

INVESTIGATION OF THE EFFECTS OF TRANSACTIONAL AND TRANSFORMATIONAL LEADERSHIP ON ENTREPRENEURIAL ORIENTATION

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ABSTRACT

The purpose of this study was to examine the possible effects of transactional and transformational leadership styles on entrepreneurial orientation. Transactional leadership discussed with two dimensional model consists of contingent reward and active management by exception, where transformational leadership discussed with four dimensional model consists of idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. On the other hand entrepreneurial orientation was examined under three dimensions as; innovativeness, risk taking and proactiveness. The survey of this study is conducted on 171 employees of three multinational companies in Istanbul. The obtained data from the questionnaires are analyzed through the SPSS statistical packaged software. Analyses results showed that transactional leadership affects only proactiveness dimension while transformational leadership affects all three dimensions of entrepreneurial orientation. The only insignificance among transformational leadership and entrepreneurial orientation is between individualized consideration and risk taking.

Key Words: Transactional leadership, transformational leadership, innovativeness, proactiveness, risk taking.

1. Introduction

Avolio and Bass (1991) suggested Full Range Leadership Theory. The constructs of this theory was consist of three types of leadership behavior; transformational, transactional, and laissez-faire leadership. They improved their theory over time and revised (Bass and Avolio, 2004) the latest version of full range of leadership model which consists four factors of transformational leadership style as; idealized influence (attributed and behavioral), inspirational motivation, intellectual stimulation, and individualized consideration; two factors of transactional leadership styles as; contingent reward and management-by-exception (active); and two factors of passive-avoidant leadership style as; management-by-exception (passive) and laissez-faire leadership style. This study focuses on the first two leadership styles.

Over the last decade, there has been a significant increase in the number of studies examining issues related to entrepreneurship and entrepreneurial orientation is a primary construct in the domain of entrepreneurship (Lumpkin & Dess, 1996). Covin and Slevin popularized the term entrepreneurial orientation and raised its importance as a concept in strategic management research as well.

This research aimed at investigating the effects of transactional and transformational leadership on entrepreneurial orientation. It contributes to our understanding of entrepreneurial orientation through displaying the effects of the dimensions of two contemporary leadership styles in order to provide in-depth and significant knowledge about the subject. The paper begins with a literature review of transactional and transformational leadership and entrepreneurial orientation, then goes on to development of hypotheses. The hypotheses tested if the factors of transactional and transformational leadership have significant effects on entrepreneurial orientation. For that purpose 6 sub-hypothesis were generated to examine the relationships in-depth. Sample and data collection, and research measures and reliabilities discussed in the next section. It concludes with discussing the findings and the implications to improve entrepreneurial orientation and recommendation is provided for practitioners and academics.

2. Literature Review and Development of Hypotheses

2.1. Transactional and Transformational Leadership

Transactional leadership concerns in transaction of rewards for followers' performance (Burns, 1978). Transactional leadership involves contingent reinforcement. Followers are motivated by the leaders' promises, praise, and rewards or they are corrected by negative feedback, reproof, threats, or disciplinary actions. The leaders react to whether the followers carry out what the leaders and followers have "transacted" to do (Bass and Steidlmeier, 1999). Transactional leadership encourages followers to construe their work in terms of strategic means stressing rules, responsibilities, expectations, stability, avoiding errors, and a concrete, short-term plan. These transactional behaviors fit prevention-focused individuals' preference to direct goal striving toward obligations and responsibilities, their preference for stability, their concern with avoiding mistakes, and their preference to look at short-term details (Hamstra et al., 2011). Bass and Avolio (1993) comprised transformational leadership with two factors which are contingent reward and active management-by-exception.

Contingent Reward

Contingent reward is a more constructive, positive transaction involving directed, consultative or negotiated agreements between leaders and followers about objectives and/or task requirements. The leader promises and/or provides suitable rewards and recognition if followers achieve the objectives or execute the tasks as required (Bass, 1985). In contingent reward leaders either make assignments or they may consult with followers about what is to be done in exchange for implicit or explicit rewards and the desired allocation of resources (Bass and Steidlmeier, 1999). Leaders, who have behaviors of expectation clarifying, negotiation, promises making, and contingent rewards offering to followers when the goals are achieved (Bass & Avolio, 2004). Transactional contingent reward leadership may be the basis for structuring developmental expectations, as well as building trust, because of a consistent honoring of contracts over time (Avolio et al., 1999)

Management-By-Exception (Active)

When leaders engage in active management by- exception, they monitor follower performance and correct followers' mistakes (Bass and Steidlmeier, 1999). Management-by-exception is active, such as when the leader arranges to monitor and correct follower performance (Bass et al., 1996). Leaders, concentrate on identifying and correcting the mistakes and deviations from standard of task, and take disciplinary actions when the irregularities occurred (Bass & Avolio, 1994).

