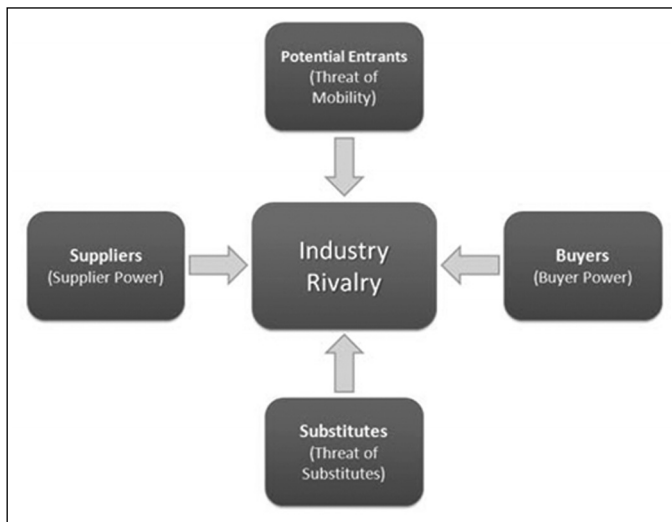


Figure 15: Porter's model

Source: WWW.NOTEDESK.COM

In the case of organizations of vocational training and adult education the five factors can be interpreted as following:

- **Supplier power:** Supplier is any person or organization who provides raw material (for industrial vocational training), equipment (machinery, vehicle, devices) or services (lectures, examination). Supplier power depends on whether the given material or service can be provided by many suppliers or by only a few, whether that material or service is special, hard to replace or not.
- **Buyer power:** The buyers of organizations of vocational training and adult education are the students. Students' power depends on whether there is large demand for the given training program, whether it is crucial for them to study, how easily they can change school (educational organization), how well-informed they are about the educational market.
- **Threat of substitutes:** A substitute is a product or service that satisfies the same customer need. It can be a similar training program, but in some cases even non-formal learning or self-education as well. The threat of substitutes depends on whether there are substitutes, whether they can replace our training program, and whether they are available for our customers, whether they are cheaper or more expensive.
- **Threat of potential entrants:** Potential new entrants are those actors who may enter our market in the near future with similar training programs to our present or potential customers. The threat of potential entrants depends on who are planning to enter the market, and whether they have significant competitive advantage (in costs, prices, quality, services, effectiveness, marketing communication etc.). The threat of potential entrants also depends on whether the **barrier to entry** is high or low. Barriers to entry are obstacles that make it difficult to enter a given market. The term can refer to hindrances a firm faces in trying to enter a market or industry such as government regulations, or a large, established firm taking advantage of economies of scale, or licensing requirements. If the barriers to entry are high, the threat of new entrants is low and vice versa.

- **Industry rivalry:** Industry rivalry depends on the amount of competing organizations, on the extent of concentration (whether there are organizations with large market share), on the demand, on how distinguishable the different training programs are. These factors determine the **market structure**. The different market structures are the following.

Market characteristics	Competition	Oligopoly	Duopoly	Monopoly
Number of organizations	Many	Few	Two	One
Barriers of entry	None	Medium or high	Medium or high	Very high
Product differentiation	None	Strong	Medium or strong	Changing
Concentration	Low	Significant	Strong	Absolute

Figure 16: Market structures

Source: Own construction based on CSATH, 2004. 119.

Organizations of vocational training and adult education have to have a clear view of the economic properties of the educational market, such as:

- the size of the industry, its trends;
- the number and size of organizations in the industry, its trends, market leaders, new entrants;
- competitors, their strategy, strengths and weaknesses;
- prices, profitability of the industry, etc. (HENCZI, 2005. 203.)

Besides its environment, an organization has to know itself to formulate a grounded strategy. First of all, it has to have a clear picture of its **resources**. In organizations of vocational training and adult education the most important resources are:

- **financial resources** (indicators: liquidity, profitability, solvency);
- **physical resources** (indicators: value, quality, state-of-the-art, exploitation of the assets);

- **human resources** (indicators: number, education, competencies, quality of work, morale, fluctuation, organizational culture);
- **technological resources** (indicators: being cutting edge, efficient, innovative);
- **“goodwill”** (indicators: quality of customer relations, opinion of clients, partners, popularity of the organization and its services, loyalty of clients).

Strategic analysis concerning organizational resources is called **resource analysis**. It is important to formulate our strategy on the basis of the true state and value of our resources.

Besides its resources, the organization has to evaluate its products, to know their position, life cycle. A well-known method is the **product life cycle** model.¹⁵ Product life cycle is a business analysis that

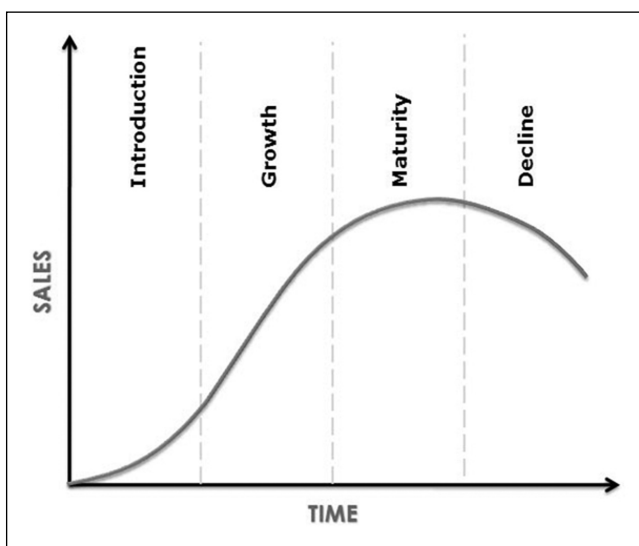


Figure 17: Stages of products
Source: WWW.NOTESDESK.COM

¹⁵ Further methods for product analysis are the GE matrix and the BGC matrix, see CSATH, 2004.

attempts to identify a set of common stages in the life of products: introduction, growth, maturity and decline.

The stages of the training programs of educational organizations are:

- **Introduction:** the training program has just started, the demand is low, the revenue is low, costs are not covered.
- **Growth:** the training program is known on the market, there is a (growing) demand for it, more and more students chose it. The revenue covers the direct costs.
- **Maturity:** the training program is well-known on the market, enrollment is high. The revenue covers or exceeds the total cost.
- **Decline:** the training program is less and less popular, the demand and the profitability decrease.

Products in different stages have different places in the strategy, or, the strategy depends on the products' life stages. An educational organization with several training programs in the growth stage will formulate an entirely different strategy from another one with training programs in the decline stage.

Another analysis, **SWOT** focuses on both the organization and its environment. SWOT is an acronym for strengths, weaknesses, opportunities, and threats.

- **Strengths** are positive internal characteristics that the organization can exploit to achieve its strategic performance goals.
- **Weaknesses** are internal characteristics that might inhibit or restrict the organization's performance.
- **Opportunities** are characteristics of the external environment that have the potential to help the organization to achieve or exceed its strategic goals.
- **Threats** are characteristics of the external environment that may prevent the organization from achieving its strategic goals. (DAFT, 2010. 192–193.)

Strengths	Weaknesses
<ul style="list-style-type: none"> Existing faculty professor Accredited curriculum Physical presence/location Available capital 	<ul style="list-style-type: none"> Technology Lack of trained faculty Slowness to change Poor quality
Opportunities	Threats
<ul style="list-style-type: none"> Increased student enrolment Improved name recognition National expansion Global expansion 	<ul style="list-style-type: none"> Virtual university competitors New entrants into market Insufficient enrolment to cover costs Lack of demand

Figure 18: Possible SWOT of an educational organization
Source: WWW.EMERALDINSIGHT.COM

3.1.4.2. Formulating the Strategy

After the necessary analyses the strategy is formulated. Strategic managers think in terms of three levels of strategy:

- **Corporate-level strategy** is concerned with the question "What business are we in?". It pertains the organization as a whole. Strategic actions at this level relate to the acquisition of new businesses, additions or divestments of units, plants, product lines, and joint ventures with other organizations in new areas.
- **Business-level strategy** is concerned with the question "How do we compete?". It pertains to each business unit or product line. Strategic decisions at this level concern advertising, research and development, product changes, new product development, equipment and facilities, expansion or contraction of product and service lines.

Porter suggests three competitive strategies:

- Differentiation:** the organization seeks to distinguish its products from those of the competitors (by distinctive product

features, creative advertising, exceptional services, new technology, etc.).

- b) **Cost leadership:** the organization aggressively seeks efficient facilities, cuts costs and employs tight cost controls to be more efficient than the competitors. This way the organization can undercut competitors' prices and still offer comparable quality and earn a reasonable profit.
- c) **Focus:** the organization concentrates on a narrow target market, a specific regional market or a customer group. (DAFT, 2010. 198.)
- **Functional-level strategy** is concerned with the question „How do we support the business-level strategy?”. It pertains to the major functional units (finance, R&D, marketing, manufacturing, HRM etc.) within a business unit. (DAFT, 2010. 190–191.)

3.1.4.3. Strategy Execution and Assessment

Strategy execution is the way the strategy is implemented or put in action. No matter how brilliant the strategy is, the organization will not benefit if it is not skillfully executed. To execute the strategy, an effective organization and a good leadership is needed, and to assess the strategy execution, control is essential. Thus, the next management functions – organizing, leading and controlling – are closely connected to planning, they serve the execution of the strategy, the attainment of the organization's goals.

3.2. Management Functions 2.: Organizing

3.2.1. The Definition of Organizing

Organizing is the function of management that involves **developing an organizational structure** and **allocating human resources** to ensure the accomplishment of objectives. (ENCYCLOPAEDIA, 518.)

3.2.2. Structuring the Organization

Structuring the organization includes three activities:

- organizing the vertical structure;
- departmentalization;
- organizing the horizontal coordination. (DAFT, 2010. 244.)

The structure should be designed to fit the organization's strategy. Business performance is strongly influenced by how well the organization is organized.

