

A Cost-Contingency Approach of Leadership: In Institutional Household Settings

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Abstract

The paper centers on the problem of deciding effective leadership level in institutional household settings through logical concepts of contingency theories of leadership. By using the integrated concept of cost in goal setting and achieving process within an organization, the paper logically shows how effective leadership level is determined as situational variables varies. The most appropriate leadership style is determined as to minimize the total cost in accomplishing organizational goal which is composed of goal-setting cost and goal-achieving cost. Therefore, the most appropriate leadership style is determined to the direction that the summation of goal-setting cost and goal-achieving cost is minimized. Though it remains in a conceptual level, this paper has contributions to organizational study by suggesting integrated tool for accounting for many situational variables through the concept of cost. Further empirical studies is expected to polish the frame of logic developed in this paper.

I. Theoretical Backgrounds

The issues on leadership have been regarded as one of the major subjects in the

study of organizational behavior. Literatures on leadership have focused on following questions: (1) What kinds of personal characteristics make a manager an effective leader? (the trait approach) (2) What kinds of behavior styles of leader are associated with employee attitudes and performances? (the behavioral approach) and, (3) what kinds of situational factors can make a manager more effective leader? (the contingency approach)

Though those three approaches—trait, behavioral, and contingency approach—have their own uniqueness as a theory, they also have disadvantages in explaining appropriate leadership level in certain settings such as institutional household.¹⁾ The problem of the trait approach begins with its basic assumption that “leaders are born, not made.” The universality of leader attributes seems no longer defensible in the complicated society made of various for-profit, not-for-profit, and purely public organizations. As the implications of the behavioral approach and the contingency approach suggest, it seems that effective leadership depends less on the leader’s traits than on the organizational goals and the relationship with followers.

The behavioral approach, such as Blake and Mouton’s the Managerial Grid Leadership Style theory, is also vulnerable to such criticisms. The managerial grid approach identifies two dimensions (concern for people and concern for production), and suggests the “best” style of leadership, so-called team leadership. However, as Hersey and Blanchard empirically claims, there is no best style of leadership; rather, successful leaders are those who can adapt their leader behavior to meet the needs of their followers and the particular situation or goals of their organizations (Hersey and Blanchard, 1969).

Especially, leadership issues are very unique in the case of institutional household which provides supportive function of the family for those who are deficient of such service for various reasons because the goal of institutional household is mainly “need satisfaction of organizational members” rather than “profit maximization,” or more broadly, organizational goal achievement. Therefore, in institutional household settings, the consensus of organizational members are critical in deciding appropriate leadership style.

In this regard, when institutional household is included into consideration, the con-

1) Institutional Household is a kind of not-for-profit organization that provides supportive family functions for those who lacks such services. Some typical examples includes social welfare facilities such as orphanages, dormitories, homes for the aged, and asylum .

tingency approach is most appropriate in studying leadership styles. In other words, appropriate leadership style is determined by the situational factors not by the leaders' trait or behavior. As the contingency approach is appreciated in institutional household settings, the main task is to clarify the situational variables that account for appropriate leadership style. Situational variables of the contingency approach vary widely according to the scholars. For example, Fiedler analyzes leadership style octant by octant using i) leader-member relations, ii) task structure, and iii) position power (Fiedler, 1970:279-289; Fiedler, 1987:301-313); Vroom-Yetton model considers i) decision quality and ii) decision acceptance (Vroom, 1973); and Path-goal theory uses i) personal characteristics of the subordinates, and ii) the environmental pressures and demands with which subordinates must cope in order to accomplish the work goals and to satisfy their needs (House and Mitchell, 1974).

However, those situational models are too complicated in dealing with situational variables to explain the appropriate leadership style in a given organizational situation. In other words, in Fiedler's model, for example, it is necessary to analyze eight octants by considering three situational variables. If we are to add one more situational variable, then we have to analyze sixteen octants. For this reason, we can deal with two to three variables at most. This simplification of situational variables into two or three typical dimensions may lead us to over-simplified conclusions. Therefore, it is essential to search for simpler situational variable which leaves a room for considering as many variables as to be treated.