Bass's conceptualization of the transformational leader extended House's (1977) idea of the charismatic leader by incorporating the individualized consideration and intellectual stimulation aspects (Lowe et al., 1996). Transformational leadership occurs when leaders broaden and elevate the interests of their employees, when they generate awareness and acceptance of the purposes and mission of the group, and when they stir their employees to look beyond their own self-interest for the good of the group (Bass, 1990). Transformational leadership encourages an idealistic, optimistic outlook on the future, communicates high expectations, focuses followers' attention on long-term vision, facilitates change, and supports new ways of working. Transformational leadership encourages followers to carry out and construe their work in terms of strategic means stressing ideals, optimism, positive expectations, change, eagerness, and an abstract long-term plan. These transformational behaviors fit promotion-focused individuals' directedness at an ideal self, their preference for optimism and positive expectations their preference for focusing on a long-term time perspective, working in changing situations, and their eagerness to try out new things (Hamstra et al., 2011). Transformational leaders not only exchange between rewards and the leaders' requirement but also motivate the followers to transcend their self-interests for the goals. They are able to change members' behaviors to encourage their visions for achievement (Howell & Avolio, 1993). Transformational leadership influences followers by getting them to transcend their self-interests for the good of the group or organization, while also enhancing followers' expectations and abilities, and their willingness to take risks (Bass & Avolio, 1993).

Transformational leadership contains four components as; idealized influence or charisma (attributed and behavioral), inspirational motivation, intellectual stimulation, and individualized consideration (Bass, 1985, 1998; Bass & Avolio, 1993).

Idealized Influence

If the leadership is transformational, its idealized influence is envisioning, confident, and sets high standards for emulation (Kanungo & Mendonca, 1996). Leaders, who have charismatic character such as support and instill the pride to the followers, go beyond self-interest for the advantage of group and organization, encourage proceed to build trust and respect to leader and exhibit the sense of self-confident and direction. In addition leaders, who have charismatic actions such as highlight on the sense of purpose and performance, emphasize on the moral and ethics for decisions (Avolio & Bass, 2003). Charismatic leaders are highly esteemed. They are role models that followers strive to emulate and align around a vision, common purpose, and mission (Bass et al., 1996). Charismatic leaders have great power and influence. Employees want to identify with them, and they have a high degree of trust and confidence in them. Charismatic leaders inspire and excite their employees with the idea that they may be able to accomplish great things with extra effort (Bass, 1990).

Inspirational Motivation

The inspirational motivation of transformational leadership provides followers with challenges and meaning for engaging in shared goals and undertakings (Bass and Steidlmeier, 1999). Leaders, who encourage their followers to view optimistically accomplishment in the future, communicate clearly with their vision and reveal certainly toward the goals that they will be reach (Bass & Avolio, 2004). Inspirational leaders provide meaning and optimism about the mission and its attainability. However, followers may not necessarily seek to emulate these leaders, resulting in a key distinction with charismatic leaders (Bass et al., 1996).

Intellectual Stimulation

The intellectual stimulation of transformational leadership incorporates an open architecture dynamic into processes of situation evaluation, vision formulation and patterns of implementation. Such openness has a transcendent and spiritual dimension and helps followers to question assumptions and to generate more creative solutions to problems (Bass and Steidlmeier, 1999). Intellectually stimulating leaders are willing and able to show their employees new ways of looking at old problems, to teach them to see difficulties as problems to be solved, and to emphasize rational solutions (Bass, 1990). They encourage followers to question basic assumptions, and to consider problems from new and unique perspectives (Bass et al., 1996).