3.2.2.1. Organizing the vertical structure

The vertical structure is defined by three factors:

- a) the set of formal tasks assigned to individuals and units (work specialization or division of labor);
- b) formal reporting relationships (chain of command, span of managers' control);
- c) centralization – decentralization.

See below in details.

a) Organizations perform a wide variety of tasks. Work can be performed more efficiently if employees are allowed to specialize. Work specialization or **division of labor** means that the work is broke down into separate, individual tasks, and they are assigned to groups or individuals. In educational organizations the division of labor can be done by the following principles (Based on CSEPELI, 2003).

- **professional activities (functions):** the work is broke down to different professional activities (enrollment, teaching, administration, marketing, financial management, human resources management etc.);
- **area:** the work is broke down to different branches on different locations;

- **product profile:** the work is broke down to different training programs;
- **client type:** the work is broke down to serving different student groups (e.g. full-time, part-time, young, adult).

Obviously, these principles can be combined.

The division of labor defines the principle of departmentalization. In the case of professional work-breakdown, departments of enrollment, of training, of marketing, of human resources management etc. are established. In the case of different locations area work-breakdown should be applied. The area branches are responsible for the enrollment and the training on the local market. Product profile should be the work-breakdown principle if the training programs of the educational organization are significantly different from each other – e.g. language courses and vocational trainings. In this case different departments are responsible for the different trainings. Client type should be the work-breakdown principle if the student groups are significantly different – e.g. full-time youngsters and part-time adults – thus, their needs and expectations for administration and reaching are also different. In this case, different departments are dealing with the different student groups.

b) **Formal reporting relationships** indicate who can give orders to whom, and who should report to whom. Formal reporting relationships reflect the authority relationships in the organization. **Authority** is the formal and legitimate right of a manager to make decisions, issue orders, and allocate resources to achieve organizational goals. Authority has three characteristics:

- it is vested in positions, not in people;
- it is accepted by subordinates (managers have authority only if subordinates accept it);
- it is flows down the vertical hierarchy (positions at the top of the hierarchy have more authority than positions in the bottom).

Responsibility is the flip side of the authority coin. It is the duty to perform the task as assigned. Authority and responsibility should be in accordance, and for different tasks they should be distinct. When managers have great responsibility but little authority, their job is difficult. They may rely only on persuasion and luck. When managers have authority exceeding responsibility, they may become tyrants.

Another important concept related to authority is delegation. **Delegation** is the process managers use to transfer authority and responsibility to positions below them in the hierarchy. It helps managers to concentrate on crucial issues, and at the same time lets employees to be creative and effective, respond to customer needs and changes in the environment quickly. (DAFT, 2010. 246–247.)

Formal reporting relationships raise the question of how many subordinates a manager should have. The **span of control** is the number of employees reporting to a supervisor. It determines how closely a supervisor can monitor subordinates. Traditional management theory suggests 7 subordinates per manager. In modern organizations it is sometimes 30–40. (DAFT, 2010. 249.) The optimal number of subordinates depends on the task, the maturity of subordinates, the leadership style, the quality of management support systems.

c) **Centralization and decentralization** pertain to the hierarchical level at which decisions are made. Centralization means that the decision authority is located at the top of the organization. Decentralization means that the decision authority is pushed downward to lower levels.

Nowadays organizations tend to decentralize, mainly because in decentralized organizations:

- top management can concentrate on strategies issues;
- employees' abilities and creativity can be exploited;
- employees having close relationship with clients can react to clients' needs and market challenges quickly. (based on CSEPELL, 2003)

The optimal degree of centralization-decentralization depends on the business activity and the organization. Not every organization should decentralize (think of the army), and in crisis authority should be centralized. But in educational organizations the employees (teachers) have a great professional autonomy and wide-range decision-making authority regarding their own job. Plus, democratic leadership and collective decision-making is also characterize these organizations, thus, they are rather decentralized.

3.2.2.2. Departmentalization

Departmentalization is the basis on which individuals or positions are grouped into departments, and departments into the total organization. There are five possibilities for departmentalization, three traditional and two modern approaches. (Based on DAFT, 2010)

Traditional approaches include:

- functional structure;
- divisional structure;
- matrix structure.

Modern approaches include:

- structure based on teams;
- virtual networks.

The functional structure

The oldest and simplest structure is functional. It groups positions into departments with similar skills, expertise, work activities and the use of resources. People, resources, facilities representing a common function are grouped into a department.

(Besides the ones shown in the figure, there may be other functions, departments and managerial levels.)

Each of the departments is concerned with the whole organization (e.g. the marketing dept. is responsible for the marketing of the whole organization).

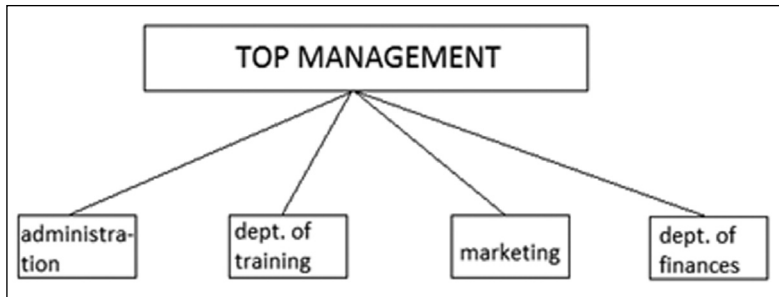


Figure 19: Functional structure
Source: Own construction

The most important characteristics of functional structure are the following:

- Information flows up and down the vertical hierarchy, not horizontally (see chapter COMMUNICATION), and people are communicating primarily within the department.
- The chain of command converges at the top, it is generally a centralized organization.
- Rules and procedures govern the duties and responsibilities of each employee.

The functional structure is effective if the environment is stable, processes in the organization are simple, and the product portfolio is small. In the case of organizations of vocational training and adult education functional structure is proper if it is a small or medium-size organization with only a few traditional training programs on a stable market.

Divisional structure

A **division** is a relatively autonomous unit in the organization with own management. In the divisional structure departments may be grouped based on **different principles**. In the case of **output-based** divisions diverse departments are brought together to produce a single output (training program), sometimes using different technology. In the case of **geography-based** divisions all functions

in a specific country or region are grouped into one division, focusing on the local market. In the case of **customer-based** divisions departments serving one customer group (e.g. full-time students) are brought together into one division. The divisions themselves are generally functional structures. Besides the divisions the divisional structure typically has **central departments** that execute certain tasks at organizational level, e.g. central procurement, brand-building, accounting, IT, etc.

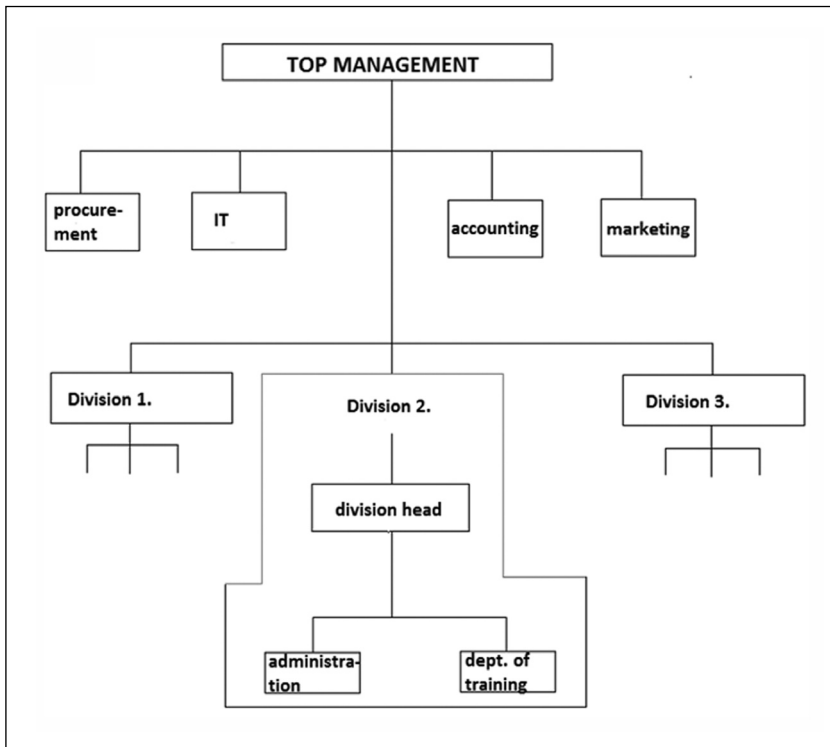


Figure 20: Divisional structure

Source: Own construction

(Besides the ones shown in the figure there may be other central departments and divisions, and in the divisions, there may be other functional departments.)

The most important characteristics of divisional structure are the following:

- There are separate functional departments for each division, thus, departments are smaller and are specialized to one product, geographic region or customer group (e.g. administration in „Division 1” is responsible only for the administration of the training programs of this division).
- Departments are duplicated.
- Resources needed to function is assigned to each division.
- Competitive advantage may come from products or services adapted to one region or customer group.
- Decisions are made and conflicts are solved at divisional level, not at the top – it is a decentralized structure – and it frees top management for strategic issues.

Divisional structure is proper if the product portfolio is large (several different training programs), or the processes are different (e.g. traditional lecturing and distant learning), or the client groups are different (youngsters and adults), or the trainings are held on different locations, or the environment and the market are unstable.

Matrix structure

It uses two work-breakdown principles (e.g. product profile-functional or client type-functional or area-functional) and chains of command simultaneously in the same part of the organization. The departments are in the intersections of the two chains of command.

The two managers (e.g. the head of administration and the leader of ”A” training program make the decisions regarding the administration of ”A” training program together. But the head of administration is responsible for the administration of all training programs, and the leader of ”A” training program is responsible for each professional tasks regarding ”A” training program.

The most important characteristics of the matrix structure are the following:

- Both chains of command are given the same emphasis, their power is balanced.
- Employees report to 2 supervisors. It can be confusing, but if managers learn to work in this structure and make joint decisions, it does not cause problems.
- Top management oversees both chains of command. Its responsibility is to maintain the power balance.

