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**MOTIVATION AND MANAGEMENT'S  
EFFECTIVENESS – HOW TO INCREASE  
EFFECTIVENESS THROUGH DEVELOPING  
MANAGERS' AND EMPLOYEES' MOTIVATION  
IN BOSNIA AND HERZEGOVINA**

JEL classification: M10, M54

***Abstract***

*Today's turbulent environment demands from the companies to constantly seek for possibilities how to improve their position and competitiveness. Organizational effectiveness is under influence of many different factors and one of them is management. In this research motivation is treated as a process that pervades and directs activities toward satisfying individual and corporate goals. The inevitable question that emerges is: Is there a correlation between motivation and management's effectiveness?*

*This research tried to isolate different material and non-material forms of motivation that can influence and increase management's effectiveness. In this paper management's effectiveness is measured through stakeholder approach and this is a big difference from all other researches that measured it based on company's financial results only.*

*The research is conducted on 72 companies from Bosnia and Herzegovina. Questionnaire is created with the purpose of determining the association, direction and intensity of the correlation between motivation and management's effectiveness. Data processing includes descriptive analysis for determining basic indicators and methods of multivariate statistics for determining the degree and the intensity of correlation between employees' and managers' motivation and management's effectiveness.*

***Keywords: motivation, effectiveness, management***

## **1. INTRODUCTION**

Modern companies are under a constant pressure on how to improve their performance, decrease their costs and increase their revenue in order to remain competitive and meet increasing change in their environment. Company's efficiency may be based on different grounds, but one of the primary prerequisites for managing change and reaching organizational effectiveness is having good and motivated work force (both managers and employees). How to motivate managers and employees is very often asked question and the answer to this question is becoming more and more important today due to the great uncertainty the companies are facing. Mechanisms for motivating and rewarding people (Roberts, 2004, 3) should create motivated work force and competent and motivated work force is one of the strongest comparative advantages a company may have; since this is production factor that competition cannot imitate or copy easily and this is the main reason because of which researches on motivation are becoming very popular in recent time.

The purpose of this research is to isolate material and non-material forms of motivation influencing employees and managers and to determine is there a correlation between material and non-material forms of motivation and management's effectiveness. Management's effectiveness is an important (but not the only) factor for achieving organizational effectiveness and since management and managers are those who are motivating people by providing different material and non-material motivation forms main question is: Which forms of motivation are most effective in increasing management and organizational effectiveness? Other questions that might be set are: What employees'

motivators are used by effective managers? and What are the managers' motivators that lead to increased management effectiveness?

## **2. THEORETICAL BACKGROUND**

Motivating employees and having motivated work force have become most important goals for managers to achieve today. Importance of motivation is well known in business theory for a long period of time and managers must at all times motivate their employees by creating challenging tasks, keeping their interest in work high and offering them attractive rewards for good performance.

### **2.1. Management and motivating process**

Motivation is a process that initiates and directs efforts and activities toward satisfying individual and corporate goals (Sikavica et al, 2008, 532). All forms of motivation don't have the same influence on creating motivated work force, some of them influence work motivation stronger and some weaker and it is very difficult to predict precisely how a particular incentive or reward will affect individual behavior (Armstrong, 1994, 91). The relationship between needs, behavior, motivation, performance and satisfaction is still not determined clearly. Different theories have been developed with the purpose of defining relationships between these variables. Vroom's (1964) expectancy theory is based on a opinion that a person is motivated to the degree that he or she believes that the effort will result with acceptable performance, performance will be rewarded, and the value of the rewards is highly positive. Integrating motivation theories include: rewards, needs, cognitions, satisfaction, and performance as integral parts in creating the holistic model of motivation (Schermerhorn et al, 2002).

Role of management in the process of motivating employees cannot be ignored since one of the basic managers' objectives is to increase employees' motivation and lead them towards meeting organizational goals. If one takes into consideration the fact that motivation cannot be observed solely as a series of actions that managers undertake in order to delegate tasks, one realizes that managers must be creative in shaping a plethora of stimuli which can generate personal and internal commitment, as well as increase employee enthusiasm in reaching company's goals (Rahimic et al, 2010, 535-543). For achieving this managers must be motivated and their internal or external motivators

should be determined as well, if the motivational theory is to be examined in terms of management effectiveness and performance.

