

**LEADERSHIP STYLES AND CORPORATE
ENTREPRENEURSHIP: SMALL AND MEDIUM
ENTERPRISES IN PAKISTAN**

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**FACULTY OF ECONOMICS AND ADMINISTRATION
UNIVERSITY OF MALAYA
KUALA LUMPUR**

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**FACULTY OF ECONOMICS AND ADMINISTRATION
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ABSTRACT

Corporate entrepreneurship is one of the most important elements for the survival of organizations in today's business environment characterized by globalization, technological advancements, and competition. Literature suggests that in order to survive in a dynamic environment, organizations need to promote corporate entrepreneurship through an approach characterized by leadership. Small and medium enterprises (SMEs) are vital for every economy. For Pakistan, SMEs are considered as backbone of the economy with a contribution of 30% and 20% to Gross Domestic Product and exports respectively, moreover, they constitute 90% of total businesses. The focus of this study is to analyze the role of leadership styles (transformational, transactional, and passive-avoidant) to promote corporate entrepreneurship in the manufacturing sector of SMEs in Pakistan. This study has three main objectives. Firstly, to explore the relationship between leadership styles and corporate entrepreneurship; secondly, to distinguish the role of leadership styles in affecting the dimensions of corporate entrepreneurship: innovation, new business venturing, self-renewal, proactivity, and risk-taking; and finally, to define the role of absorptive capacity between leadership styles and corporate entrepreneurship overall and individually with each dimension of corporate entrepreneurship. This study integrates the dispersed scholastic work on transformational leadership, absorptive capacity, and corporate entrepreneurship into one framework. Using survey questionnaire, this framework is then empirically analyzed through applications of structural equation modeling (SEM) in the context of manufacturing SMEs of Pakistan. The results demonstrate that transformational leadership positively affects the corporate entrepreneurship and its dimensions. Absorptive capacity also mediates the relationship of transformational leadership and corporate entrepreneurship overall and its dimensions. However, transactional leadership has no effect on corporate entrepreneurship overall, directly and

through absorptive capacity, but it has a positive effect on proactivity and risk-taking; and dimensions of corporate entrepreneurship. Similarly, passive-avoidant leadership does not affect corporate entrepreneurship overall, directly and indirectly (absorptive capacity), but effects proactivity positively and new business venturing negatively. The in-depth analysis reveals that direct effect of absorptive capacity on corporate entrepreneurship is more than the direct effect of transformational leadership on corporate entrepreneurship overall and with each dimension. Hence, this study shows that not every type of leadership style promote absorptive capacity and corporate entrepreneurship. Instead, transformational leadership is vital to promote both absorptive capacity and corporate entrepreneurship. It is found that transformational leadership promotes corporate entrepreneurship in SMEs of Pakistan more than other leadership styles. In terms of managerial implications, this study suggests to impart and improve transformational leadership skills in the management through appropriate education and training of key personnel of SMEs. In terms of policy implications, this study recommends the formulation of policies in Pakistan (professional education, developing network with local, country and worldwide information sources, training and development, recruiting and selection) to promote corporate entrepreneurship and absorptive capacity in SMEs should play its importance in transformational leadership.

ABSTRAK

Keusahawanan korporat adalah salah satu elemen yang paling penting untuk kelangsungan hidup sesebuah organisasi dalam persekitaran perniagaan hari ini yang dicirikan globalisasi, kemajuan teknologi, dan persaingan. Kajian literatur menunjukkan bahawa dalam usaha untuk bertahan dalam persekitaran yang dinamik, organisasi perlu menggalakkan keusahawanan korporat melalui pendekatan yang dicirikan kepimpinan. Industri kecil dan sederhana (IKS) adalah penting bagi setiap ekonomi. Bagi Pakistan, IKS adalah dianggap tulang belakang ekonomi dengan sumbangan sebanyak 30% dan 20% kepada Keluaran Dalam Negara Kasar dan eksport masing-masing dan membentuk 90% daripada jumlah perniagaan. Fokus kajian ini adalah untuk menganalisis peranan gaya kepimpinan (transformasi, transaksi, dan 'passive-avoidant') untuk menggalakkan keusahawanan korporat dalam sektor pembuatan IKS di Pakistan. Kajian ini mempunyai tiga objektif utama. Pertama, untuk mengkaji hubungan antara gaya kepimpinan dan keusahawanan korporat; kedua, untuk mengkaji peranan gaya kepimpinan dalam mempengaruhi dimensi keusahawanan korporat: inovasi, penerokaan perniagaan baru, pembaharuan diri, proaktiviti, dan pengambilan risiko; ketiga, untuk menentukan peranan keupayaan penyerapan ('absorptive capacity') antara gaya kepimpinan dan keusahawanan korporat secara keseluruhan dan secara individu dengan setiap dimensi keusahawanan korporat masing-masing. Kajian ini menggabungkan kerja akademik yang merangkumi kepimpinan transformasi, keupayaan menyerap dan keusahawanan korporat ke dalam satu rangka kerja. Dengan menggunakan soal selidik, rangka kerja ini kemudiannya dianalisis secara empirikal melalui aplikasi pemodelan persamaan struktur (SEM) dalam konteks sektor pembuatan IKS di Pakistan. Keputusan menunjukkan bahawa kepimpinan transformasi memberi kesan positif kepada keusahawanan korporat dan dimensinya. Keupayaan penyerapan juga menjadi pengantara hubungan kepimpinan transformasi dan keusahawanan korporat secara