The matrix structure is proper if the environment is dynamic, the processes are heterogeneous, complex and cutting-edge (several different training programs AND student groups AND teaching methods), and the managers and employees have good communication, cooperation and conflict-solving skills.

Structure based on teams

In the structure based on teams **cross-functional teams** are established. A cross-functional team is a group of employees from various functional departments or divisions that work together to resolve mutual problems. This is the most widespread trend in

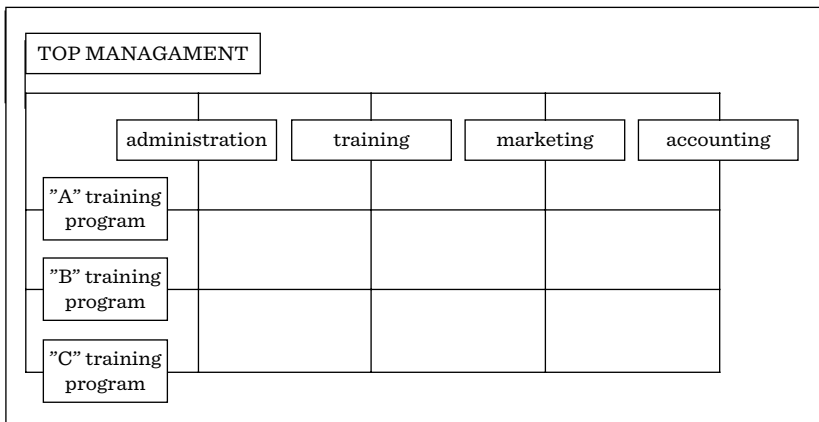


Figure 21: Matrix structure
Source: Own construction

recent years. A frequent use of cross-functional teams is for project, or for product or service innovation. In the case of organizations of vocational training and adult education teams may be established for the different tenders. Teams are often given the freedom to make decisions and take actions on their own. Sometimes there is a permanent team leader, but sometimes members may share or rotate leadership. Sometimes teams are made to complement an existing functional or divisional structure, but in some organizations there are permanent teams.

Virtual networks

A virtual network is established when an organization concentrates on what it does the best, and subcontracts the other functions to separate, legally independent organizations or experts (it is called **outsourcing**), and coordinates their activities from a small head-quarters organization. The organization may be viewed as a **central hub** surrounded by a network of external specialists that are connected electronically to the central office. Networked computer systems and the internet enable organizations to exchange data rapidly, so the loosely connected network of suppliers, manufacturers or service providers and distributors can act like one company. Parts of the network can be added or taken away to meet the changing needs like building blocks.

Structural Approach	Advantages	Disadvantages
Functional	Efficient use of resources; economies of scale In-depth skill specialization and development Top manager direction and control	Poor communication across functional departments Slow response to external changes; lagging innovation Decisions concentrated at top of hierarchy, creating delay
Divisional	Fast response, flexibility in unstable environment Fosters concern for customer needs Excellent coordination across functional departments	Duplication of resources across divisions Less technical depth and specialization Poor coordination across divisions
Matrix	More efficient use of resources than single hierarchy Flexibility, adaptability to changing environment Interdisciplinary cooperation, expertise available to all divisions	Frustration and confusion from dual chain of command High conflict between two sides of the matrix Many meetings, more discussion than action
Team	Reduced barriers among departments, increased compromise Shorter response time, quicker decisions Better morale, enthusiasm from employee involvement	Dual loyalties and conflict Time and resources spent on meetings Unplanned decentralization
Virtual Network	Can draw on expertise worldwide Highly flexible and responsive Reduced overhead costs	Lack of control; weak boundaries Greater demands on managers Employee loyalty weakened

Figure 22: Advantages and disadvantages of the different structures
Source: DAFT, 2010. 258.

3.2.2.3. Horizontal Coordination

Horizontal coordination is the collaboration of units on the same hierarchical level of the organization. Every organization need mechanisms for horizontal coordination, mechanisms to process information and enable communication among people in different units. Without it an organization's left hand will not act in concert with the right hand, there may be redundant parallel activities, or some important activities may not be executed by anyone. Organizational efficiency is lower, chances of accomplishing the goals are worse. (DAFT, 2010. 260–261.)

The mechanisms of horizontal coordination can be grouped to three categories:

- **technocratic mechanisms:** regulations, process protocols (in educational organizations code of studies and exams, schedules, course descriptions, quality assurance, etc.);
- **structural mechanisms:** formal reporting relationships, formal communication among units, cross-functional teams, micro matrix structures;
- **interpersonal mechanisms:** team-building, conflict management, communication trainings, supporting informal relationships and communication, good organizational culture, careful hiring of managers. (Based on Roóz, 2001)

3.2.3. Human Resources Management

3.2.3.1. The Role of Human Resources Management

Hiring and keeping quality employees are among the most important concerns for today's organizations, because employees give an organization's primary source of competitive advantage. Human resources management (HRM) includes activities undertaken to **attract, develop and maintain** an effective workforce within an organization. It refers to the **design and application** of formal

systems to ensure the efficient and effective use of human resources (HR) to accomplish organizational goals. (DAFT, 2010. 307.) It consists of practices that help the organization to deal effectively with its people during the various phases of the employment cycle: **pre-hire**, **staffing**, and **post-hire**. (ENCYCLOPAEDIA, 370.)

3.2.3.2. Finding the Right People

Finding the right people includes **HR planning**, **recruiting** and **selecting** applicants, and **new employee assistance** also called **integrating**.

HR planning is the forecasting of HR needs and the projected matching of individuals with expected job vacancies. By anticipating future HR needs, the organization can prepare itself to meet competitive challenges more effectively than organizations that react to the problems only as they arise. (DAFT, 2010. 317.) Assessing organizational needs includes job analysis, job descriptions and job specification. **Job analysis** is the systematic process of gathering and interpreting information about the essential duties, tasks and responsibilities of a job. **Job description** is a concise summary of the specific tasks and responsibilities of a particular job. **Job specification** is an outline of the knowledge, skills, education and physical abilities needed to adequately perform a job. (DAFT, 2010. 318.)

Recruiting is the activities or practices that define the desired characteristics of applicants for specific jobs. It has two types: internal and external recruiting. **Internal recruiting** (i.e. from within the organization) has two advantages: it is less costly, and it generates higher employee commitment. **External recruiting** (i.e. recruiting newcomers from outside the organization) includes advertising, state employment services, online recruiting, head-hunters, job fairs etc. (DAFT, 2010. 318.)

Selection is the process of determining the skills, abilities and other attributes a person needs to perform a particular job. Employers select desired employees from the pool of recruited applicants. In the selection process employers assess applicants'

characteristics in an attempt to determine the fit between the job and the applicant.

In the case of professionals of vocational training and adult education the expected competencies derive from at least four sources (HENCZI, 2005. 192.):

- qualifications laid down in laws;
- requirements deriving from the training programs;
- students' expectations;
- expectations of the organization they work for.

Several selection devices are used for assessing applicants. The most frequently used are the application form, the interview, the test and the **assessment center** (AC)¹⁶. (DAFT, 2010. 321–323.)

New employee assistance or integrating starts on the first day of the employee. The sooner he is incorporated to the job and organization, the sooner he is able to perform well. Integration at the workplace include two parts: a formal and an informal part. The formal part essentially contains the documentation, providing all the necessary information. The informal part of the integration process has three important factors:

1. **Task acquisition in practice:** knowing the tasks on a daily basis and the way these should be accomplished – the ability to work independently and the realization of the added value to the organization;
2. **Contact creation:** getting to know the direct coworkers and managers, building connection networks at the workplace and fitting in the hierarchical system;
3. **Organizational culture:** getting to know the organizational habits, values and rules. (KOZMA, 70.)

Integration can be helped by mentoring.

¹⁶ AC is a technique for selecting individuals with high managerial potential based on their performance on a series of stimulated managerial tasks. AC present a series of managerial situations to groups of applicants over a 2-3 day period. 2 or 3 trained judges observe the applicant's decisions.

3.2.3.3. Maintaining the Workforce

Maintaining the workforce includes **job structuring and restructuring, compensation** and – if maintaining the workforce is not possible – **termination**.

A **job** in a narrow sense is the duties of an employee, in a wider sense it includes the place, way and time of working, the authority and responsibility, the work relations (superiority or subordination, cooperation, substitution). (KISS, 1994) **Job design** is the structuring of jobs based on job analysis and job specification. (GULYÁS, 2008f). Job restructuring means that the jobs in an organization must be revised and altered regularly, since the tasks of the organization and the organization itself are permanently. The methods of job restructuring are:

- **Job rotation:** Moving workforce between different jobs on the same hierarchical level. In the case of organizations of vocational training and adult education: a teacher starts lecturing in one training program then he is moved to another. Job rotation is favorable for the organization because it makes the replacement or substitution of dropouts easier. It may also help to prevent burnout.
- **Job enlargement:** It concentrates connected tasks of the same level into one single job. In the case of organizations of vocational training and adult education the job of administrators can be enlarged by decreasing specialization and concentrating all the administrative tasks (e.g. of the different training programs) into one single job. Job enlargement is a good solution if it meets the preferences of the employee, and it is accompanied by the development of the technical background and by extended compensation.
- **Job enrichment:** It modifies the job in width and depth by concentrating different tasks into one single job, making it more complex and interesting. In the case of organizations of vocational training and adult education the job of teachers can be enriched by involving them in tasks different from teaching in projects (tenders).

The term compensation refers to **monetary payments** and **goods** and **commodities** meal and holiday tickets, financing travel, accommodation, communication, education, pay leave, services (kindergarten, sport facilities) etc. used in lieu of money to reward employees (also called **benefits**). As far as benefits are concerned, **cafeteria-plan** benefit packages are quite popular nowadays. It allows employees to select the benefits that are of the greatest value to them.