This paper introduces the concept of cost for such treatment. Introducing the variable of "cost" is originally inspired by Buchanan and Tullock's generalized economic theory of constitutional choice. Buchanan and Tullock showed how optimal decision rules are chosen in the constitutional level by analyzing the decision-making-costs function and the external-costs function (Buchanan and Tullock, 1967:63-84). As a matter of fact, they did not mention the problem of leadership in an organizational level; however, if we put their logic into the organizational settings, it can be possible to develop the model that can explain how appropriate leadership style is made in institutional household situation.

Using the concept of cost, this paper will logically show how appropriate leadership style is preferred in various institutional household situations. To perform this task, the next chapter (Ch. II) will set basic assumptions, suggest some hypothesis about leadership style mentioned above, and then show how appropriate leadership is preferred in an organization by the application of the assumptions and the

hypotheses. Chapter III discusses the empirical applicability of the theory developed here compared with Fiedler's contingency theory of leadership. Chapter IV mentions the limitations and contributions of this study.

II. The Logic of Cost Contingent Theory

By using the concept of "cost," it is possible to introduce a common variable which is able to reflect the other situational variables such as task structure, leader—employee relations, position power, and so on. The basic logic of cost—contingent theory of leadership is that the most appropriate leadership style is determined as to minimize the total cost in accomplishing organizational goal.

Total cost of accomplishing organizational goal is composed of goal—setting cost (SC) and goal—achieving cost (AC). Therefore, the most appropriate leadership style is determined to the direction that the summation of goal—setting cost and goal—achieving cost is minimized. These two costs are determined according to other situational variables like task structure, leader—employee relations, position power, and so on.

To illustrate how this logic is conceptualized, it is necessary to set some assumptions and clarify major concepts. The rest of this chapter is composed of such set—ups and clarifications.

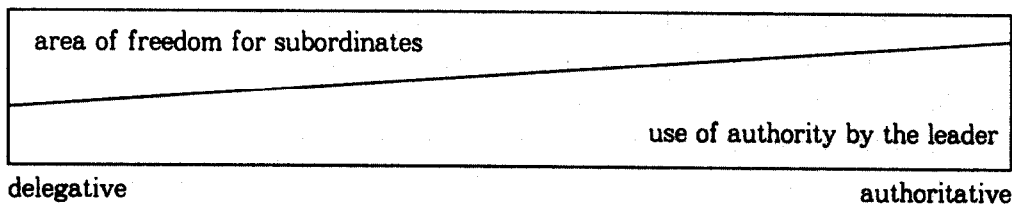
1. Assumptions

The first assumption is that every organization needs to have its own goal and is to accomplish it. Here, the concept of goal is defined as the desired state that an organization intends to accomplish (Kerr and Slocum Jr., 1981:118). As every organization needs to have its own goal and the organization strives to accomplish it, the leadership style is also determined by this context of accomplishing the goal. In case of institutional household, the pursuit of the fulfillment of members' need is an organizational goal.

Second, an organization strives to minimize the cost in accomplishing the goal. In order to minimize the cost, an organization has to set a goal at the minimum cost, and at the same time, to achieve it at the minimum cost. Therefore, leadership style is determined where the summation of the goal—setting cost and the goal—achieving cost is minimized.

Third, the leadership style lies on the continuum from delegative to authoritative leadership. The continuum is related to the degree of authority used by the leader and to the amount of freedom available to his or her employees in reaching decisions on organizational goal(Tannenbaum and Schmidt, 1973:162-180). The third assumption is illustrated in Figure 1.