Although motivation and work motivation are one of the major topics in organizational behavior there is still no agreement about the definition of motivation or the factors influencing it. Motivation is perceived as a process which is necessary to achieve set goals or as an explanation for specific individual behavior. Individuals in different situations have different motives for their behavior and when motivation theory is connected to work performance, the main goal of motivating employees is to make them reach and meet organizational goals through putting extra effort in. Usually employees are willing to put in this extra effort when their individual and organizational goals are aligned. Different authors emphasize different factors as most important for defining motivation. By one definition motivation has to do with the direction of behavior, the strength of the response once an employee chooses to follow a course of action, and the persistence of this behavior (Gibson et al., 1997, 125). Others consider motivation to be a process of initiating and leading efforts and activities towards achieving personal and organizational objectives (Sikavica et al, 2008, 532). In all cases motivation is connected to individual behavior, different motives creating it and aligning it with meeting organizational goals.

## **2.2. Motivators and management's effectiveness**

When it comes to work and employee's motivation the most important question is what is motivating people to meet organizational goals and increase their performance. Although it is difficult to determine the impact of a specific motivator on individual behavior, researches conducted in the field of work motivation up to now showed that there are two main groups of motivators: intrinsic and extrinsic motivators (Gagne et al, 2010, 628-646). Extrinsic motivators are rewards external to the job, such as pay, promotion or fringe benefits, while intrinsic motivators are those that are a part of the job itself, like responsibility, challenge, feedback etc. (Gibson et al, 1997, 182). Development of managers' and employees' motivation is conducted through different forms of material and non-material rewards. Material compensations and incentives are directed toward securing and improving financial status of employees and financial compensation for work (Omazic et al, 2011, 10-14). They are usually divided on direct material compensations like salary, bonuses and incentives, rewards for spreading knowledge and flexibility, share in

profit, bonuses connected to company's success and profit and indirect material compensations like scholarships and specializations, trainings, paid absences and free days, company car and phone, managers benefits, insurances, education, holidays etc. (Sikavica et al, 2008, 711). Non-material forms of motivation are based on giving rewards such as participation in making decisions, higher responsibility together with higher freedom, more interesting job, and opportunity for personal growth and non-monotonous activities (Robbins, 1995, 248). Management has a crucial role in motivating and rewarding employees with the purpose of achieving higher performance and creating extraordinary results for the organization. Directly connecting long run goals of the organization with rewarding employees for their performance creates strategic approach towards motivational process (Lasić, 2012, 95-112).

Effectiveness is measuring success in meeting goals (Weichrich, Koontz, 1994, 11) and manager's goals are created based on the definition of manager's job. Manager's effectiveness is very often confused with efficiency, but it shouldn't be, since effectiveness is defined as doing right things and efficiency means doing things right (Reddin, 1970, 6). There are three different approaches when it comes to measuring effectiveness: the goal approach to effectiveness, system theory approach to effectiveness and multiple-constituency approach (Gibson et al, 1997, 18) and based on the chosen approach differences exist in management's effectiveness definition. This difference becomes visible when authors define what should be included when manager's effectiveness is measured. Some authors believe that a comprehensive view is needed so both input (managers' skills, knowledge and capabilities) and output (meeting set goals) should be included in measuring management effectiveness, while others consider effectiveness as the extent to which a manager achieves output requirement of his position and for this reason managerial effectiveness must be defined in terms of output rather than input, by what manager achieves rather than what he does (Reddin, 1970, 3). Since effective organization can be defined as the one that makes the best use of its resources to attain high level of performance, thus successfully achieving its purpose and objectives, while also meeting its responsibility to its stakeholders (Armstrong, 1994, 11), effective management can be defined as the one that is leading the organization toward this state. Stakeholder approach in measuring management effectiveness is becoming very important today, since management is not responsible only to owners of the company, but to all other stakeholders as well (employees, customers, creditors, community, suppliers and government)

and measurement of its performance and effectiveness must be based on meeting goals of all stakeholders successfully.

Despite the fact that work motivation is one of the major topics in organizational behavior, not many work motivation surveys exist. Main reason for conducting this research was lack of researches that measure influence of motivation on management's effectiveness. For that reason this research was made through investigating material and non-material forms of motivation that can improve management's effectiveness.