Developing an effective compensation system helps to attract and retain talented workers. A good compensation (based on GULYÁS, 2008g. 171.):

- reflects performance;
- is based on equity (see equity theory of Adams in chapter MOTIVATION);
- is competitive on the labor market.

There are three types of compensation systems:

- The most common compensation system is the **job-based** pay, which links compensation to the specific tasks an employee performs.
- In **competency-based** compensation system employees with higher skill levels receive higher pay.
- **Pay-for-performance** ties at last part of the compensation to employee effort and performance. (DAFT, 2010. 329–330.)

Pay-for-performance compensation is also called **incentive system**, for it is able to recognize extra performance. The governmentally regulated wage system of the public servants in public institutions of education is not able to do it, thus, it may cause serious motivational problems. As Bush puts it: professionalism is hard to maintain in schools where compensation depends on jobs (BUSH, 2009). In these organizations non-financial incentives (moral recognition, job enrichment etc.) and satisfying the higher-level needs (see Maslow's pyramid of needs in chapter MOTIVATION) of the employees are very important.

Termination includes **retirement** (regular, exemption by age, disability), discontinuation of employment (death of the employee, wounding up of the employer, the end of fixed-term employment) and termination (during the probation, with agreement or with regular or special notice) (based on GULYÁS, 2008h. 156.).

Sometimes organizations have to force out employees because of cutback, merger or downsizing. Enlightened organizations try to find smooth transition for departing employees. (DAFT, 2010. 330.) It is called **outplacement**. The means of outplacement range from providing reference to providing professional assistance (outplacement expert, career advisor, psychologist) and supporting retraining.

3.2.3.4. Developing Workforce

Developing workforce includes **training** and **performance appraisal**.

Training represents a planned effort by an organization to facilitate employees' learning of job-related skills and behaviors. (DAFT, 2010. 324). It can be done by **on-the job** and off-the-job training. In on-the job training organizations organize and execute the training program.

The most common forms of on-the-job training are:

- **Action learning:** a training closely related to a task;
- **Mentoring:** an experienced employee guides and supports a less experienced employee;
- **Coaching:** directing, instructing and training a person with the goal to develop specific management skills;
- **Project work:** employees are learning new competencies in a project work or team;
- **Job rotation:** see job management in the previous chapter. (Based on BAKACSI ET AL, 2004, 298–299.)

In **off-the-job training** employees learn outside the organization.

Off-the-job training can be:

- Participation in a **formal training program**;
- Participation in a **conference, study tour**;
- **Distance learning:** IT-based training.

Both the on-the-job and the off-the-job trainings must be based on the **training needs**, so before deciding on any training, the gap between the expected and the actual competencies of the employees has to be identified. Then the training must be **planned**, and after the training it must be **appraised**. It means checking if the expected competencies have been acquired and employee effectiveness has improved.

Performance appraisal¹⁷ is the process of **observing** and **evaluating** an employee's performance, recording the assessment, and providing **feedback** to the employee. Managers praise good performance, but also describe performance areas that need improvement. (DAFT, 2010. 326.)

As we already mentioned, organizational goals must be broken down to individual tasks. But defining individual tasks is only one ingredient of efficiency, the other is the appraisal of individual performance. (HENCZI, 2005. 210.). Performance appraisal is the basis of:

- motivating and recognizing employee efforts;
- identifying training needs;
- identifying the strengths and weaknesses of employees, recording their development;
- human resources planning;
- decisions on promotion, succession, rotation, dismissal;
- supervision of jobs, tasks and expectations;
- feedback.

Without performance appraisal internal recruitment, performance-based compensation and the identification of training needs are impossible, thus, performance appraisal is closely linked to several other HRM functions. Besides individual performance appraisal, the assessment of workgroup and departmental performance is also important.

¹⁷ It is sometimes called performance management, but we think performance management includes motivation and measures to help poor performance (e.g. training) as well.

Even if formal performance appraisal is missing in an organization, some kind of performance assessment is done everywhere to make personnel decisions. But informal, spontaneous, subjective, ad hoc performance assessment has several drawbacks:

- non-performance-based compensation and other personnel decisions are demoralizing, because they are unjust;
- the organization's expectations can not be enforced;
- lack of motivation, individual abilities are not exploited;
- poor performance stays hidden, thus, is not helped.

On the other hand, formal and objective performance appraisal has several advantages:

- compensation and other personnel decisions are based on performance, thus, they are just and motivating;
- organizational expectations can be enforced, thus met,
- employees are motivated, their skills are exploited;
- employees' competencies can be developed. (PÁLINKÁS – VÁMOSI, 2001)

There are three major steps in the performance appraisal process: identification, measurement, and management.

- With **identification**, the behaviors necessary for successful performance are determined (WHAT to assess).
- **Measurement** involves choosing the appropriate instrument for performance appraisal (HOW to assess).
- **Management**, which is the ultimate goal, is the reinforcing of good performance and the correction of poor performance (HOW to use the results). (Based on ENCYCLOPAEDIA, 493.)

The above process is cyclic: at the beginning of the appraisal period individual performance expectations are set, at the end of the period the performance is assessed, feedback is given, and the expectations of the next period are set.

As far as the expectations are concerned, it is recommended to use as exact and measurable expectations as possible. Of course, in the case of white-collars this possibility is limited. In these cases

quantitative expectations must be replaced by qualitative ones, like professional knowledge, lack of absenteeism, timeliness, trustfulness, initiatives, helpfulness, cooperation, taking responsibility, loyalty, self-development, flexibility, talent, workload etc. (PÁLINKÁS – VÁMOSI, 2001).¹⁸ Teachers' performance can be appraised by:

- competencies;
- attitude (enthusiasm, devotion, motivation);
- quality of work;
- output (number of lectures, students, publications, projects etc.);
- cooperation with students and colleagues.

A **360-degree appraisal** is a good solution, when employees are assessed not only by their supervisors, but also by their colleagues (managers by subordinates) and clients, and employees make self-evaluation as well.

There are several methods of individual and group appraisal:

- **Grading scale:** The assessor lists the performance factors that he considers as the most important ones, and evaluates their realization by assigning a grade to each factor on a scale from 1 to 5, adds up the numbers thus obtained, and specifies individual performance using a concrete figure.
- **Essay:** The assessor identifies in a written report the strong and weak points of the person being assessed in such a way, that he specifies in advance the aspects to be taken into consideration in relation to all employees.
- **Critical incident method:** The assessor collects and records exceptionally favorable and extremely bad (critical) incidents of the work behavior of those being assessed.
- **Grading scale based on behavior forms:** By combining a conventional grading scale with the critical incident method,

¹⁸ In the case of educational organizations it is an often-heard view that measuring the intellectual output is impossible. But there are a number of methods that are suitable for assessing performance that cannot be expressed in terms of numbers, and it is a widely-used practice in the developed countries, and even in some Hungarian institutions.

the assessor tries to identify cases for excellent, average, poor, etc. behavior for each performance factor.

- **Behavior monitoring scale:** The assessor describes the behaviors that represent the most important elements of the given job, and indicates the frequency with which the various elements of behavior occur regarding the person being observed in the period of assessment.
- **Ranking:** The assessor is required to establish a rank of his subordinates, from the best to the worst.
- **Forced division:** The assessor divides subordinates into various performance categories according to a pre-specified proportion. (Based on GULYÁS, 2008i)

The most appropriate method depends on the job.

3.3. Management functions 3.: Leading

3.3.1. Definition of Leading

Leadership is the ability to influence people toward the attainment of organizational goals. It is a reciprocal activity, it occurs among people. Leadership is the most important factor of organizational success! (DAFT, 2010. 410.) Leading as a management function includes **motivating** employees, **communicating** with them, and **leading teams**. The frame of executing these activities is the **leadership style(s)** a manager employs, and the basis of it is the **power** he has. First we discuss the leadership styles, then the power of managers, and finally the three activities – i.e. motivating, communicating and leading teams.

3.3.2. Leadership Styles

There are several leadership styles, and finding the right one is one of the most difficult managerial tasks. In the case of organizations of vocational training and adult education the following aspects should be considered when deciding on the proper style.

The manpower of organizations of vocational training and adult education consists mainly of highly educated and strongly specialized professionals. It influences the leadership style, because people like this prefer to manage themselves. They cannot be lead on strictly hierarchical basis, in a bureaucratic way, instead, they must be respected as professional individuals and professional groups as well. (BUSH, 2009)

Theoretical models of leadership styles are summarized below based on BAKACSI, 2004. 181–219.

3.3.2.1. Lewin's Leadership Styles

Three different styles of leadership were identified by Kurt Lewin in 1939: **authoritarian**, **democratic**, and **laissez-faire**. His results indicated that the democratic style is superior to the other two styles. Attributes of each style are outlined below.

- The **authoritarian** leader makes all decisions, independent of his people's opinion. He dictates direction, leaving members in the dark about future plans. He assigns the tasks to his people. This leader type is very personal in his praise and criticisms of each member, but does not actively participate with the group. He is unfriendly and/or impersonal.
- The **democratic** leader welcomes team opinion and facilitates group discussion and decision making. This leader type shares plans with the group and offers multiple options for group consideration. He encourages members to work freely with each other and leaves division of tasks to the group. This leader is objective in praise and criticism, and joins group activities without over-participating.
- The **laissez-faire** leader allows the group complete freedom for decision-making, without participating himself. He assists only by request. He does not offer commentary on members' performance unless asked directly, and does not participate or intervene in activities. (ENCYCLOPAEDIA, 459.)

3.3.2.2. Likert's Model

Rensis Likert identified four main styles of leadership, based on the degree to which people are involved in the decision-making.