menyeluruh dan kepada dimensinya. Walau bagaimanapun, kepimpinan transaksi tidak mempunyai kesan ke atas keusahawanan korporat secara keseluruhan dan melalui keupayaan penyerapan, tetapi mempunyai kesan positif ke atas proaktiviti dan pengambilan risiko dan; dimensi keusahawanan korporat. Begitu juga, kepimpinan 'passive-avoidant' tidak mempunyai kesan keseluruhan atas keusahawanan korporat secara langsung dan tidak langsung (keupayaan penyerapan) tetapi memberi kesan positif kepada proaktiviti dan kesan negatif kepada penerokaan perniagaan baru. Analisis yang mendalam ini mendedahkan bahawa kesan langsung daripada keupayaan penyerapan ke atas keusahawanan korporat adalah lebih daripada kesan langsung kepimpinan transformasi ke atas keusahawanan korporat secara menyeluruh dan untuk dimensinya. Oleh itu, kajian ini mencadangkan bahawa bukan setiap jenis gaya kepimpinan menggalakkan keupayaan penyerapan dan keusahawanan korporat. Sebaliknya, kepimpinan transformasi adalah penting untuk menggalakkan kedua-dua keupayaan menyerap dan keusahawanan korporat. Didapati bahawa kepimpinan transformasi menggalakkan keusahawanan korporat IKS Pakistan lebih daripada gaya kepimpinan lain. Dari segi implikasi pengurusan, kajian ini mencadangkan untuk memberi dan meningkatkan kemahiran kepimpinan transformasi dalam pengurusan melalui pendidikan dan latihan kakitangan utama IKS yang sesuai. Dari segi implikasi dasar, kajian ini mencadangkan penggubalan dasar di Pakistan (pendidikan profesional, membangunkan rangkaian maklumat dari sumber tempatan, negara dan seluruh dunia, latihan dan pembangunan, pengambilan dan pemilihan) untuk menggalakkan keusahawanan korporat serta keupayaan penyerapan dalam IKS perlu diambil kira dalam memainkan peranan penting dalam kepimpinan transformasi.

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DEDICATION

To My Respected Father

Fazal Nabi Shafique

And My Beloved Mother,

Nazeeran Bibi

You Both are World to Me

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LIST OF SYMBOLS AND ABBREVIATIONS

SMEs	Small and Medium Enterprises
SEM	Structural Equation Modeling
SMEDA	Small and Medium Enterprises Development Authority
TL	Transformational Leadership
Tr.L	Transactional Leadership
PAL	Passive-Avoidant Leadership
CE	Corporate Entrepreneurship
AC	Absorptive Capacity
INN	Innovation
NBV	New Business Venturing
SR	Self-Renewal
RT	Risk-taking
AMOS	Analysis of Moment Structure
MLQ	Multifactor Leadership Questionnaire
CFA	Confirmatory Factor Analysis
AVE	Average Variance Extracted
FL	Factor Loading
CR	Composite Reliability
CBSEM	Covariance Based Structural Equation Modeling
PLS	Partial Least Square
GFI	Goodness-of-fit Index
CFI	Comparative fit Index
RMSEA	Root Mean Square Error of Approximation

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CHAPTER 1: INTRODUCTON

1.1 Background

Small and Medium Enterprises (SMEs) play a leading role in an economy. SMEs have played a great role in the mainstream economy of China, Taiwan, and Japan in achieving the target of development. Many other countries imitate the same strategy to foster economic growth. For instance, Pakistan has declared SMEs as bedrock to attain growth with renowned export oriented dynamics. In the economy of Pakistan, SMEs contribute 30 per cent to Gross Domestic Product, 20 per cent to exports and constitutes 90 per cent of total businesses (Khan, Awang, & Zulkifli, 2013; Saleem, 2008). Government of Pakistan has taken many initiatives to support and promote SMEs such as formulation of Small and Medium Enterprises Development Authority (SMEDA), establishment of SME Bank, and introduction of SME Policy.

SMEDA was established to give new momentum to the economy via proactive sectoral development program by suggesting policy implications to the government for the growth of SMEs. Sectors were chosen on the basis of following principles:

- Growth Rate
- Significant SME Presence
- Labor Intensity
- Sustainable Competitive Advantage
- High Value Addition and Export Potential

SME Bank was established and incorporated as a public limited company under the Companies Ordinance 1984 with Government of Pakistan as the main shareholder. As division of financial sector restructuring program of Government of Pakistan, Small Business Finance Corporation (SBFC) and Regional Development Finance Corporation (RDFC) were amalgamated into SME Bank Limited on January 01, 2002. This initiative was taken to address the requirements of niche market with particular financial goods/services that will assist to increase SMEs' growth and economic development in the country. The main objectives of SME Bank are as below:

- To support, develop and promote SMEs by providing them the necessary technical and financial assistance.
- To concentrate on value added and export-oriented SMEs
- To enable SMEs to play a vital role in stimulating GDP growth, create job opportunities and reduce poverty.