Individualized Consideration

Individually considerate leaders work with followers, diagnosing their needs and then elevating them to higher levels on Maslow's hierarchy of needs (Bass et al., 1996). The leader treats each follower as an individual and provides coaching, mentoring and growth opportunities (Bass, 1985). The individualized consideration component of transformational leadership underscores the necessity of altruism if leadership is to be anything more than authoritarian control (Kanungo&Mendonca, 1996). Individually considerate leaders pay close attention to differences among their employees and act as mentors to those who need help to grow and develop (Bass, 1990).

2.2. Entrepreneurial Orientation

According to Miller (1983) an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch. Based on this definition and prior literature, entrepreneurship researchers have defined the term entrepreneurial orientation. Entrepreneurial orientation has been conceptualized as the process and decision-making activities used by entrepreneurs that leads to new entry and support of business activities (Okpara, 2009).

Entrepreneurial orientation is a strategic construct whose conceptual domain includes certain firm-level outcomes and management-related preferences, beliefs, and behaviors as expressed among a firm's top-level managers (Covin et al., 2006).It is the presence of organizational-level entrepreneurship and based on Miller's (1983) conceptualization three dimensions of entrepreneurial orientation have been identified and used in the literature by several researchers; innovation, risk taking and proactiveness (Covin and Slevin, 1989; Lumpkin and Dess, 1996).

Innovativeness

Innovativeness reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin and Dess, 1996). Innovativeness is the predisposition to engage in creativity and experimentation through the introduction of new products or services as well as technological leadership through research and development in new processes (Rauch et al., 2009). It includes seeking creative solutions to problems and needs. This dimension involves product innovations, the development of new markets and new processes and technologies for performing organizational functions (Kropp et al., 2006; Miller, 1983). Innovativeness is an important component of an entrepreneurial orientation, because it reflects an important means by which firms pursue new opportunities (Lumpkin and Dess, 1996).

Risk Taking

According to Kropp et al. (2005) entrepreneurs' perception of risk is the uncertainty and potential losses associated with the outcomes which may follow from a given set of behaviors. The risk taking dimension refers to the willingness of management to commit significant resources to opportunities in the face of uncertainty (Okpara, 2009). It involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to ventures in uncertain environments (Rauch et al., 2009).

Proactiveness

Proactiveness refers to processes aimed at anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle (Lumpkin and Dess, 1996). According to Stevenson and Jarillo (1990) proactiveness is the organizational pursuit of business opportunities that were deemed by the firm to be positive or favorable. Proactiveness dimension is crucial to an entrepreneurial orientation because it suggests a forward-looking perspective that is accompanied by innovative or new-venturing activity (Lumpkin and Dess, 1996).

2.3. Development of Hypotheses

In their study Politis and Harkiolakis (2008) stated that transformational leadership is strongly and more positively related to innovation dimension of entrepreneurial orientation compared to transactional leadership. In addition, it was found that transformational and transactional leadership equally affected the risk taking and proactiveness dimensions. Yang (2008) also examined the relationships between leadership styles and entrepreneurial orientation as well as their effects on business performance. It appeared that; transformational leadership is significantly more correlated to the business performance than is transactional leadership, entrepreneurial orientation is positively related to performance, and transformational leadership with higher entrepreneurial orientation can contribute to higher business performance.