- **Exploitive authoritative:** In this style the leader has a low concern for people, and uses fear-based methods to achieve conformance. Communication is almost entirely downwards, and the psychologically distant concerns of people are ignored.
- **Benevolent authoritative:** When the leader adds concern for people to an authoritative position, a 'benevolent dictatorship' is formed. The leader now uses rewards to encourage appropriate performance, and listens more to concerns lower down the organization, although what they hear is often rose-tinted, being limited to what their subordinates think that the boss wants to hear. Although there may be some delegation of decisions, almost all major decisions are still made centrally.
- **Consultative:** The upward flow of information is still cautious and rose-tinted to some degree, although the leader is making genuine efforts to listen carefully to ideas. Nevertheless, major decisions are still largely centrally made.
- **Participative:** The leader makes maximum use of participative methods, engaging people lower down the organization in decision-making. People across the organization are psychologically closer together and work well together at all levels.

3.3.2.3. Model of Tannenbaum and Schmidt

Tannenbaum and Schmidt separated seven styles of leadership depending on the involvement and freedom of employees.

3.3.2.4. The Michigan and the Ohio Universities

Two basic leadership behaviors were identified: **people-oriented** and **task-oriented** behavior. People-orientation means that the leader is mindful of subordinates, respects their ideas and feelings, establishes mutual trust, is friendly, provides open communication, develops teamwork, is oriented toward the subordinates' welfare.

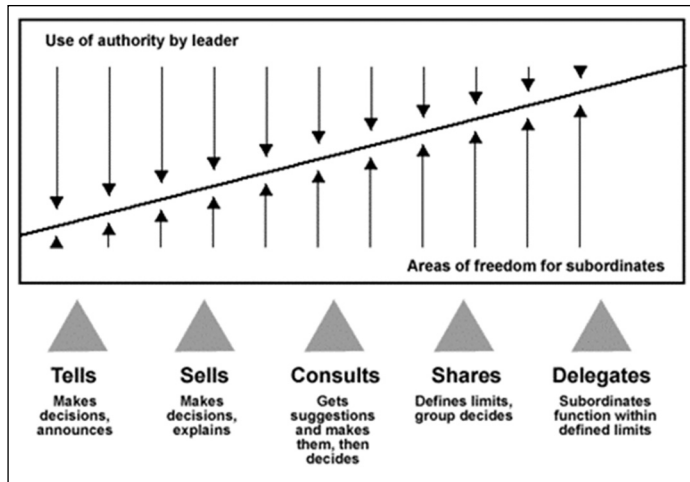


Figure 23: Leadership styles by Tannenbaum and Schmidt
Source: WWW.RESEARCH-METHODOLOGY.NET

Task-orientation means that the leader directs subordinates toward goal attainment, gives instructions, spends time with planning, emphasizes deadlines, provides explicit schedules of work activities. A leader with strong people orientation may have a strong task orientation as well – they achieve better performance and satisfaction than other leaders. (DAFT, 2010. 415–416.) Many approaches to understanding leadership use these metacategories. Research conducted at **Ohio University** identified **consideration** and **initiating structure** as the two behavior types for leaders, **Michigan University** landed on **employee-centered** leaders and **job-centered** leaders.

3.3.2.5. The Leadership Grid

Building on the work of Ohio and Michigan Universities Blake, Mouton and later McCansé proposed a theory called the leadership grid. There are two dimensions: concern for people and concern for production. Each axis on the grid is a 9-point scale, with 1 meaning low concern and 9 meaning high concern. In the grid there are five leadership styles.

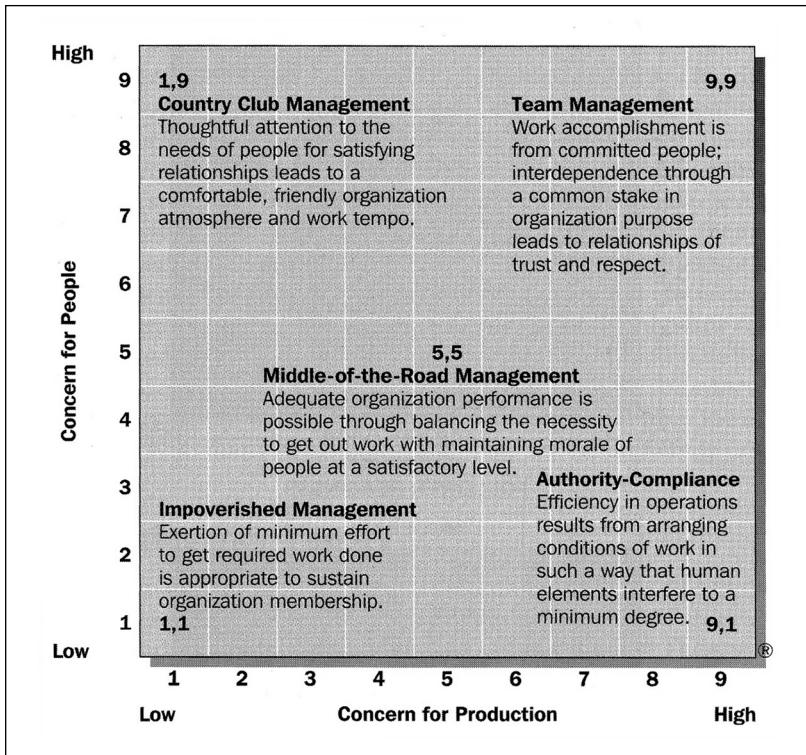


Figure 24: The Leadership Grid
Source: DAFT 2010, 417.

Team management is considered to be the most effective style, and impoverished management to be the less effective. (DAFT, 2010. 417.)

3.3.2.6. Contingency Theory

Contingency theory by Fiedler deals with how leadership style fits the situation of the organization. Fiedler considered a person's leadership style to be relatively fixed and difficult to change, therefore the basic idea is to match the leader's style with the situation most favorable for his effectiveness. By diagnosing the leadership style and the organizational situation, the correct fit can be arranged.

The organizational situation is analyzed in terms of three elements: the **quality of relationship** between leader and followers, the degree of **task structure**, and the extent to which the leader has **formal authority** over followers. Leaders can be **task-oriented** or **relationship-oriented**. Combining the three situational characteristics yields a variety of leadership situations, ranging from very favorable to very unfavorable for the leader. Task-oriented leaders are more effective when the situation is extreme (very favorable or very unfavorable), while relationship-oriented leaders are more effective in intermediate situations. (DAFT, 2010, 419–420.)

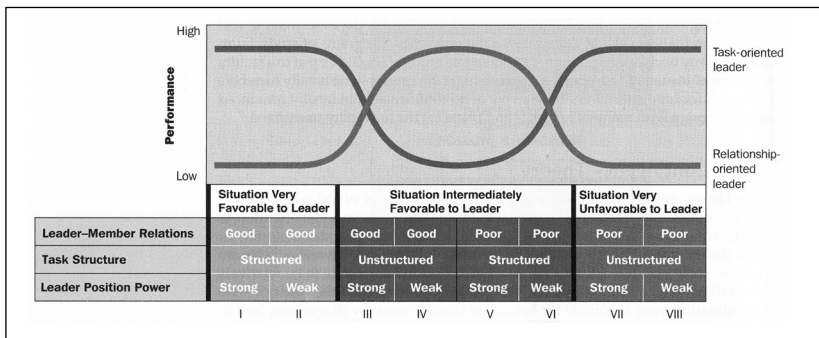


Figure 25: Fiedler's model
Source: DAFT 2010, 420.

3.3.2.7. Situational Theory

Situational theory by Hersey and Blanchard links the leadership style with the **task-readiness of subordinates**. Subordinates vary in readiness level (due to low or high ability, training, expertise, security etc.), and the appropriate leadership style depends on the readiness level of followers. The readiness level of the followers is indicated in the lower part of the exhibit in Figure 26 below. There are four levels based on the **willingness/unwillingness, ability/inability** and **confidence/insecurity** of the subordinates. The leader's possible behavior is defined in the usual two dimensions: relationship-orientation or task-orientation. There are four leadership

styles in the two dimensions: **telling, selling, participating** and **delegating**. The bell-shaped curve indicates when each leadership styles can be used. The leader must diagnose the readiness level of the followers and adopt the appropriate style. Using the incorrect style may hurt morale and performance. (DAFT, 2010. 418.)

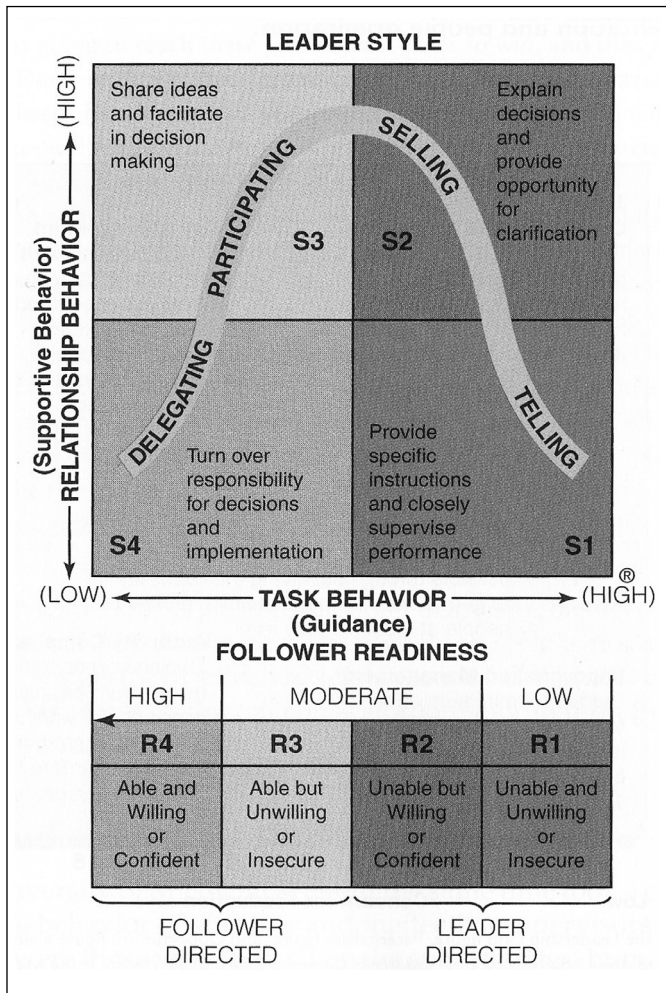


Figure 26: Situational Leadership
Source: DAFT 2010, 418.