<Figure 1> The Continuum of Leadership Style

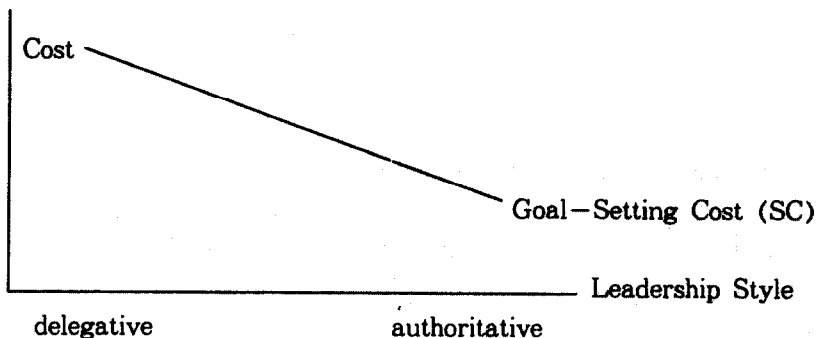


2. Concepts

(1) The Leadership Style and Goal-Setting Cost

It will be easy to set a goal (less goal-setting cost) in general when less number of people decide the goal (more authoritative). The extreme case is when "leader makes decision and announce it." (Tannenbaum and Schmidt, 1973) By and large, the more people involved in goal setting process, the more it tends to be difficult to set a goal. Therefore, it is possible to conceptualize the relationship between leadership style and goal-setting cost as follows: The more authoritative a leader is, the less goal-setting cost will be needed. The proposition is graphically illustrated in Figure 2.

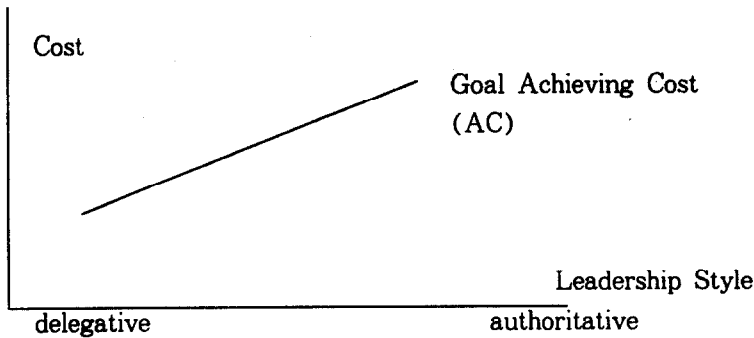
<Figure 2> The Goal-Setting Cost and Leadership Style



(2) The Leadership Style and Goal – Achieving Cost

It will be easy for subordinates to achieve a goal (less goal – achieving cost) when they have more discretion available in reaching decisions on organizational goal (more delegative). In this case, the goal – achieving cost lessens because (1) the goal becomes more acceptable and internalized, (2) the participation by organizational members increases the likelihood that resultant goals are congruent with their goals, (3) organizational members are more likely to acquire knowledge of a goal’s value to themselves as well as a realistic view of its attainability, (4) organizational members may feel more positively disposed toward a goal after hearing that their peers value it (Kerr and Slocum, 1981:119), and (5) employees’ participation in goal setting can result in harder goals being set, which can enhance achieving goals (Latham and Saari, 1979:163–168, originally quoted by Kerr and Slocum, 1981). Therefore, it is possible to conceptualize the relationship between leadership style and goal – achieving cost as follows. The more delegative a leader is, the less goal – achieving cost will be needed. The second hypothesis is graphically illustrated in Figure 3.