SME policy addresses several issues pertaining to SMEs business environment in Pakistan. The policy deals with various short-term and long-term issues concerning SMEs. This study addresses only those issues which can be resolved in the short or medium term. Human resource development is one of such issues faced by SMEs. The SME policy states that SMEs must persist to change, innovate, and improve themselves in the contemporary knowledge-based economy. Recently Pakistan's development plan Vision 2025 (Government of Pakistan, 2014) has given SMEs an apex position. Below is a detailed overview of evolution of SMEs in Pakistan.

1.2 Evolution of SMEs in Pakistan

Although the term ‘small and medium enterprises’ (SMEs) is widely used throughout the world, its exact definitions vary across the nations and organizations. SMEDA is an official body in Pakistan whose primary objective is to promote and enhance SMEs. A firm is considered as a SME if (i) its employees are less than or equal to 250; (ii) its yearly sales equals to 250 million rupees (approximately USD 2.39 million); and (iii) its paid up capital is equal to 25 million rupees (approximately USD 0.239 million) (SMEDA, 2007). The manufacturing firms with 50 or less employees are considered as small firms while the firms having employees more than 50 but equal to or less than 250 are considered as medium firms. In addition, firms with less than ten employees and with productive assets of two million dollars come under the Micro category. In addition to SMEDA, a number of other foundations of Pakistan have been formulated by their own SMEs definition. SME Bank, State Bank of Pakistan, provincial industrial development departments, and Federal Bureau of Statistics have defined ‘SMEs’ differently. Asia Pacific Economic Cooperation (APEC) has also presented the definitions of ‘SMEs’ with a different perspective. The short summary of these definitions by APEC member countries and by various institutions in Pakistan are presented in Table 1.1 and Table 1.2 respectively.

Table 1.1: SME Definitions in Selected APEC Member Countries

Country	Sector	Employment	Other Measures
Australia	Manufacturing	Below 100 workers	
	Services	Below 20 workers	
Canada	Manufacturing	Below 500 workers	
	Services	Below 50 workers	
China	Varies with Industry	Normally 100 workers	
Indonesia		Below 100 workers	
Japan	Manufacturing	Below 300 workers	¥100 million assets
	Wholesaling	Below 100 workers	¥30 million assets
	Retailing-Services	Below 50 workers	¥10 million assets
Korea	Manufacturing	Below 300 workers	
	Services	Below 20 workers	
Malaysia	Varies (for SME)	Below 75 workers (vary for Bumiputra Enterprises)	Below RM 2.5 million
Philippines		Below 200 workers	P 40 million assets
Singapore	Manufacturing		Below \$12 million fixed assets
	Services		Below than 100 workers
USA		Below 500 workers	

Source: SMEDA (2007)

Table 1.2: SME Definitions Used by Various Institutions in Pakistan

Institution	Small	Medium
SME Bank	Sum of Assets Rs. 20 million	Total Assets of Rs. 100 million
Federal Bureau of Statistics	Below 10 workers	N/A
Punjab Small Industries Corporation	Fixed investment equal to Rs. 20 million not including land and building	N/A
Punjab Industries Department	Fixed assets with Rs. 10 million not including the land cost	
Sindh Industries Department	Entity associated in manufacturing or handicraft, of consumers or producer of goods with fixed capital investment up to Rs.10 million including land & building	
State Bank of Pakistan (SME Prudential Regulations)	An entity, ideally not a public limited company, which does not employ more than 250 persons (manufacturing) and 50 persons (trade/service) and also fulfills one of the following criteria: (i) A trade/service concern with total assets at cost excluding land and buildings up to Rs 50 million. (ii) A manufacturing concern with total assets at cost excluding land and building up to Rs 100 million. (iii) Any concern (trade, services or manufacturing) with net sales not exceeding Rs 300 million as per latest financial statements.	

Source: SMEDA (2007)

Pakistan is part of South Asia region. South Asia contains eight countries: India, Pakistan, Bangladesh, Sri Lanka, Bhutan, Maldives, Nepal, and Afghanistan. Total population of Asia and the Pacific region is 900 million. This region is considered as gateway to East Asia and Southeast Asia due to its strategic and geopolitical location. That is why, Asian Development Bank (ADB) recently invested heavily in private sector of these countries for the growth, sustainability, and competitiveness of SMEs. A number of institutions have been established to develop this region especially for the development of SMEs like South Asia Enterprise Development Facility (SEDF) and South Asian Association for Regional Cooperation (SAARC). The SMEs of South Asia have large potential and ability to remain competitive globally. Pakistan is an entrance to South Asia because of its strategic geographical position.

Pakistan has five provinces, Federally Administered Tribal Areas (FATA), and Islamabad Capital Territory (ICT). The five provinces are Punjab, Sindh, Khyber Pakhtunkhwa (previously known as North-West Frontier Province or NWFP), Baluchistan, and Gilgit-Baltistan (a newly formed province). Muslims form the majority in Pakistan, diversified in terms of customs, languages, casts and creeds. Pakistan covers an area of 796,096 square kilometers (Bhutta, Khan, Omar, & Asad, 2008; A. Saleem & Higuchi, 2014). In 2007, it was estimated that 100 million people were living in remote rural areas out of a total population of 162 million.