3.3.3. The Power of Leaders

Leaders use power to get things done in organizations. Power is the potential ability to influence the behavior of others, the capacity to cause change in a person. Power may have different sources (based on DAFT, 2010, 426–428.):

1. **Position power** comes from the organization, and it has three forms:

- **Legitimate power** comes from a formal management position, subordinates accept it and they comply;
- **Reward power** comes from the authority to give rewards to employees (pay increase, promotion, praise, attention, recognition etc.);
- **Coercive power** comes from the authority to punish or recommend punishment (firing, withdraw pay, criticize, hurt the chance for promotion, reprimand).

2. **Personal power** comes from internal sources, it does not depend on a formal position. It has two forms:

- **Expert power** comes from a person's special, superior knowledge or skill;
- **Referent power** comes from the personal characteristics that foster subordinates' identification with the leader, their respect and admiration (charismatic leadership).

3. **Other sources of power** are not linked to a position or a person, but to the role a person plays in the organization. There are three of them:

- **Personal effort:** people who shows initiative, works beyond what is expected, show interest in learning about the organization and the industry gain power as a result, because managers come to depend on them;
- **Network of relationships:** people with many positive relationships inside and outside the organization know what's going on in the organization and industry, know about important activities, decisions and changes, or have positive associations with powerful people also may have power;
- **Information:** information is a primary business resource, and people who have access to it and can control it are powerful.

3.3.4. Leaders' Activities

3.3.4.1. Motivating

Motivation is the activity of leaders that encourage the followers to do activities resulting the expected individual and organizational performance. (HENCZI, 2005. 320.) Motivation differs for each person. Studying motivation helps managers to understand what prompts people to initiate action, what influences their choice of action, and why they persist in that action over time. (DAFT, 2010. 442.)

The mechanism of motivation is the following. People have needs that cause an internal tension that motivates specific behaviors with which they can fulfill the need. If the behavior is successful, the person is rewarded: the need is satisfied. The reward also means to the person that the behavior was appropriate, and he will use it again in the future.

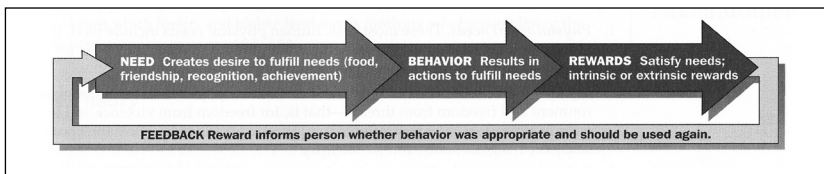


Figure 27: The model of motivation

Source: DAFT 2010, 443.

Rewards are of two types:

- **intrinsic rewards:** the satisfactions a person receives in the process of a particular action (e.g. solving a problem);
- **extrinsic rewards:** are given by another person (e.g. pay increase).

The most talented employees are rarely motivated by extrinsic rewards only. It is the responsibility of managers to find the right combination of motivational techniques and rewards to satisfy employees' needs, and therefore encourage high work performance. (DAFT, 2010. 443.)

To be able to motivate their employees, leaders should know the needs of their subordinates. These are described by the **need theories**. We summarize the most important need theories to show how employees' needs emerge in organizations of vocational training and adult education, and how they can be satisfied in order to motivate employees.

Maslow's pyramid of needs

Maslow's theory proposes that people are motivated by multiple needs, and these needs exist in a **hierarchical order**. He identified five types of motivating needs in order of ascendance:

- **Physiological needs** are the most basic human needs, like food, water, oxygen. In the organizational setting they are reflected in the needs for adequate working environment and salary to ensure existence.
- **Safety needs** include safe and secure physical and psychical environment and freedom from threats. In the organizational setting they reflect the need for safe job, fringe benefits and job security.
- **Belongingness needs** reflect the desire to be accepted by one's peers, to have friendships, to be part of a group and to be loved. In the organizational setting they reflect the need for good relationship with coworkers and supervisors and participation in teamwork. In the case of organizations of vocational training and adult education a good relationship with the students also can satisfy the belongingness needs, since teachers spend most of their time with them.
- **Esteem needs** relate to the desire for a positive self-image and to receive attention, recognition and appreciation from others. In the organizational setting they reflect the need for recognition, increase in responsibility, higher status and credit for contribution to the organization. In public educational institutions, without performance appraisal these needs are harder to satisfy, since performance above the average is not always recognized and honored.

- **Self-actualization needs** include the need for self-fulfillment, for developing one's full potential, for increasing one's competence and for becoming a better person. In the organizational setting they reflect the need for opportunities to grow, to be creative, to acquire training, challenging assignments and advancement. In the case of organizations of vocational training and adult education professional, methodological or language training, participation in project work can satisfy these needs.

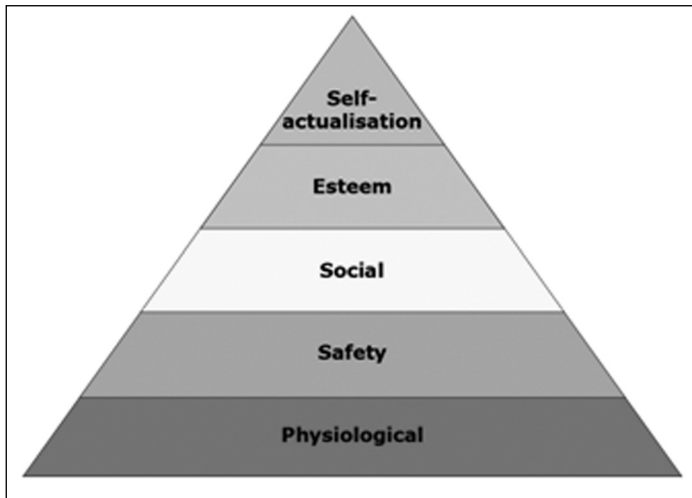


Figure 28: Maslow's pyramid of needs
Source: WWW.CAREERSINTHEORY.WORDPRESS.COM

Low-order needs take priority: they must be satisfied before high-order needs are activated. Once a need is satisfied, it declines in importance and a next need is activated. (DAFT, 2010. 444.)

Two-factor theory of Herzberg

Herzberg interviewed hundreds of workers, and found that two types of factors influence an employee's behavior at work: **hygiene factors** and **motivators**. Hygiene factors involve the presence or absence of job dissatisfiers like working conditions, pay, interpersonal relationships. When hygiene factors are poor, work is dissatisfying. However, when they are good, it simply removes dissatisfaction,

but does not cause satisfaction. Only motivators cause satisfaction. Motivators are high-level needs like achievement, recognition, responsibility, opportunity for growth. When hygiene factors are good but motivators are absent, people are neutral toward work. The implication of the model to managers is the following: providing hygiene factors will eliminate employee dissatisfaction but will not motivate workers to high achievement levels. Only motivators will promote high satisfaction and performance. (DAFT, 2010. 447.)

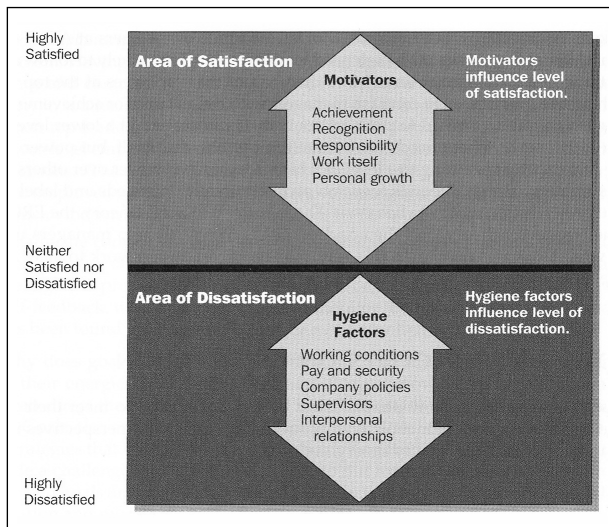


Figure 29: The two-factor model
Source: DAFT, 2010. 447.

Acquired needs theory by McClelland

The acquired needs theory by McClelland proposes that certain types of needs are acquired during the individual's lifetime. They are not born with the individual, but early life experiences determine them. The three needs are the following¹⁹ (based on CSEPELI, 2003; DAFT, 2010; BAKACSI et al 1996):

¹⁹ Other need theories (e.g. Hunt) emphasize that drivers vary not only by person, but by age and by career phase as well.

- **need for achievement:** the desire to accomplish something difficult, attain high standard of success, master complex tasks, surpass others. People with high need for achievement stay at lower levels of management, but get there earlier.
- **need for affiliation:** the desire to form close personal relationships, avoid conflict, establish warm friendships. People with high need for affiliation are successful integrators, are good for coordinating work (brand and project managers).
- **need for power:** the desire to influence and control others, to be responsible for, have authority over others. A high need for power can result in successful attainment of top levels in the organizational hierarchy after a continuous promotion over time.

Expectancy theory by Vroom

Expectancy theory by Vroom suggests that motivation depends on the individuals' expectations about their ability to perform tasks and receive desired rewards. It is based on the relationship among the individual's **effort**, his **performance** and the **value of outcomes** for the individual (valence). (Roóz, 2001; DAFT, 2010)

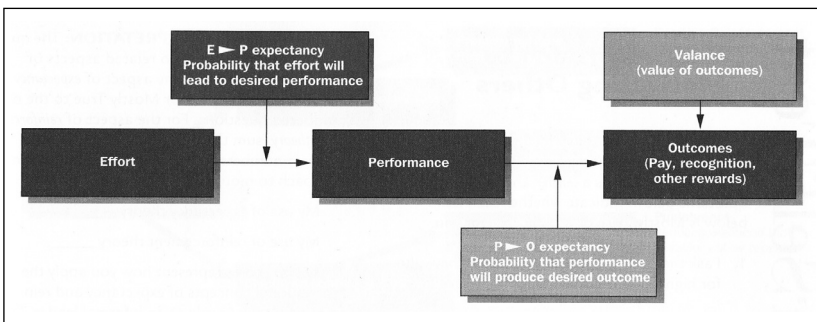


Figure 30: The two-factor model

Source: DAFT, 2010. 451.