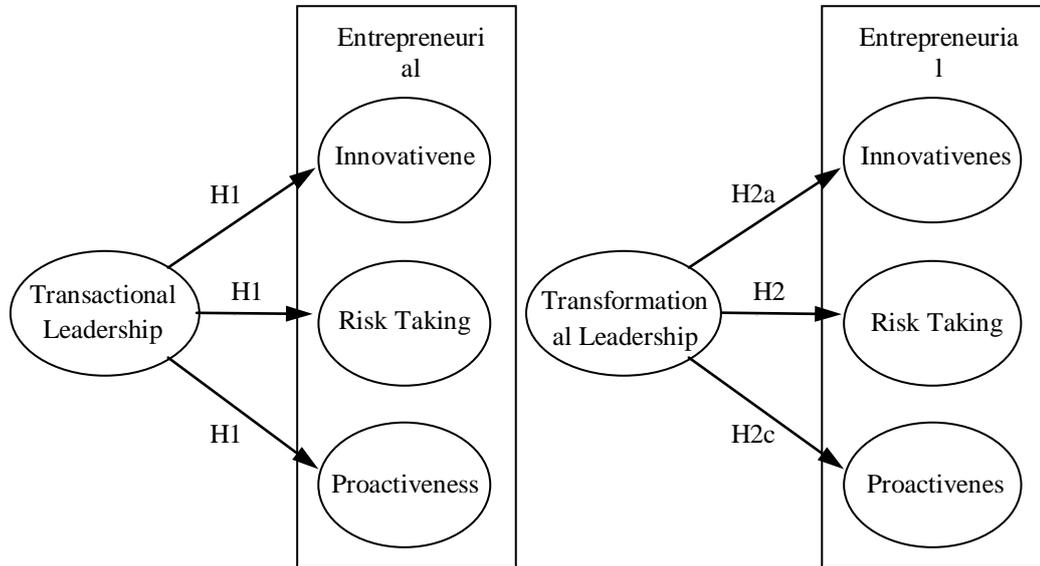
Kotter (1995) suggested that a firm's entrepreneurial proclivity is enhanced to the extent that a transformational vision seeps into the very fiber of the firm to become the way people do things in an organization. Furthermore, Bass points out that transformational and transactional leadership behavior are both appropriate and significant in different ways to motivate employees and they do not replace each other. Based on the various studies in literature and our knowledge, it is reasonable to propose that:

Hypothesis 1: Transactional leadership positively influences innovativeness (H1a), risk taking (H1b), and proactiveness (H1c) dimensions of entrepreneurial orientation.

Hypothesis 2: Transformational leadership positively influences innovativeness (H2a), risk taking (H2b), and proactiveness (H2c) dimensions of entrepreneurial orientation.

Figure 1 shows the hypothesized impacts of transactional and transformational leadership on entrepreneurial orientation.

Figure 1: Hypothesized Impacts of Transactional and Transformational Leadership on Entrepreneurial Orientation



3. Methodology

3.1. Sample and Data Collection

The questionnaire of the study delivered to three multinational companies in Istanbul and data related to leadership styles and entrepreneurial orientation gathered directly from the non-executive employees of companies. The questionnaires distributed through the Human Resources Department including a cover letter explained the purpose of the study and provided instructions on how to complete the questions. Out of 250 distributed questionnaires, total of 179 were returned, however 171 of them were valid and used in analyses (n=171). The return rate of the questionnaires was 71 %. Random sampling technique was used to distribute the questionnaire in order to determine the employees' perceptions regarding transactional leadership, transformational leadership and entrepreneurial orientation. Data obtained from questionnaires analyzed through the Statistical Package for the Social Sciences (v.18) software. Reliability tests, factor analysis, correlation and regression analysis used to determine the proposed relationships between variables of the research model.

3.2. Research Measures and Reliabilities

Two different scales used for the measurement of the variables. The first was the Multifactor Leadership Questionnaire (5X - MLQ), which was developed by Bass and Avolio (1997) used to assess the independent variable as employees' leadership style perception (transactional and transformational). The MLQ is one of the most widely used and tested instruments to measure transformational and transactional leadership behaviors, and it is suitable for both the leader's self-evaluation and subordinates' evaluations of their supervisor (Bass & Avolio 1997). The survey consists of 45 items measuring transactional, transformational and passive-avoidant leadership. The passive-avoidant/laissez-faire leadership factor was not assessed which was identified by Bass and Avolio (2000) as non-transformational and non-transactional, so the items regarding this factor excluded from the instrument. Transactional leadership consists of contingent reward and active management-by-exception factors while transformational leadership consists of idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. The items were answered on 5-point Likert scale ranging from 1 (not at all) to 5 (frequently, if not always).

The Cronbach's Alpha scores of MLQ were; 0.85 for contingent reward, 0.84 for active management-by-exception, 0.86 for idealized influence, 0.82 for inspirational motivation, 0.85 for intellectual stimulation, and 0.83 for individualized consideration. Furthermore, the overall score of Cronbach's Alpha for transactional leadership was 0.88, while the overall score for transformational leadership was 0.87. The scores indicate that MLQ is a reliable measure.