Pakistan is an agriculture-based country. The current territory of the Pakistan was the center to produce food for the whole British India, prior to the establishment of Pakistan. In this area, agriculture-related products were cropped, and exported to the entire world. The country has emphasized on manufacturing industry for economic development since its inception in 1947. In a nutshell, Pakistani government has been

directly engaged in the development and growth of the manufacturing industry. The government formulated many institutions and independent bodies to grow and develop the major industries and, then, privatized many of these institutions and bodies. Many political leaders adopted state-led model of industrialization. This state-led model started the journey of industrialization process which still sees the development and growth of SMEs sector.

The SMEs sector provides employment to almost 78 per cent of the non-agriculture workforce. In addition, the SMEs manufacturing sector constitutes almost 20 per cent of the total SMEs. Currently, the overall contribution of the SMEs sector to the GDP is approximately 30 per cent. The 20 per cent SMEs of manufacturing sector contribute 4.2 per cent to the GDP. SMEs offer almost 80 per cent employment to the non-agriculture workforce and approximately 90 per cent of the firms in the manufacturing industry come under this group (SMEDA, 2011).

It is vital to consider that large scale industrial sector grew with a ratio of 7.1 per cent from 1947 to 2010 with the fact that governments provided full attention and assistance to this sector. On the other hand, the SMEs sector is steadily growing with the ratio of approximately 5.6 per cent without or with very little support and attention of the governments from 1947 to 2010. The governments' ignorance can be observed with the point that there is no proper source or institution which have SMEs data or facts and figures apart from the Directory of Industrial Establishments, the Government of Punjab 2002, and the Census of Establishments 1985 (Bhutta et al., 2008).

Government of Pakistan started to focus on SMEs to supplement the economic growth of the country. The government of Pakistan formulated SMEDA in 1998. The primary

objective of SMEDA is to facilitate and develop SMEs sector. This institution is responsible for formulating strategies and guidelines for the SMEs development. The government of Pakistan amalgamated Small Business Finance Corporation and Regional Development Finance Corporation and founded SME Bank in 2002. The government also restructured particular parameters. The primary objective of SME bank is to provide financial assistance to SMEs for their development and growth. The government of Pakistan also established several independent bodies to help SMEs at provincial levels. These provincial bodies are responsible for the development of SMEs in their specific province. Sindh Small Industries Corporation (SSIC), Punjab Small Industries Corporation (PSIC), Azad Kashmir Industrial Development Corporation (AKIDC), KPK Small Industries Development Board, and Baluchistan Directorate of Small Industries are the prominent provincial authorities.

Along with the aforementioned institution and bodies, some other organizations are also assisting SMEs in their development and growth. These organizations are Ministry of Science and Technology, Trade Development Authority of Pakistan, Chambers of Commerce and Industry, and National Productivity Organization. These organizations are helping SMEs to grow in numerous ways.

1.3 Demographic Profile of SMEs in Pakistan

In Pakistan, total workforce is 58.41 million and currently the rate of unemployment is 5.6 per cent. Forty five per cent of the total workforce is engaged in agriculture sector, while services and manufacturing sectors provide employment to 34.9 per cent and 20.1 per cent respectively. The per capita income is USD 2800. The main products of agriculture sector are wheat, cotton, sugarcane, rice, vegetables, fruits, beef, milk, eggs,

and mutton. The manufacturing sector of Pakistan includes food processing, textile and clothing, construction materials, pharmaceutical, fertilizer, and paper products.

There are almost 3.2 million business firms in Pakistan (SMEDA, 2011). Out of this total, 99 per cent (3.168 million) are SMEs. Among these SMEs, 94 per cent (2.99 million) are establishments and 6 per cent (0.19 million) are household or cottage SMEs (Anas, 2014). The service sector (wholesale, retail trade, and hotel/restaurant) are the leading SMEs (i.e. 53%) followed by community, social, and personal services (i.e. 22%) and manufacturing firms (i.e. 20%). The other SMEs make 5 per cent of the total. SMEs sectoral break-up as shown in Figure 1.1.