$E \rightarrow P$ expectancy involves determining whether putting effort into a task will lead to high performance. To have performance equaling to the effort, the individual must have the ability, experience, equipment and opportunity. When it is not the case, motivation

will be low. $P \rightarrow O$ expectancy involves determining whether successful performance will lead to the desired outcome or reward. When performance will not produce the desired outcome, motivation will drop. Valence is the value of outcome or attraction to outcomes for the individual. If the outcomes or rewards are not valued by the individuals, motivation will be low. (DAFT, 2010. 450–451.)

Equity theory by Adams

Equity theory by Adams focuses on the individual's perceptions of how fairly they are treated compared with others in terms of equity in the rewards they get for their performance. If people perceive their compensation as equal to what others receive for similar contributions, they believe that their treatment is fair. People measure the **input-outcome ratio**. The inputs are their education, experience, effort and ability. The outcomes are their pay, recognition, benefits and promotions. A state of **equity** exists when the ratio of one person's outcomes to inputs equals the ratio of another person's outcomes to inputs. **Inequity** occurs when the input-outcome ratios are out of balance (e.g. a new, inexperienced employee gets the same salary as an experienced). (DAFT, 2010. 450.) In this case motivation may drop.

After the most important need theories we present the **reinforcement** theory developed by Skinner. Reinforcement theory is a motivation theory based on the relationship between a given **behavior** and its **consequences**. It focuses on changing the employees' on-the-job behavior through the appropriate use of immediate rewards and punishments.²⁰ The underlying concept is the **law of effect**, stating that positively reinforced behaviors tend to be repeated and behaviors negatively reinforced or unreinforced tend to be inhibited. Reinforcement is anything that causes a given behavior to be repeated or inhibited. The four reinforcement tools are the following:

²⁰ Evidently, there are several ways to motivate employees in an organization in the different management functions. Such as setting motivating goals (management by objectives), creating motivating jobs (by job enrichment), involving employees in decision-making (participative management), giving greater responsibility to employees (delegation, decentralization, empowerment), performance appraisal and performance-based compensation.

- **Positive reinforcement:** the administration of a pleasant and rewarding consequence following a desired behavior;
- **Avoidance learning:** the removal of an unpleasant consequence when an undesirable behavior is corrected;
- **Punishment:** the imposition of an unpleasant outcome following an undesirable behavior;
- **Extinction:** the withdrawal of a positive reward. (DAFT, 2010. 452–453.)

3.3.4.2. Communicating

Communication is the process by which information is exchanged and understood by two or more people. Inside the organization²¹ setting and allocating the tasks and asking for report, coordination of individuals and groups is done by communication. The aim of managerial communication is not only sending and receiving information, but it has a crucial role in influencing subordinates' behavior and in motivation. Leaders use formal and informal communication.

- a) A **formal communication** channel flows within the chain of command or task responsibility defined by the organization. It can be downward, upward or horizontal.
 - **Downward communication** refers to the messages and information sent from management to subordinates in a downward direction. It can be newsletter, email, speeches, bulletin board, manuals, etc. Downward communication usually covers the following topics: strategy and goals, job instructions, procedures and practices, performance feedback, indoctrination. A major problem with downward communication is drop off, the loss or distortion of message content, so managers have to make sure that employees get the message.

²¹ This book does not discuss the external communication of organizations. For the marketing communication of organizations of vocational training and adult education see NAGY ANGELIKA, 2013.

- **Upward communication** includes messages that flow from the lower to the higher levels in the organizational hierarchy. Upward communication usually covers the following topics: problems, suggestions, performance and progress reports, grievances and disputes, information and questions, feedback on management initiatives. Coupling a healthy flow of downward and upward communication ensures that the communication circuit between managers and employees is complete.
- **Horizontal communication** is the lateral or diagonal exchange of messages among peers. It may occur within or across units. Its aims are problem solving, coordination and change initiatives.
- b) **Informal communication** may skip hierarchical levels, cut across vertical chains of command. It is called **grapevine**, which is an informal, person-to-person communication network of employees that is not officially sanctioned by the organization. The grapevine links employees in all directions, and it can become dominant when formal channels are closed. Employees use grapevine rumors to fill in information gaps. Informal communication is present in every organization, but it must not replace formal communication.

The efficiency of communication (including the communication by leaders) is closely related to the performance of the organization. Poor communication may have the following consequences:

- Employees do not see the sources of problems, and valuable resources (e.g. time) could be wasted.
- Misunderstandings, tensions ruin organizational climate and result in poor performance.
- People do not share their ideas, views with their supervisors, and it draws back development and problem-solving.
- People do not understand the vision and objectives of the organization, they do not know why they should do this or that, and it decreases motivation, increases fluctuation. (HR portal)

3.3.4.3. Leading Teams

Teams are central part of organizational life, and the ability to manage them is a vital component of leading. A team is a unit of two or more people who interact and coordinate their work to accomplish a specific goal. (BAKACSI, 1998. 125.). Teams are the basic units of the organizations, they are created and led by managers.

In the organizations there are informal and formal teams. **Informal teams** are generally formed for social purposes. They can help to facilitate employee pursuits of common concerns, such as improving work conditions. More frequently however, these teams form out of a set of common concerns and interests, which may or may not be the same as those of the organization. Leaders of these teams generally emerge from the membership and are not appointed by anyone in the organization. (ENCYCLOPAEDIA, 929.) **Formal teams** are created by the organization as part of the formal organization structure. There are two types of formal teams: vertical and horizontal. A **vertical team** (sometimes called functional team) is composed of a manager and his or her subordinates in the organization's formal chain of command. A **horizontal team** (committee, project team, cross-functional team – see in chapter ORGANIZING) is composed of employees from the same hierarchical level but from different areas of expertise. It is drawn from several departments. (DAFT, 2010. 507–508.)

When setting up teams the following factors have to be considered:

- the size of the team (2-15 persons);
- the composition of the team (homogenous or heterogeneous);
- the norms (values, accepted behavior, rules in the team);
- the status (ranking among and inside the teams);
- the roles (behavior based on the expectations and perceptions of the team members regarding themselves, the others, the relations and the task execution). (Based on BAKACSI, 1998)

The leader must know how the above factors will influence the team's performance. The aim is to create effective teams where:

- team members are satisfied;
- the output is sufficient;
- the team is able to learn and develop. (DAFT, 2010. 504.)

According to Tuckman, after a team has been created, it develops through distinct stages. Each stage confronts the leaders and members with unique problems and challenges. The challenge for leaders is to understand the stages of development, and take action that will lead to smooth functioning.

- **Forming** stage is characterized by orientation and acquaintance. In this stage the leader should provide time for members to get acquainted and encourage them to engage in formal social discussions.
- In the **storming** stage individual personalities and roles emerge along with resulting conflicts. In this stage the leader should encourage participation to work through the uncertainties.
- In the **norming** stage conflicts are resolved and team unity emerges. In this stage the leader should emphasize unity and help to clarify team norms and values.
- In the **performing** stage members focus on problem solving and accomplishing the team's assigned tasks. In this stage the leader should concentrate on managing high task performance.
- In the **adjourning** stage members prepare for team disbandment. It occurs only when a team has only a limited life-span. In this stage the leader should perform a ritual or ceremony, giving out awards to signify completeness. (DAFT, 2010. 514–515.)

3.4. Management function 4.: Controlling

3.4.1. Definition of Controlling

Organizational **control** refers to the systematic process of regulating organizational activities to make them consistent with the expectations established in plans, targets and standards of performance. It adjusts operations to predetermined standards. The control system also provides information to managers. (DAFT, 2010. 538.) Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps (ENCYCLOPAEDIA, 519.):

- establishing performance standards;
- comparing actual performance against standards;
- taking corrective action when necessary.

Clear objectives and performance standards are essential to control the organization. Controlling whether the training program is "good enough" in an educational organization is possible only if "good" is defined (many enrolled students, good test results, satisfied students, fast employment and good career of the students) and then "enough" is defined (the expected enrollment numbers, the expected average grades, the expected results of the student satisfaction survey, the expected time and rate of employment, the results of the career follow-up).

3.4.2. Management Tools for Controlling

3.4.2.1. Gap analysis

Gap analysis generally refers to the activity of studying the differences between **standards** and the **delivery** of those standards. (ENCYCLOPAEDIA, 336.) In the case of educational services it can be applied in a qualitative way to compare for example the expectations and satisfaction of students, or in a quantitative way to compare for example the planned and actual enrollment.

The four steps of the gap analysis are:

- comparing planned and actual data;
- diagnosing the accord or difference;
- analyzing the reasons of the difference;

The reason of the difference can be:

1. exaggerated objectives (e.g. we overestimated the demand for our training programs): in this case we have to set new objectives,
 2. unfavorable changes in the external environment (e.g. because of the economic crisis corporations cut back their spending on employee training): in this case we have to set new objectives,
 3. underperforming organizational units or processes (e.g. our marketing communication does not reach our potential students): in this case we have to intervene in our processes and operations.
- landing on correctional measurements.

When assessing training programs, the following model can be applied:

- First, we assess to what extent the training program has met the expectations of the students and how they can use the acquired competencies. The assessment can be done by questionnaire.
- Second, we assess how the competencies of the students has developed. The assessment can be done by test, essay, situational games.
- Third, we assess how the new competencies can be used in work situation. The assessment can be done by asking the students or their employers after 3-6 months.
- Fourth, we assess to what extent the new competencies increased the students' work effectiveness. The assessment can be done by trend, management or expert analysis.
- Fifth, we compare the costs and the benefits of the training program. The return assessment can be done by cost/benefit analysis. (HENCZI, 2005. 229–230.)