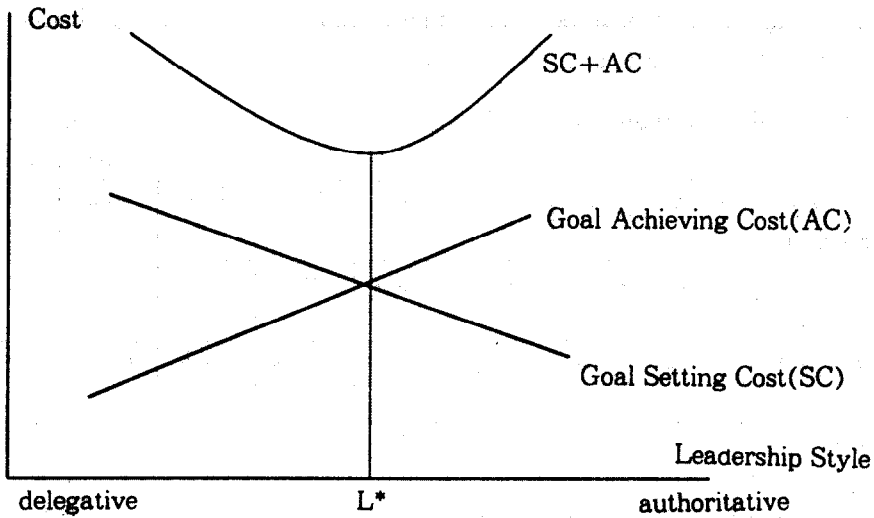
<Figure 3> Goal – Achieving Cost and Leadership Style



(3) The Determination of Appropriate Leadership Style

Using assumption 2, hypothesis 1, and hypothesis 2, we can see how appropriate leadership style is determined in a given situation so as to minimize the goal – setting and goal – achieving cost shown as Figure 4. L* is the appropriate leadership level in this context.

<Figure 4> Determination of Appropriate Leadership Style



III. Applications : Comparison with Fiedler's Theory

Based on the discussion made so far, it is also possible to see how various situational variables affect leadership style through goal-setting and goal-achieving cost and whether the result is congruent with the empirical results by precedent scholars. Here, for example, two variables 3/4 task structure and leader-member relationship 3/4 are picked up and compared the results with Fiedler's empirical study.

1. Fiedler's Contingency Theory of Leadership²⁾

Unlike preceding theories of leadership such as trait approach or behavioral approach, Fiedler developed a contingency model of leadership effectiveness based on the assumption that the performance of a group is determined by the combination of a leader's style and various relevant situational characters.

Measured by the index of the Least Preferred Coworker (or LPC), leadership style is differentiated. Situational factors are classified into three: i) leader-member

2) The summary of contingent theory of leadership in this section is excerpted from Fiedler(1970, 1987).

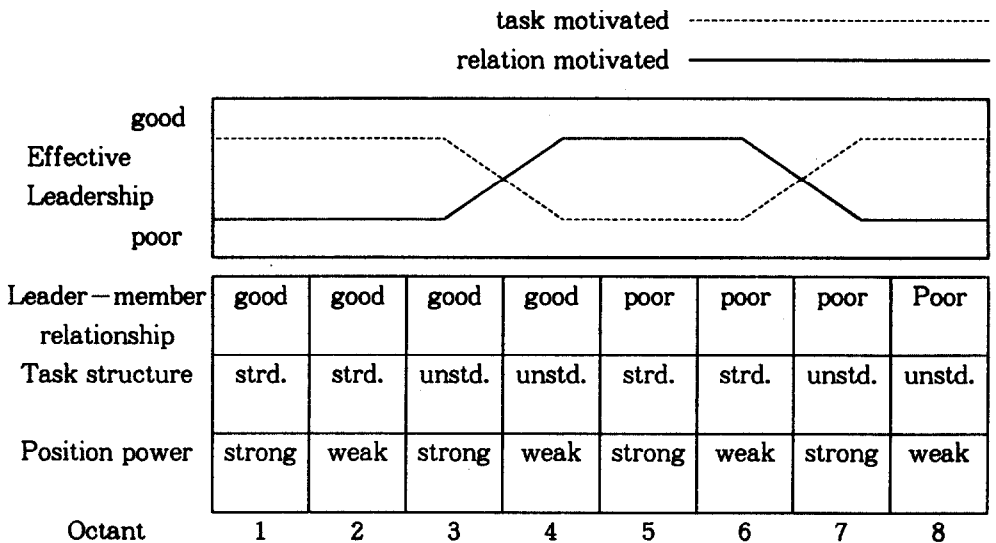
ber relations, ii) task structure, and iii) position power. Combined by these three situational variables, eight octants representing a range of situations are made. Figure 5 illustrates these octants and their favorability.