The second assessment instrument for dependent variable was the Entrepreneurial Orientation Questionnaire (EOQ) which was widely used and tested to measure entrepreneurial orientation in literature. The scale was developed by Covin and Slevin (1989) based on the earlier studies of Khandwalla (1976/1977) and Miller and Friesen (1982). It consists of nine items with each three item measuring innovativeness, risk taking and proactiveness dimensions of entrepreneurial orientation using a 7-point Likertscale.

The Cronbach's Alpha scores of EOQ were; 0.86 for innovativeness, 0.83 for risk taking and 0.84 for proactiveness dimensions. In addition, the overall score of Cronbach's Alpha for entrepreneurial orientation was 0.88 which indicates that the EOQ is reliable.

Before conducting the factor analyses, the Kaiser-Meyer-Olkin measure of sampling adequacy and the Bartlett test of sphericity were applied to the questionnaires. Both measures indicate that MLQ and EOQ were suitable for factor analysis. So, confirmatory factor analysis conducted to assess the construct validity of the scales. Table 1 shows the factor analysis results of MLQ. There left 8 items for transactional leadership and 16 items for transformational leadership, after dropping statements due to cross loading or low Cronbach's alpha scores.

Table 1: Factor Analysis of Multifactor Leadership Questionnaire

Factors of Transactional Leadership	Loadings
Factor 1: Contingent Reward	
recognizes achievement	.85
rewards achievement	.78
clarifies rewards	.70
assists based on effort	.68
Factor 2: Management-by-Exception-Active	
concentrates on failures	.79
tracks mistakes	.72
focuses on mistakes	.65
puts out fires	.64
Factors of Transformational Leadership	Loadings
Factor 1: Idealized Influence (attributed and behavioral)	
goes beyond self-interest (IIA)	.87
displays power and confidence (IIA)	.75
emphasizes the collective mission (IIB)	.71
talks of values (IIB)	.67

Factor 2: Inspirational Motivation	
talks enthusiastically	.80
talks optimistically	.79
arouses awareness about important issues	.75
expresses confidence	.60
Factor 3: Intellectual Stimulation	
suggests different angles	.76
suggests new ways	.75
seeks different views	.66
re-examines assumptions	.50
Factor 4: Individualized Consideration	
focuses on strengths	.83
individualizes attention	.79
teaches and coaches	.75
differentiates among employees	.60

Table 2 indicates the factor analysis results of EOQ. As seen there were 3 items for innovativeness. 3 items for risk taking and 3 items for proactiveness factors of entrepreneurial orientation. None of the items had to be dropped out of the analysis.

Table 2: Factor Analysis of Entrepreneurial Orientation Questionnaire

<i>Factors of Entrepreneurial Orientation</i>	Loadings
Factor 1: Innovativeness	
new lines of products or services	.79
changes in product or service lines	.78
emphasis on R&D. technological leadership. and innovations	.76
Factor 2: Risk Taking	
proclivity for high risk projects	.81
the necessity of bold. wide-ranging acts	.77
adopting o bold aggressive posture	.72
Factor 3: Proactiveness	
initiating actions	.79
introducing new products/services. administrative techniques. operating technologies. etc.	.75
adopting a very competitive. 'undo the-competitors' posture	.71

4. Findings

According to the results of the demographic questions related to the employees' gender, age, and tenure in their present position; 32% of employees were female and 68% were male. the average age of the employees was 33. Of the employees, 16% have spent less than 5 years in their present position, while 46% of them has spent between 1 and 5 years, 23% spent between 6 and 10 years, and 15% spent more than 10 years.

In terms of the correlations between independent and dependent variables Table 3 indicates that components of transactional leadership have positive correlations with proactiveness factor, and no correlations with other two dimensions of entrepreneurial orientation as innovativeness and risk taking. In this case it is clear that there is no need to conduct a regression analysis between transactional leadership and innovativeness and risk taking dimensions of entrepreneurial orientation since they do not have correlations. So it means that hypothesis 1a and 1b are rejected. In addition, there is a positive relationship between all four components of transformational leadership and all three dimensions of entrepreneurial orientation.