3.4.2.2. Balanced Scorecard

The Balanced Scorecard is a performance measurement tool developed in 1992 by Harvard Business School professor Robert S. Kaplan and management consultant David P. Norton. Kaplan and Norton's research led them to believe that traditional financial measures, like return on investment, could not provide an accurate picture of a company's performance. The Balanced Scorecard complements the **financial measures** with **operational measures** on customer satisfaction, internal processes, and the organization's innovation and improvement activities – operational measures that are the drivers of future financial performance. The Balanced Scorecard provides a framework for managers to use in linking the different types of measurements together. (ENCYCLOPAEDIA, 29.)

We consider the Balanced Scorecard very useful in educational organizations, whose performance can not be measured only by financial measures.

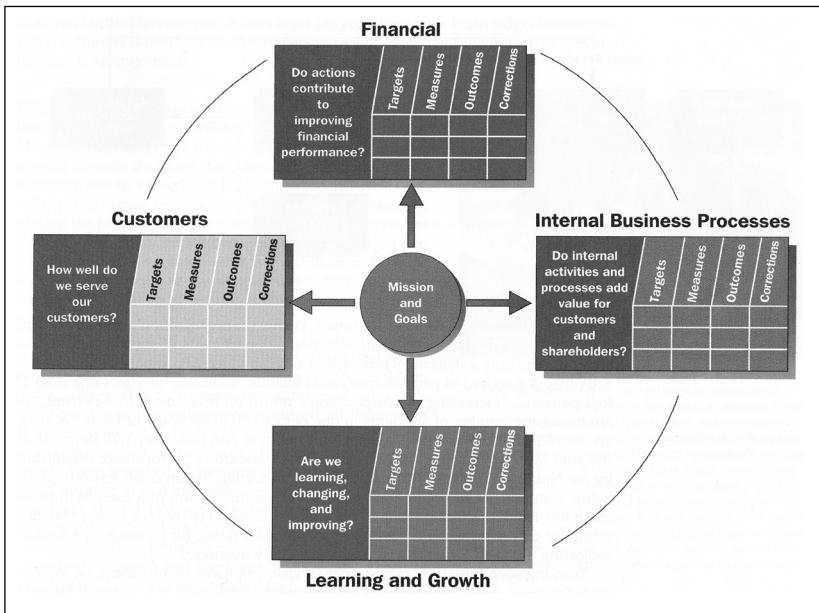


Figure 31: The Balanced Scorecard
Source: DAFT, 2010. 541.

3.4.2.3. Benchmarking

With the help of benchmarking organizations of vocational training and adult education can compare their performance, services and processes with those of other, better educational organizations and can identify the areas to be developed. (HENCZI, 2005. 309.) In earthwork a benchmark indicates the level to be reached. In general it means a reference point, a quality to be reached. In management the objective of benchmarking is to identify the **best practices** that are most successful in the marketplace, and to incorporate those techniques into the operation of our business.

The steps of benchmarking are:

- **Setting the goals:** On the basis of the strategic plans and actual performance of the organization the areas to be improved are identified. They can be financial management, enrollment, lecturing, administration, services etc.
- **Choosing the organization:** The benchmark organization is chosen. It can be one of our competitors, but can be one outside our business as well.
- **Gathering data:** Data can be gathered from different sources: papers, statistics, organizational reports, market surveys, expert analysis, internet databases, expos, interviews, observation.
- **Analyzing:** The data is analyzed and transformed into knowledge applicable for decision-making.
- **Making suggestions:** Suggestions are made to modify our operations or services. The objective may be to get closer, reach or overtake the benchmark organization within an acceptable time and cost frame.
- **Implementation:** The last step is managing the suggested changes and assessing the results.

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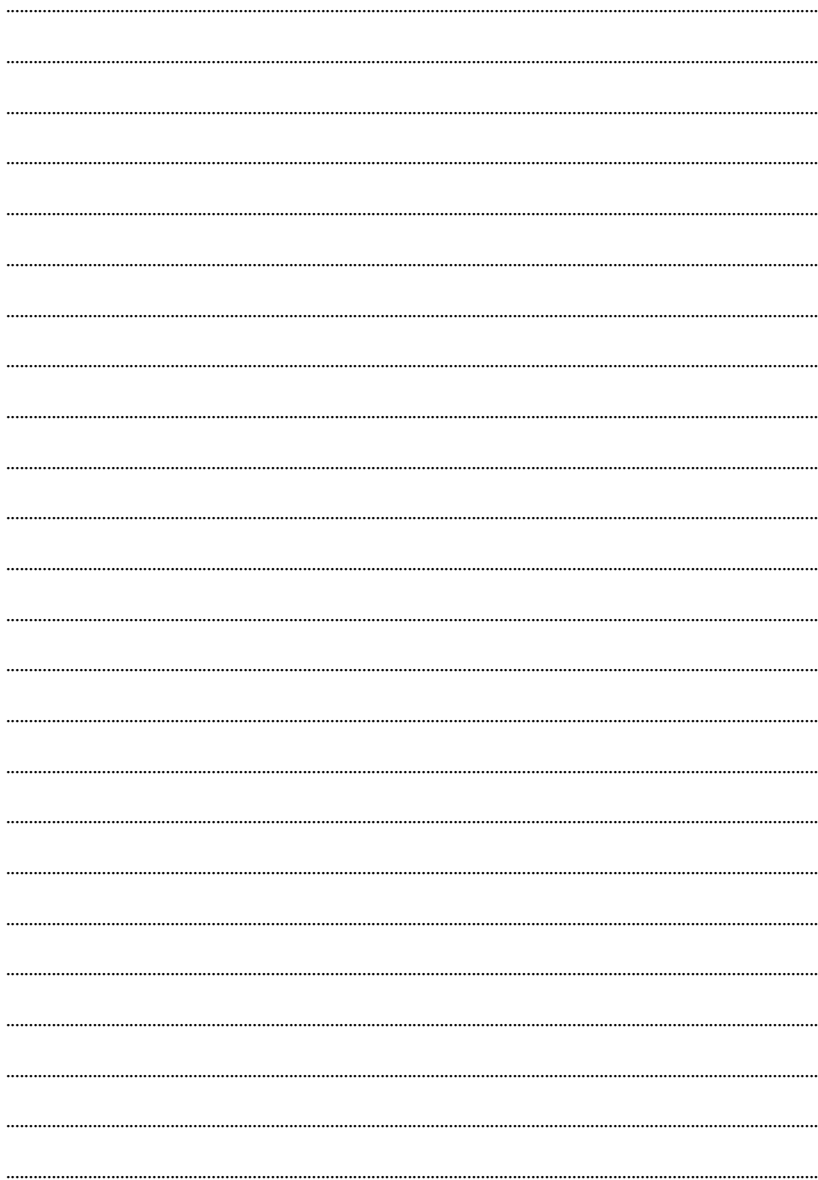
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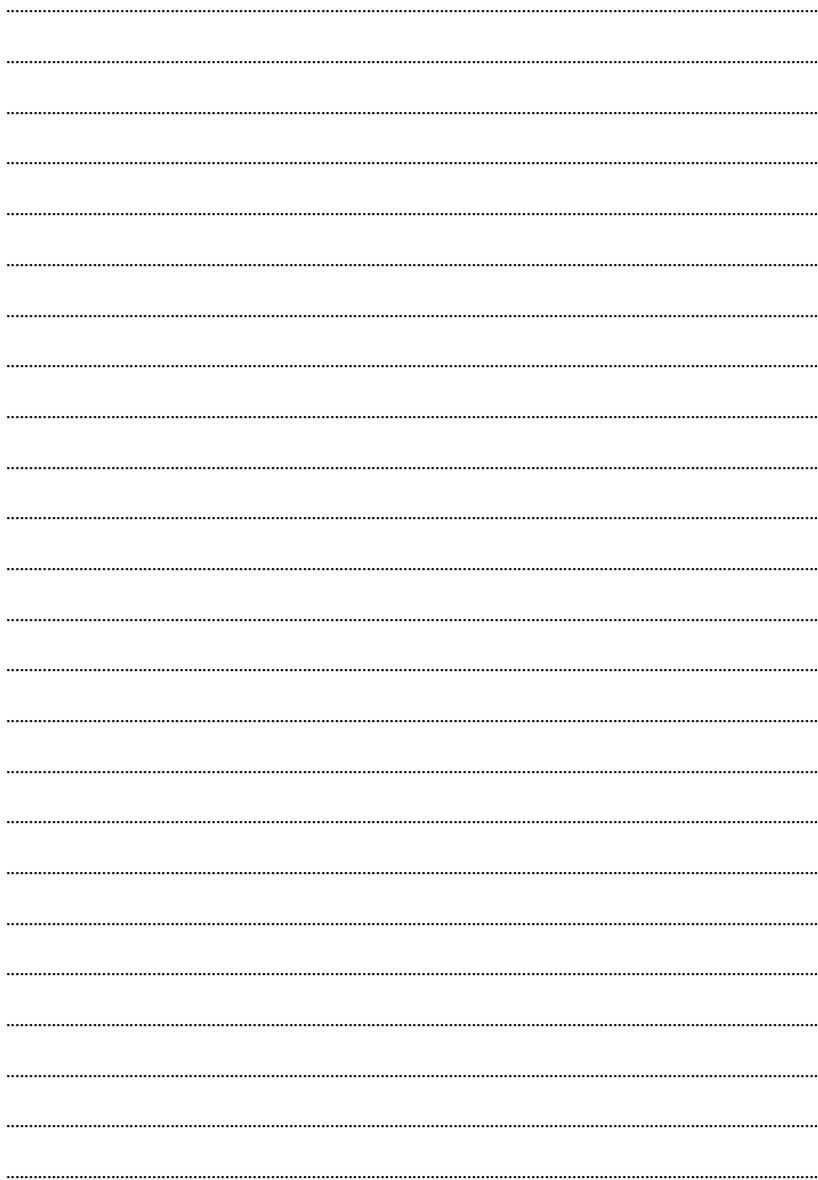
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