<Figure 5> Fiedler's Situational Variables

	most favorable				least favorable			
Leader-member relationship	good	good	good	good	poor	poor	poor	Poor
Task structure	strd.	strd.	unstd.	unstd.	strd.	strd.	unstd.	unstd.
Position power	strong	weak	strong	weak	strong	weak	strong	weak
Octant	1	2	3	4	5	6	7	8

Fiedler empirically surveyed the effective leadership style in terms of LPC scores under the situations ranging from octant 1 to 8. His findings are, generally, "low-LPC leaders are determined to be more effective than high-LPC leaders in extremely favorable and unfavorable situations, while high-LPC leaders are relatively more effective in octants of moderate favorability." This finding is graphically represented in Figure 6.

<Figure 6> Summary of Fiedler's Findings



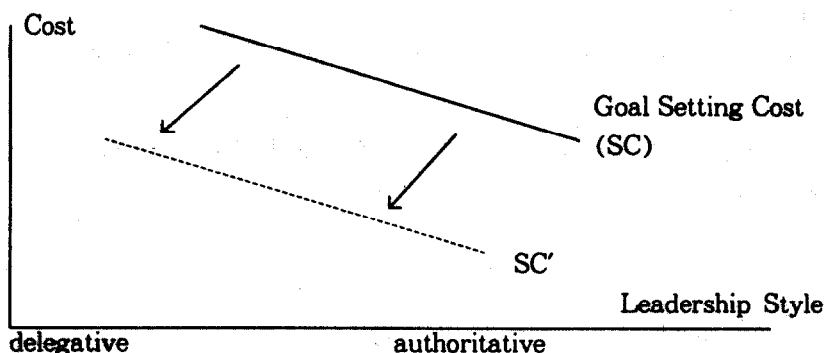
2. Cost-Contingent Theory of Leadership

This section illustrates how the situational variables identified by Fiedler 3/4 task structure and leader-member relationship 3/4 are related to effective leadership style by cost-contingent theory. For explanation's convenience, the change of effective leadership style according to task structure and leader-member relationship is graphically shown separately, and then, will be compared with Fiedler's observation through integration.

(1) Task Structure and Leadership Style

Task structurability is the variable that Fiedler(1970) analyzed to develop contingency dimensions. Using goal-setting cost concept, it can be inferred that the more a task is structured, the less the goal-setting cost will be incurred. This is because it is easier to set a goal (less goal-setting cost) by the leader him/herself when the task is well structured. Graphically illustrated, the goal-setting cost (SC) curve will move toward 0 (SC') as shown in Figure 3.

<Figure 7> The Task Structure and Goal-Setting Cost Function

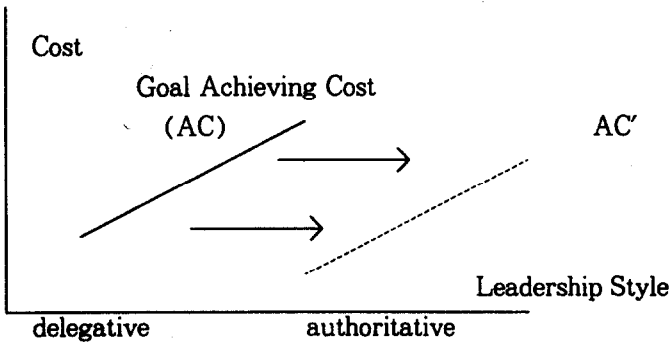


(2) Leader-Subordinates Relationship and Leadership Style

Another dimension of Fiedler's, leader-subordinates relationship, can be interpreted through the concept of goal-achieving cost, too. In other words, the better the leader-subordinates relation is, the less the goal-achieving cost will be needed. This proposition seems plausible in the sense that the goal can be easily achieved (less goal-achieving cost) when the leader-member relation is good. It can graphi-

cally illustrated that the goal-achieving cost (AC) curve will move into AC' as shown in Figure 4.