### **3. SAMPLE, METHODOLOGY AND EMPIRICAL RESEARCH RESULTS**

The aim of this research was to investigate managerial and employees motivation, its sources, role of material and non-material motivators and management's effectiveness with the goal of identifying strategies and techniques used to motivate managers and employees in companies that have highly effective management.

#### **3.1. Sample and research instrument**

For this purpose a pilot study was conducted on the sample of 150 randomly chosen medium sized and large scaled companies in Bosnia and Herzegovina. The research was conducted during the first quarter of the year 2013. Questionnaire was specially designed to enable identification of main motivation forms and to measure level of management effectiveness from a stakeholder perspective. The questionnaire consisted from 14 closed type questions. It was addressed to Management Board of the company and sent by e-mail to 150 addresses from which 72 questionnaires were returned and that makes highly acceptable response rate of 48,0%. SPSS 19.0 for Windows was used for statistical data analysis.

#### **3.2. Research results**

By employment size companies in the sample are 70,6% medium sized companies (that have 50 and more employees), 11,8% large scaled companies (with 250 and more employees but less than 500) and 17,6% very large scaled companies (with more than 500 employees).

By legal form 79,2% of the companies are limited liability companies, while 19,4% are joint stock companies and only one company selected other types of legal forms (1,4% percent of the sample). This is consistent with the distribution of the legal forms in the population of medium and large companies in BiH.

Material and non-material forms of motivating managers and employees are identified with two separate sets of questions and were treated as separate and different strategies in order to isolate the distinction made in motivating managers opposite to motivating employees. The results for most used material forms of managers' motivation (as seen from Table 1) showed that wage is used in 91,4% of cases, bonuses like business card, official car or premium for success are used in 60,0% of cases, while participation in profit and stocks are not used so often to motivate managers in BiH companies (11,4% and 2,9% respectively). When it comes to non-material forms of managers motivation, the most commonly used one is paid specialization and paid additional education which is used in 73,1% of cases, flexible working hours are used in 34,3% cases and praises and recognitions are used in 55,2%.

Table 1. Material and non-material forms used for managers motivation

Material forms for managers motivation <sup>a</sup>	Responses		Percent of Cases
	N	Percent	
Wage	64	55.2%	91.4%
Bonuses (business card, official car, premium for success)	42	36.2%	60.0%
Participation in profit	8	6.9%	11.4%
Stocks	2	1.7%	2.9%
Total	116	100.0%	165.7%
Non-material forms for managers motivation <sup>a</sup>	Responses		Percent of Cases
	N	Percent	
Flexible working hours	23	21.1%	34.3%
Paid specialization and additional education	49	45.0%	73.1%
Praises and recognitions	37	33.9%	55.2%
Total	109	100.0%	162.7%

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

Material forms used for employees' motivation (Table 2) are wage in 87.1% of cases, bonuses in a form of paid overtime and premium for work success in 62,9% of cases and stocks in only 1.4% of cases. Mostly common non-material form used for employees' motivation is praises and recognitions that are used in 67,2% of cases and paid

specialization and additional education is used in 65,7% of cases. Flexible working hours are used in only 16,4% of cases to motivate employees'.

Table 2. Material and non-material forms used for employees' motivation

Material forms for employees' motivation <sup>a</sup>	Responses		Percent of Cases
	N	Percent	
Wage	61	57.5%	87.1%
Bonuses (paid overtime, premium for work success)	44	41.5%	62.9%
Stocks	1	0.9%	1.4%
Total	106	100.0%	151.4%
Non-material forms for employees motivation <sup>a</sup>	Responses		Percent of Cases
	N	Percent	
Flexible working hours	11	11.0%	16.4%
Paid specialization and additional education	44	44.0%	65.7%
Praises and recognitions	45	45.0%	67.2%
Total	100	100.0%	149.3%

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

Management effectiveness level was evaluated by using five categories of questions which assessed financial results in last three years, process efficiency, customer satisfaction, innovation level and level of corporate social responsibility of company's management. Based on the results all companies were grouped by the level of their management's effectiveness into three groups: very effective management, average effective management and non-effective management. Average management effectiveness grade was between minimum value of 2,75 and maximum 5,00 with mean of 3,86 (as seen from Table 3).

Table 3. Management effectiveness grade

	N	Minimum	Maximum	Mean	Std. Deviation
Management effectiveness av. Grade	72	2.75	5.00	3.8561	.49084
Valid N (listwise)	72				

When conducting crosstab between management effectiveness and different material and non-material forms of motivation used for managers it is possible to identify different forms that are mainly used in cases when management is very effective and those that are used in other cases when it is average or not so effective.