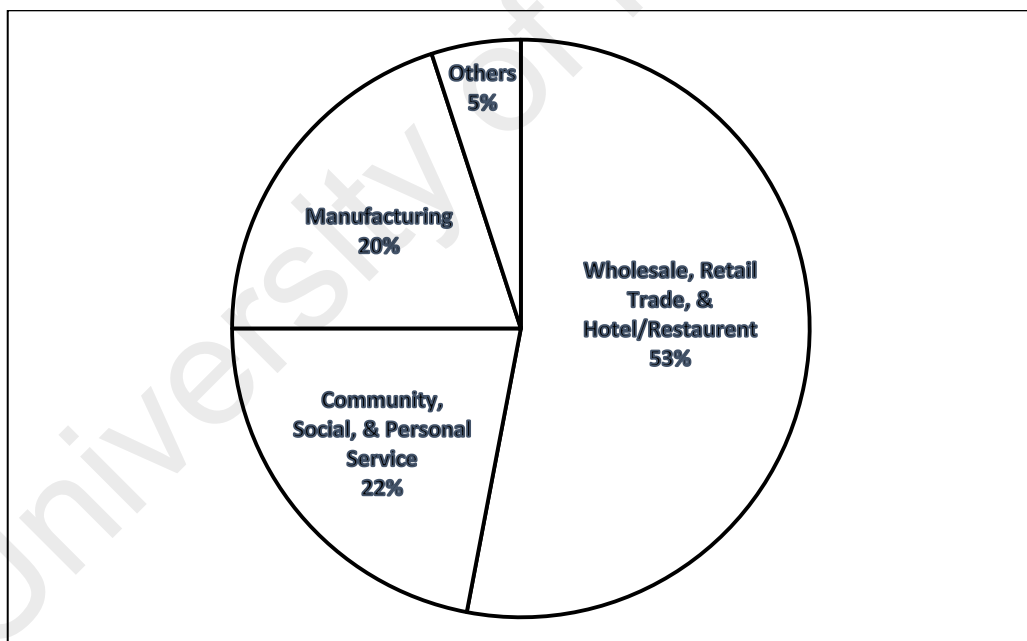


Figure 1.1: Sectorial Distribution of SMEs

Source: SMEDA (2013)

The manufacturing sector of Pakistan is extremely diverse. The main contributors of this sector are three industries (a) textile with a contribution of 24.02 per cent, (b)

chemicals with a contribution of 15.17 per cent, and (c) food with a contribution of 13.77 per cent. Leather and clothing apparel are the major industries with a contribution of 43.2 per cent. Food, beverages, and tobacco rank second with a contribution of 20.9 per cent. Subsequently, wood and wood products, fabricated metal products, machinery and equipment constitute 10 per cent of SMEs. The rest of the SMEs are handicraft and manufacturing industries (8.9 per cent) and others are 11.1 per cent. Eighty five per cent household establishments are situated in rural areas. Among the rural household SMEs, fifty four per cent relate to textile, clothing apparel and leather products.

Textile and cotton (spinning, garments, weaving processing, apparel and sportswear) are the leading industries. The second largest group includes wood and furniture, electronic appliances, auto parts, fabricated metal products, carpets, beverages, jewelry, and artificial silk. Approximately 50 per cent of SMEs are involved in wood and furniture, cotton weaving, metal products, art silk, and grain milling. In Pakistan, there are 72 districts and the most of SMEs are located in ten districts (Government of Pakistan, 2005). These ten districts are Karachi, Lahore, Faisalabad, Multan, Hyderabad, Sialkot, Gujrat, Shiekhupura, Gujranwala and Quetta. Three districts particularly Lahore, Faisalabad, and Karachi host 25 per cent of the total SMEs.

Table 1.3: Provincial distributions of SMEs

Name of area	SMEs %
Pakistan	100 (2.96 million)
Punjab	65.26%
Sindh	17.82%
KPK	14.21%
Baluchistan	2.09%

Source: SMEDA (2013)

As per Federal Bureau of Statistics of Pakistan, 65 per cent of the total number of SMEs is located in Punjab, 18 per cent in Sindh, 14 per cent in KPK, and 3 per cent in Baluchistan and Islamabad. The province-based break-up of SMEs is portrayed in Table 1.3. Moreover, wholesale, retail, restaurants, and hotels industries are 53 per cent of the total SMEs; community, social, and personal services are 22 per cent of the total SMEs; and manufacturing SMEs are 20 per cent of the total SMEs. An interesting point as per Federal Bureau of Statistics (2004) and SMEDA (2006) is that above 90 per cent of the SMEs are less than 20 years old.

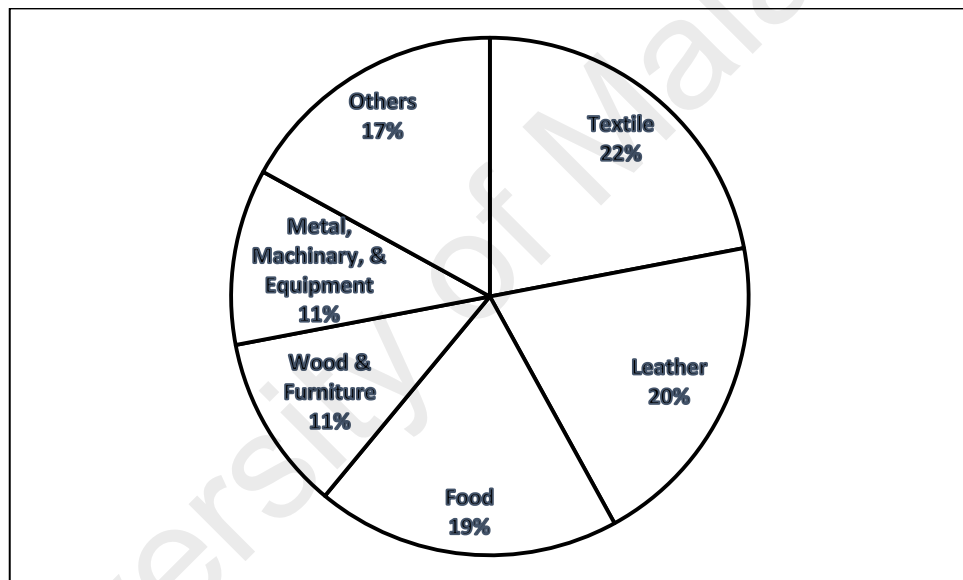


Figure 1.2: Distribution of SMEs in the manufacturing sector

SMEs face highly competitive environment due to the continuous shift of technology. Fast technological development has offered opportunities for organizations to launch novel goods/services, change their manufacturing processes and do business through new and innovative methods (Borins, 2002). The current competitive environment demands organizations to bring innovation, remain fit in organizational environment, compete with competitors, retain existing customers, and capture new customers. Many

studies suggest corporate entrepreneurship as one of the tools to achieve the aforesaid objectives. The need of corporate entrepreneurship has been enhanced owing to increased uncertainty, complexity, challenges, resources shortage, expansions, productivity and frequent changes in both profit based and nonprofit organizations (Damanpour, 1991; Howell & Higgins, 1990).