Table 3: Correlation Matrix between Factors of Leadership and Entrepreneurial Orientation

Factors of Transactional Leadership	Factors of Entrepreneurial Orientation		
	Innovativeness	Risk Taking	Proactiveness
Contingent Reward	.514	.495	.375*
Management-by-Exception-Active	.365	.237	.314*
Factors of Transformational Leadership			
Idealized Influence	.521*	.387*	.466*
Inspirational Motivation	.214*	.301*	.537*
Intellectual Stimulation	.693*	.491*	.542*
Individualized Consideration	.248*	.321*	.596*

* Correlation is significant at 0.05 level (p<0.05) (2-tailed)

The hypothesized relationships of the study were tested using multiple regression analysis which is appropriate to analyze the relationships between several independent variables and a single dependent variable at a time. The dimensions of entrepreneurial orientation as innovativeness, risk taking and proactiveness were dependent variables of the study, while the components of transactional leadership as contingent reward and active management by exceptions, and the components of transformational leadership as idealized influence, inspirational motivation, intellectual stimulation and individualized consideration were independent variables.

For testing hypothesis 1c multiple regression analysis was conducted between the components of transactional leadership and the proactiveness dimension of entrepreneurial orientation. As seen in Table 4, contingent reward ($\beta=0.365$, Sig.0.001) and active management by exceptions ($\beta=0.244$, Sig.0.000) are positively and significantly associated with proactiveness while contingent reward is strongly and more positively related compared to active management by exceptions. In addition adjusted R square value of the multiple regression analysis is presented in Table as well and is statistically significant. According to the tolerance and VIF values, the results indicate no multicollinearity between independent variables where the collinearity statistics show that the tolerances for both components of transactional leadership are greater than 0.1 and the Variation Inflation

Factors (VIF) are both less than 10. Therefore, it can be proposed that transactional leadership affects proactiveness dimension of entrepreneurial orientation and hypothesis 1c is supported.

Table 4: Regression Analysis for Transactional Leadership and Proactiveness

<i>Variables</i>	<i>Sig.</i>	<i>t</i>	<i>Beta</i>
Proactiveness			
Contingent Reward	.001	.836	.365*
Management by Exception (Active)	.000	.914	.244*
<i>Adjusted R² = .387</i>			
<i>F = 5.896 Significance of F = .001</i>			
Tolerance and VIF Values of Variables		<i>Tolerance</i>	<i>VIF</i>
Contingent Reward		.874	1.146
Management by Exception (Active)		.812	1.598

* Significant at 0.05 level (p<0.05)

According to the regression analyses results in Table 5, all four components of transformational leadership as idealized influence ($\beta=0.522$, Sig.0.001), inspirational motivation ($\beta=0.321$, Sig.0.000), intellectual stimulation ($\beta=0.644$, Sig.0.000) and individualized consideration ($\beta=0.216$, Sig.0.001) are significantly and positively associated with innovativeness dimension of entrepreneurial orientation. Intellectual stimulation has the strongest effect while individualized consideration has the weakest. So it can be stated that transformational leadership positively influences innovativeness and hypothesis 2a is supported.

Furthermore, the components of transformational leadership, except individualized consideration, are positively related to risk taking dimension of entrepreneurial orientation. Intellectual stimulation ($\beta=0.584$, Sig.0.001) has the strongest effect here as well compared to idealized influence ($\beta=0.411$, Sig.0.000) and inspirational motivation ($\beta=0.154$, Sig.0.000). Thus, it can be proposed that transformational leadership highly influences risk taking and so hypothesis 2b is partly supported.

The findings also indicate that all four components of transformational leadership as idealized influence ($\beta=0.267$, Sig.0.000), inspirational motivation ($\beta=0.324$, Sig.0.001), intellectual stimulation ($\beta=0.539$, Sig.0.001) and individualized consideration ($\beta=0.614$, Sig.0.001) are significantly and positively associated with proactiveness dimension of entrepreneurial orientation. Individualized consideration has the strongest effect compared to other components and idealized influence has the weakest. Therefore it is displayed that transformational leadership positively influences proactiveness and hypothesis 2c is supported.

In addition, adjusted R square values of the multiple regression analyses are statistically significant and according to the tolerance and VIF values multi collinearity is not a threat for the multiple regression.