Table 4. Usage of material and non-material managers' motivation forms based on management effectiveness ranking

Material forms of motivation for managers <sup>a</sup>		Management effectiveness ranking			Total
		Not effective	Average effec.	Very effective	
Wage	Count	16	29	19	64
	%	100.0%	87.9%	90.5%	
Bonuses (business card, official car, premium for success)	Count	6	23	13	42
	%	37.5%	69.7%	61.9%	
Participation in profit	Count	0	5	3	8
	%	0.0%	15.2%	14.3%	
Stocks	Count	1	1	0	2
	%	6.2%	3.0%	0.0%	
Total	Count	16	33	21	70
Non-material forms of motivation for managers <sup>a</sup>		Not effective	Average effec.	Very effective	
Flexible working hours	Count	5	13	5	23
	%	33.3%	41.9%	23.8%	
Paid specialization and additional education	Count	11	21	17	49
	%	73.3%	67.7%	81.0%	
Praises and recognitions	Count	5	16	16	37
	%	33.3%	51.6%	76.2%	
Total	Count	15	31	21	67

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

As it can be seen from the Table 4, wage as the most common material form of motivation is used almost equally in all companies and it doesn't show difference between not effective and very effective management. Bonuses are used in 61,9% of cases in companies that have very effective management, 69,7% in those with average effective management and only in 37,5% cases with not effective management. Participation in profit is motivation form that is used only by very (14,3%) and average effective management (15,2%) and it differentiates companies by rankings of management effectiveness the best. From this can be concluded that participation in profit motivates managers most toward meeting organizational goals and achieving higher effectiveness level, although it has been used only by 8 companies from the sample.

When non-material forms of managers' motivation are considered then it can be seen that praises and recognition are differentiating the most levels of management effectiveness and that those companies that have

very effective management are using this motivation form in 76,2% of cases and those with not effective management in only 33,3% of cases.

Table 5. Usage of material and non-material employees' motivation forms based on management effectiveness ranking

Material motivation of employees <sup>a</sup>		Management effectiveness ranking			Total
		Not effective management	Average effective management	Very effective management	
Wage	Count	15	30	16	61
	%	93.8%	90.9%	76.2%	
Bonuses (paid overtime, premium for work success)	Count	7	22	15	44
	%	43.8%	66.7%	71.4%	
Stocks	Count	0	1	0	1
	%	0.0%	3.0%	0.0%	
Total	Count	16	33	21	70
Non-material motivation of employees <sup>a</sup>		Management effectiveness ranking			Total
		Not effective management	Average effective management	Very effective management	
Flexible working hours	Count	1	6	4	11
	%	7.1%	18.8%	19.0%	
Paid specialization and additional education	Count	8	20	16	44
	%	57.1%	62.5%	76.2%	
Praises and recognitions	Count	8	20	17	45
	%	57.1%	62.5%	81.0%	
Total	Count	14	32	21	67

Percentages and totals are based on respondents.

a. Dichotomy group tabulated at value 1.

Wage is the mostly used material form of employees' motivation as well, it used in almost all companies in the sample (see Table 5). Bonuses like paid overtime, premium for work success etc. are used much more (71,4%) in companies with very effective management than in those with not effective (43,8%). Stocks are rarely used as a motivation form.

Among non-material forms that are used to motivate employees paid specialization and additional education and praises and recognitions are equally used. Flexible working hours are not so often, but there is a big difference in usage of this form by companies with very effective

management (19,0% of cases) and those with not effective management (only 7,1% of cases).

Regardless on the source of managers' motivation its level can be measured by the level of enthusiasm and optimism expressed while meeting organizational goals, as seen from Table 6. The question: Is the management in your company showing enthusiasm and optimism when meeting organizational goals? is asked and by the answers to this question level of managers' motivation can be determined. Answers on this question were measured on a 1 (never) to 5 (very often) Likert scale.