<Figure 8> The Leader-Subordinate Relation and Goal-Achieving Function

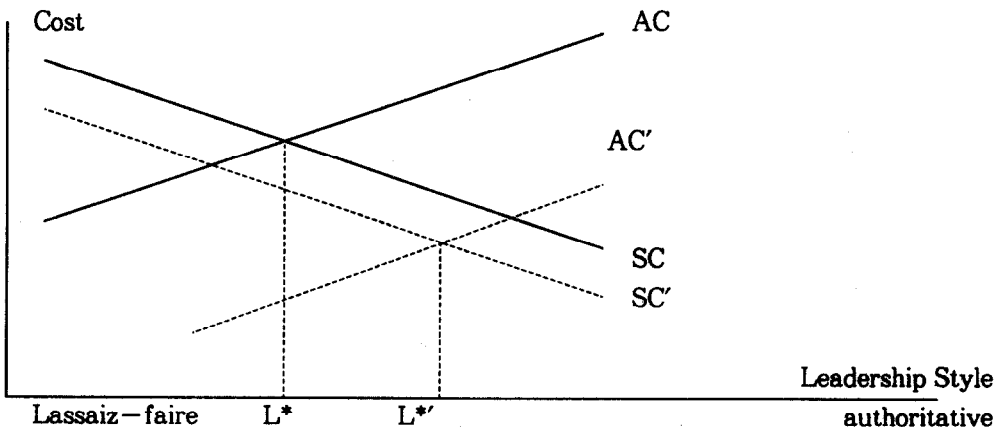


(3) Integration

Now, based on discussions mentioned above, it is illustrated how effective leadership style is determined when the task is well structured and leader-member relations are good. (octant 1 and 2 in Fiedler's Model)

Figure 9 illustrates that less authoritative leadership style is preferred in that kind of situation, which is the same result as Fiedler's analysis showed (Fiedler, 1970). As such, the cost-contingent model shows logical congruence with Fiedler's empirical conclusions.

<Figure 9> The Change of Leadership Style According to the Task Structure and the Leader-Subordinates Relation



IV. Conclusion

Until now, the paper has reviewed how effective leadership is decided by goal-setting and—achieving cost in institutional household settings. Before making a brief conclusion of the paper, some potential limits of the research should be noted. Even though this conceptual tool has its merit of simplicity in explaining situational contingencies in deciding effective leadership level, it also has inherent limitations. First, the variables of goal setting and achieving cost cannot fully represent the variables. Second, the functions of those costs may not move as expressed in the illustrations. Third, as the unit of analysis here is organizational level, while that of Fiedler's was mainly group, the parallel analogy between the two may not be appropriate. Fourth, the leadership style is mainly focusing on decision making process; however, leadership is related to many other aspects than decision making. Fifth, the leadership style itself may not be on the continuum as previously assumed. Lastly and most importantly, the exact shape and elasticity of goal—setting and—achieving function is unclear. The last problem comes from the fact that the cost contingent model remains in the conceptual level. If some empirical evidences are added, the explanatory power of the model as well as the exact shape of cost function will be enhanced.

However, the model on the appropriate level of leadership is still useful in that it can show the mechanism in which various situational variables are related to the leadership style through the one single intermediating variable $3/4$ cost. Therefore, we can expect that the model will be able to give pedagogically useful conceptual tool for explaining another important facet of organizational life in institutional household, if sufficiently explained to aforementioned questions, empirically tested, and properly elaborated.

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