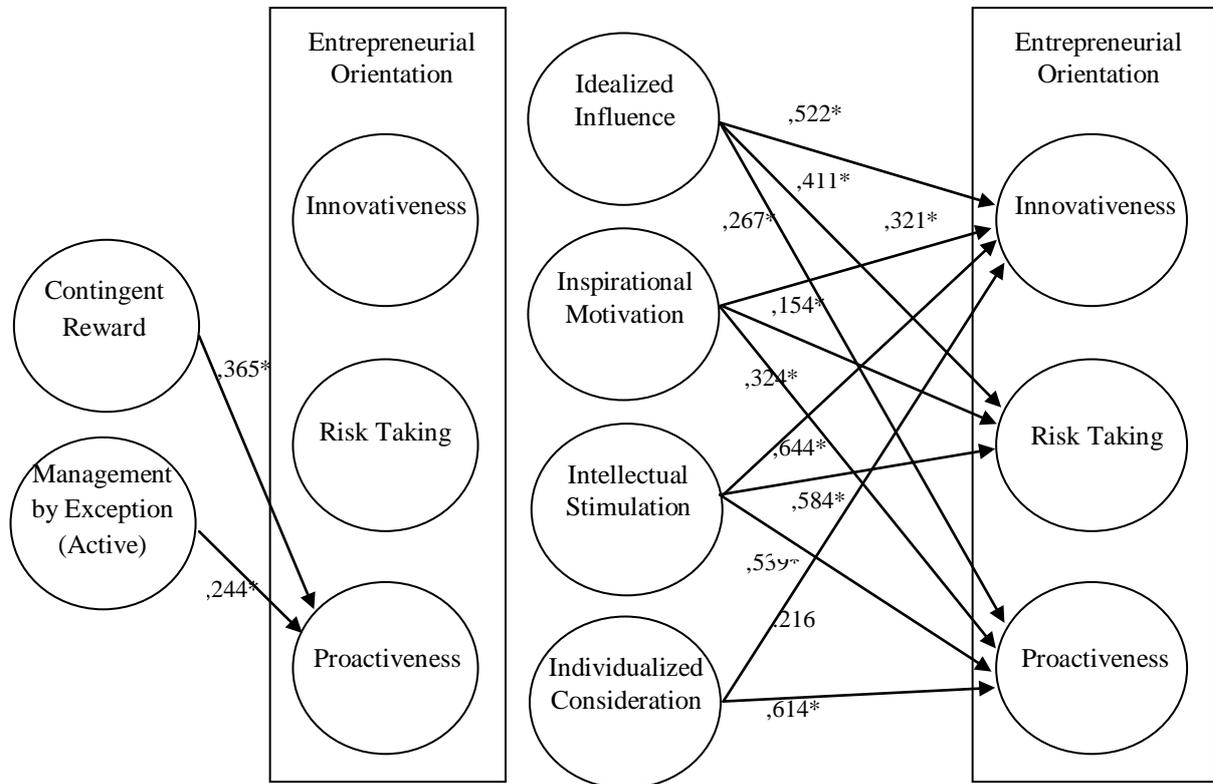
Table 5: Regression Analysis for Transformational Leadership and Entrepreneurial Orientation

<i>Variables</i>	<i>Sig.</i>	<i>t</i>	<i>Beta</i>
Innovativeness			
Idealized Influence	.001	4.554	.522*
Inspirational Motivation	.000	5.632	.321*
Intellectual Stimulation	.000	7.745	.644*
Individualized Consideration	.001	4.546	.216*
<i>Adjusted R² = .474</i>			
<i>F = 6.841 Significance of F = .001</i>			
<i>Variables</i>	<i>Sig.</i>	<i>t</i>	<i>Beta</i>
Risk Taking			
Idealized Influence	.000	3.895	.411*
Inspirational Motivation	.000	2.458	.154*
Intellectual Stimulation	.001	4.483	.584*
Individualized Consideration	.000	6.133	.369
<i>Adjusted R² = .496</i>			
<i>F = 6.405 Significance of F = .000</i>			
<i>Variables</i>	<i>Sig.</i>	<i>t</i>	<i>Beta</i>
Proactiveness			
Idealized Influence	.000	5.122	.267*
Inspirational Motivation	.001	4.479	.324*
Intellectual Stimulation	.001	6.633	.539*
Individualized Consideration	.001	4.512	.614*
<i>Adjusted R² = .581</i>			
<i>F = 8.632 Significance of F = .000</i>			
Tolerance and VIF Values of Variables		<i>Tolerance</i>	<i>VIF</i>
Idealized Influence		.604	1.254
Inspirational Motivation		.745	1.365
Intellectual Stimulation		.850	1.704
Individualized Consideration		.814	1.036

*Significant at 0.05 level (p<0.05)

Figure 2 summarizes the impacts of both transactional and transformational leadership on entrepreneurial orientation.