Table 6. Management enthusiasm and optimism when meeting organizational goals

	Frequency	Percent	Valid Percent	Cumulative Percent
Never	1	1.4	1.4	1.4
Sometimes	10	13.9	14.1	15.5
Valid Often	42	58.3	59.2	74.6
Very often	18	25.0	25.4	100.0
Total	71	98.6	100.0	
Missing System	1	1.4		
Total	72	100.0		

Average grade on this question was 4,07 which means that management in most of analyzed companies (83,3%) is showing enthusiasm and optimism when solving and meeting organizational goals often and very often.

Table 7. Commitment and extra efforts in meeting strategy and goals by employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Rarely	3	4.2	4.2	4.2
Sometimes	10	13.9	13.9	18.1
Valid Often	39	54.2	54.2	72.2
Very often	20	27.8	27.8	100.0
Total	72	100.0	100.0	

Employees motivation level is measured (see Table 7) by the level of commitment and will to put extra effort in meeting given strategy and goals. Likert scale from 1 – employees are not at all willing to put in extra effort and show commitment when meeting organizational goals to 5

– employees are very often willing to put in extra effort and commitment was used, and average grade on this question was 4,05 showing that employees in selected companies are highly motivated.

### 3.3. Interdependence of motivation and management effectiveness

In order to examine and determine intensity and direction of the interdependence of managers' motivation, employees' motivation and management effectiveness in BiH companies Spearman's rho correlation coefficient was used.

Table 8. Correlation coefficients between managers' and employees' motivation and management effectiveness

Spearman's rho		Employees commitment and extra efforts	Management enthusiasm and optimism	Management effectiveness ranking
Employees commitment and extra Efforts	Correlation Coefficient	1.000	.436**	.520**
	Sig. (2-tailed)	.	.000	.000
	N	72	71	72
Management enthusiasm and optimism	Correlation Coefficient	.436**	1.000	.395**
	Sig. (2-tailed)	.000	.	.001
	N	71	71	71
Management effectiveness ranking	Correlation Coefficient	.520**	.395**	1.000
	Sig. (2-tailed)	.000	.001	.
	N	72	71	72

\*\* Correlation is significant at the 0.01 level (2-tailed).

Statistically significant correlation (as seen from Table 8) is determined, and it indicates that there is:

- Statistically significant positive correlation between managers' motivation, enthusiasm and optimism and management effectiveness with correlation coefficient of 0,395.
- Statistically significant positive correlation between employees' motivation and commitment and management effectiveness with correlation coefficient of 0,520 (that is considered to be moderate strength relationship).
- Statistically significant positive correlation between managers' motivation level and employees' motivation level is 0,436 and it means that companies which have more motivated managers as well have more motivated employees.

Correlation is as well calculated with Pearson coefficient of correlation (interval data were used for management effectiveness instead of ranking to get more accurate results) and it showed that positive correlation between managers' motivation, enthusiasm and optimism and management effectiveness is 0,445, while positive correlation between employees' motivation and commitment and management effectiveness is 0,614.

From these results it can be concluded that companies in BiH that are achieving higher level of management effectiveness are usually having more motivated managers and employees and that the companies with more motivated managers are usually having more motivated employees as well.

#### **4. CONCLUSIONS**

The aim of this paper was to identify different material and non-material forms used for motivating managers and employees and to test the hypothesis about the correlation between managers' and employees' motivation (measured separately) and management effectiveness level.

The results showed that most commonly used material motivation form is wage, both in cases of managers and employees and most commonly used non-material motivation form is paid specialization and

additional education in case of managers and praises and recognitions in case of employees.

Summing up the results of research into the interdependence of motivation and management's effectiveness in Bosnia and Herzegovina companies, there is a significant positive correlation between managers' motivation, enthusiasm and optimism and management's effectiveness, a significant positive correlation between employees' motivation and commitment and management effectiveness and significant positive correlation between managers' motivation level and employees' motivation level.

From these results it can be concluded that the companies in BiH that are achieving higher level of management's effectiveness are usually having more motivated managers and employees and that the companies with more motivated managers are usually having more motivated employees as well. Development of managers' and employees' motivation forms has a special importance in transitional economies, like the one in BiH, since this approach leads to increased effectiveness in meeting organizational goals and further social and economic development.

This research can be treated as a step in the testing of interdependence of motivation and management's effectiveness. Of course, this study has limitations itself. It raises many new research questions and opens new challenges in an unexplored terrain. Future studies in the field should include industry analysis on a larger sample of companies. Also, different countries and different motivation forms can shape different contexts for exploring the link between motivation and management's effectiveness.

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