A large number of empirical studies focus on the role and importance of financial, as well as technological resources in the success of SMEs. Besides financial resources, corporate entrepreneurship has become essential for firms' growth, survival, profitability, and competitive edge in this competitive environment (Zahra, Filatotchev & Wright, 2009). Promotion of corporate entrepreneurship depends on leaders who play a key role in the success of SMEs by attaining competitive advantage. Resource based-view theory (Wernerfelt, 1984) asserts that incomparable resources assist an organization to gain robust and competitive advantage. In Pakistan, the role of corporate entrepreneurship is limited in practice with its advance trends especially in the SMEs sector (GEM, 2012). So far, only a few studies have discussed the role of leadership in promoting corporate entrepreneurship (innovation, new business venturing, self-renewal, pro-activity, and risk-taking) in SMEs of Pakistan. Owing to less focus on empirical studies on the role of leadership in the growth of SMEs, neither firms nor government could emphasize on leadership styles. This study focuses on investigating the impact of leadership styles on corporate entrepreneurship which are considered essential for growth and development of SMEs. The next section presents an overview of leadership in Pakistan especially in the context of business.

1.4 Leadership in Pakistan

Business leadership usually in developed and developing economies is not entirely different. The business leaders deal with the specific problems and situations their organizations face.

Pakistan has been facing leadership crises since the death of Pakistan's founder Muhammad Ali Jinnah. No national political leader could develop a strategy to build all institutions of state for the economic growth owing to political controversies and political instability. Political instability has evoked many martial laws and military take overs in Pakistan. The post 9/11 war against terrorism has increased troubles for the Pakistani economy. The country is constantly enduring extraordinary chaos in the form of suicide attacks, weak law and order, and security threats. These circumstances are not cordial for the smooth operations of for-profit organizations.

Pakistani economy has suffered frequently because of a lack of specific plans to solve long-term economic issues (Roberts & Sattar, 2015). There is a lack of effective monetary and fiscal policies due to dependence on augmented loans taken from the International Monetary Fund (IMF). Effective leadership is needed at the country-level to lead the country and economy. Likewise, in the case of business, visionary and thoughtful leaders can successfully lead the organizations to achieve their objectives.

Many businesses have persisted and grown even in the presence of aforesaid business-unfriendly circumstances. Some of such businesses have made extraordinary achievements. Similarly, business leaders such as Mian Muhammad Mansha, Rafiq Rangoonwala and Malik Riaz Hussain are among those business leaders who heightened their businesses in the face of so many troubles and a deteriorating economy.

Mian Muhammad Mansha started his business with small cotton factory, and continued to expand his business to the famous Nishat Group of Industries. Nishat Group is prominent in Pakistani textile industry. Nishat Group also acquired a leading bank i.e. Muslim Commercial Bank now known as MCB Bank and is operating in many countries such as Dubai, Bahrain, Hong Kong, Sri Lanka, and Azerbaijan. Nishat Group also established DG Khan Cement Factory which is now a leading cement factory in Pakistan. Qazi (2009) claims that Mian Muhammad Mansha has proven himself as a transformational leader in Pakistani business.

Mr. Rafiq Rangoonwala is another prominent business figure. He joined Cupola Group, an international franchise as CEO in 2000 when this group was facing difficult times to survive in Pakistan. He made dynamic corporate decisions for the uplift of Cupola Group and successfully brought this group out of crisis. Under his leadership, Cupola Group operates many businesses in Pakistan successfully. Some of the well-known businesses held by the Cupola Group include the franchises of KFC, Freshens, Indulge, Casa Bakery, and My Super Store. Zakir (2009) identifies Mr. Rangoowala as a transformational leader.

Another example of transformational leadership in Pakistan is Malik Riaz. He started his business career with a small real estate enterprise. He led this real estate venture with the name Bahria Town successfully, and now his business is a well-established brand not only in Pakistan but also some parts in Asia. He also patronizes many social ventures in the field of sports, education, poverty alleviation, disaster risk management and rescue activities. Mr. Riaz is widely acknowledged for his exceptional leadership skills for leading both for-profit and not-for-profit organizations successfully.

A number of traits are regarded critical for effective leaders. For example, character strength and integrity may, indeed, put off leaders from arriving at their potential in specific nations. There is a slight uncertainty that effective leaders should be critical intellectuals and be active enough to resolve the problems. The effective leaders should take prospective decisions and make strategic plans after taking into account all the potential aspects of their decisions and plans prior to their implementation.