Figure 2: Impacts of Transactional and Transformational Leadership on Entrepreneurial Orientation



5. Conclusion

This study investigates the effects of the transactional and transformational leadership on entrepreneurial orientation of organizations. According to the correlation and multiple regression analyses, three out of the six proposed hypotheses were fully supported, one was partly supported and two were rejected.

The results of this study suggest that transactional leadership has no association with either innovativeness or risk taking dimensions of entrepreneurial orientation, but interestingly contingent reward and active management by exceptions influence proactiveness of employees. As we know contingent reward may be the basis for structuring developmental expectations and building trust (Avolio et al., 1999). It is reasonable to accept that it can encourage employees to act proactive. Furthermore, in active management by exception leaders concentrate on employees' performance and correct their mistakes (Bass and Steidlmeier, 1999). This approach helps employees to think about new processes or business methods that will minimize mistakes and maximize their performance. In other words active management by exception creates an impact to act more proactive.

The second group of hypotheses is about the relationship between transformational leadership and entrepreneurial orientation. It is clear that components of transformational leadership have significant effects on all three dimensions of entrepreneurial orientation except individualized consideration which has no impact on risk taking. Hence individualized consideration concentrate on diagnosing employees' needs (Bass et al., 1996)

and providing coaching and mentoring (Bass, 1985). it is reasonable for this component not to affect the tendency of taking risks but enhance employees' innovativeness and proactiveness.

The other components as idealized influence, inspirational motivation and intellectual stimulation are all together influence innovativeness, risk taking and proactiveness dimensions of entrepreneurial orientation. Intellectual stimulation has the greatest impact on all three dimensions. The intellectual stimulation helps employees' to question assumptions and to generate more creative solutions (Bass and Steidlmeier, 1999). encourages considering problems from new and unique perspectives (Bass et al., 1996). So employees' who perceive the act of intellectual stimulation from their leaders tend to think more creative, innovative, and proactive and will to take risks.

Idealized influence has the second strongest effect on innovativeness and risk taking following intellectual stimulation which also means that employees' participated in this study highly perceive their leaders as charismatic. Charismatic leaders have great power and influence, and employees want to identify with them. According to these results we can assume that leaders of the related companies support innovativeness and so the employees' impressed and tend to act innovative based on their trust and confidence in their leaders. In addition, charismatic leaders inspire and excite their employees with the idea that they may be able to accomplish great things with extra effort (Bass, 1990) and this approach expands employees' willingness to take risks.

Inspirational motivation also influences all three dimensions of entrepreneurial orientation and it has almost equal effects on innovativeness and proactiveness which is reasonable. This result can be interpreted as leaders related to this study encourage their employees to view optimistically accomplishment in the future, communicate clearly about their vision and mission, and reveal certainly toward the goals that they will reach (Bass & Avolio, 2004). Due to employees' high confidence on the achievement in the future, they perform with great perseverance and desire which contribute them to think and act innovative and proactive.

In summary, transformational leadership is positively and significantly related to innovativeness, risk taking and proactiveness by all means and contributes the most to the entrepreneurial orientation. But it has to be considered that transactional leadership also influences proactiveness dimension. As we know, there is no type of leadership that can be described as the best, so the advantageous way is both transformational and transactional. As supported by the results of the study, transactional and transformational leadership are both have effectiveness and they do not replace each other (Bass, Steidlmeier, 1999). Both types of leadership make a contribution to entrepreneurial orientation of organizations, where transactional affects mostly proactiveness, and transformational affects the total orientation process. So it can be argued that leaders who want to involve in entrepreneurial activities, should pay more attention to contemporary leadership types and their attributed and behavioral requirements.

The study has limitation related to the sample which complicates the generalisation of the results, so future studies could expand the sample size. Besides, this quantitative study was able to reveal the relationships between variables, but not totally adequate to explain possible reasons behind these relations. Therefore, future studies could also consider qualitative researches and adding different variables.

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