Despite the importance and role of SMEs in economic development, SMEs in Pakistan are not performing to the level they ought to. One major reason is the lack of effective leadership (Bari, Cheema, & ul Haque, 2002). Against this backdrop, research on various facets of leadership and their impact on SMEs' performance is indispensable. The true picture of juxtaposition of leadership with SMEs performance, particularly corporate entrepreneurship can lead to better appropriate policies in elevating SMEs' performance. Aligned with the Government of Pakistan Vision 2025, this study undertakes this task. The following section briefly delineates the problem statement of the study.

1.5 Problem Statement

Traditionally, SMEs are expected to contribute in corporate entrepreneurship by acting as vibrant support of the large firms. However, most of the SMEs are characterized by high failure rates and low-level innovation. Dynamic business environment and rapid technological advancements have made the situation challenging for the newly formed firms. Owing to this phenomenon, SMEs instead of focusing on innovation, are still coping with the survival challenges. The researcher argues that corporate entrepreneurship raises the chances of SMEs' survival. There is a dire need to effectively focus on promoting corporate entrepreneurship for elevating the chances of

SMEs' survival (Reimers-Hild, 2011). Likewise, this need paves the way for new strategic imperatives which claim to rethink about the leadership methods to promote corporate entrepreneurship in SMEs (Morrisette & Oberman, 2013). Firms need to adopt an approach characterized by leadership to promote corporate entrepreneurship for their survival (Morrisette & Oberman, 2013). However, there is dearth of scholastic work to delineate the relationship and role of leadership styles to promote corporate entrepreneurship (Vecchio, 2003).

In Pakistan, SMEs' survivability rate is very low even after the many different initiatives taken by Government of Pakistan (Hussain, Si, Xie, & Wang, 2010). Many businesses fail not due to the lack of resources but rather to the lack of effective leadership (Morrisette & Oberman, 2013; Shamir, House, & Arthur, 1993).

Leadership is the vital in all firms (Sultana, 2012). A large number of researchers applaud the role of leadership especially in SMEs' survival (Aziz, Abdullah, Tajudin, & Mahmood, 2013). Many researchers consider the style of leadership as a vital factor in promoting corporate entrepreneurship in SMEs. Leadership is a comprehensive concept which takes into account not only the operational tasks but also stimulates intellectual abilities of employees contributing toward the innovation of a firm (Bass, 1985; Bass & Riggio, 2006). Leadership is as important in the SMEs as in bigger firms because SMEs are a backbone to many multinational companies (MNCs) (Hamburg, Brien, & Engert, 2013). Today's MNCs were never born as MNCs; they started to operate as SMEs and gradually grown to MNCs (US International Trade Commission, 2010). To Quan (2015) and Nave (2005), the difference between the SMEs who failed and those who lead the market is leadership. The SMEs of the past, having effective leadership, have now

grown into big multinational and corporate giants. There are so many examples in the case of Pakistan. Nishat group is one of the big business groups which started with almost less than two hundred thousand Pakistani Rupees as initial capital. Similarly, Bahria Town was started by Malik Riaz from small construction business and through his leadership skills; now this organization has become the largest real estate venture in Pakistan. Owing to less number of empirical studies on leadership in business organizations, the issue of leadership and corporate entrepreneurship in SMEs could not captivate the sufficient attention of business researchers.

The concepts of leadership and corporate entrepreneurship are discussed separately in the review of literature. Shamir et al. (1993) and Leavy (1997) argue that leadership assists leaders in preparing themselves for specific actions and deciding the scope and time of the required activities while entrepreneurship symbolizes and translates the behaviors into actions (Eyal & Kark, 2004). Likewise, many scholars examined leadership and entrepreneurship relationships individually or used one dimension of leadership with entrepreneurship (Eyal & Kark, 2004; Ling, Simsek, Lubatkin, & Veiga, 2008). Since the government of Pakistan extensively focuses on the promotion of corporate entrepreneurship, it is also required to analyze the effect of different leadership styles on each dimensions of corporate entrepreneurship so the leaders can promote the dimension which may currently be lacking in the SMEs of Pakistan.

The role of absorptive capacity in the relationship of leadership styles and corporate entrepreneurship has not been intensively studied as Resource-based View theory (RBV) states that firm's capacity to absorb knowledge is helpful to promote corporate entrepreneurship. There is also a need to explore how various leadership styles affect

individual dimensions of corporate entrepreneurship. Particularly in Pakistan, limited studies have been carried out to explore the aforesaid relationship.

Corporate entrepreneurship is critical for firms' economic survival in a highly competitive business environment. The success of corporate entrepreneurship largely depends upon the leadership capabilities of the top management of the firm. A comprehensive investigation of leadership and corporate entrepreneurship nexus at SMEs is a significant area of research. The need of such study in Pakistan is vital and urgent in nature as the government of Pakistan has put the SMEs development in its Vision 2025 plan (Government of Pakistan, 2014).

Based on the above problem statement and research gap, following are the research objectives and research questions of this study.

1.6 Research Objectives

The major objective of this study is to develop and analyze the conceptual framework to explore the relationship between leadership and corporate entrepreneurship. Three leadership styles namely transformational, transactional, and passive-avoidant are taken as independent variables whereas corporate entrepreneurship is measured by five dimensions namely innovation, new business venturing, self-renewal, proactivity, and risk-taking. Furthermore, absorptive capacity is taken as the mediator role in the relationship between leadership styles and corporate entrepreneurship. This study presents three research objectives in the context of manufacturing SMEs in Pakistan.

The objectives of this study are as follows:

1. To analyze the relationship between leadership and corporate entrepreneurship in SMEs
2. To discover the role of leadership styles affecting the dimensions of corporate entrepreneurship individually in SMEs
3. To assess the role of absorptive capacity between leadership and corporate entrepreneurship

1.7 Research Questions

1. What is the relationship between leadership styles and corporate entrepreneurship in SMEs?
2. How do leadership styles affect the various dimensions of corporate entrepreneurship in SMEs?
3. What is the role of absorptive capacity between the relationship of leadership styles and corporate entrepreneurship?

1.8 Significance of the Study

Theoretically: This study integrates the dispersed scholastic work on leadership, corporate entrepreneurship, and absorptive capacity into one framework. This integration explains the role of leadership and absorptive capacity to promote corporate entrepreneurship.

Empirically: This study defines the relationship of leadership and corporate entrepreneurship in the manufacturing sector of SMEs in Pakistan.

Policy contribution: This study conceptualizes the leadership ideas in the context of SMEs in Pakistan. It provides guidelines for top management, decision-makers, and policy-makers to become successful entrepreneurs and innovators. The study develops a model to fill this gap and suggests solutions for SMEs managers/owners for managing change, capturing business gaps and attaining competitive edge over competitors. The study also suggests the type of leadership style to promote corporate entrepreneurship. This study also investigates the need of improvement in the dimensions of corporate entrepreneurship. Policy implications of the study would be used by all stake holders for ensuring SMEs' survival in the competitive business world.

Over the past few years unemployment rate in Pakistan has increased (Arslan & Zaman, 2014). Corporate entrepreneurship would not only produce more jobs but also boost the economic growth (Acs, 2006). Bruton, Ketchen, and Ireland (2013) argue that entrepreneurship offers a way to break the poverty cycle by using unemployed people as investment. To eliminate unemployment and poverty, promotion of corporate entrepreneurship is necessary (Manyaka, 2015).

1.9 Scope of the Study

This study emphasizes particularly on the manufacturing SMEs of the Punjab province of Pakistan. Data has been collected (cross sectional) in the duration of December 2014 till March 2015. Furthermore, data have been collected from six major cities: Lahore, Faisalabad, Sialkot, Gujranwala, Gujarat, and Multan. Data has been collected from the top management (CEO/owner/manager) of the SMEs. Unit of analysis is SME. One observation is collected from each SMEs. Three leadership styles (transformational, transactional, and passive-avoidant) would be analyzed to promote corporate

entrepreneurship. Innovation, new business venturing, self-renewal, proactivity, and risk-taking are taken as the dimensions of corporate entrepreneurship; with absorptive capacity as the mediator in this relationship. SEM is used for analysis. Therefore, in this backdrop, the findings of this study are limited to the manufacturing SMEs of Pakistan.

1.10 Organization of the Study

This study consists of five chapters. Chapter 1 comprises the background of the study, evolution of SMEs, provincial distribution of SMEs, leadership in Pakistan, problem statement, research questions, research objectives, significance of the study, and organization of the study. Chapter 2 reviews the literature including on leadership, theories of leadership, corporate entrepreneurship, theories or models and dimensions of corporate entrepreneurship, absorptive capacity and theoretical support of two theories, namely social cognitive theory and resource-based view theory to explain the linkages of leadership styles, corporate entrepreneurship, and absorptive capacity (mediating variable). Chapter 3 discusses the methodology and includes research design: population, sample, data collection procedures, and measurement of variables (leadership styles; transformational, transactional, passive-avoidant, corporate entrepreneurship, and absorptive capacity), pilot study, reliability, validity, and data analysis techniques (structural equation modeling-SEM). Chapter 4 contains preliminary data analyses (data editing, coding, and screening), descriptive statistics, reliability and validity of the constructs, results and discussion and summary of results and discussion. Chapter 5 contains conclusion, implications, limitations, and future recommendations.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter comprises eight sections. Following this first section of introduction to the chapter, second section defines leadership. Section three includes theories of leadership. Fourth section contains discussion on corporate entrepreneurship. Fifth section comprises the theories and constructs of corporate entrepreneurship. Sixth section consists of absorptive capacity and explicates the theoretical relationship of leadership styles, absorptive capacity, and corporate entrepreneurship. Section seven describes how the conceptual framework is derived. Hypotheses are developed in the eighth section. Finally, the ninth section presents the summary of the whole chapter.

2.2 Leadership

In the present era, leadership is a multidisciplinary academic and business field of research which emphasizes on the life of humans and organizations. Leadership is originated from various fields: social sciences (e.g. psychology, sociology), humanities (e.g. philosophy and history), and applied as well as professional fields of research (e.g. education and management). Leadership is strongly linked with organizational management. Various leadership definitions have emerged with the passage of time. Many researchers and theorist have propounded definitions of leadership but so far a comprehensive definition on leadership could not emerge and still there exists a scope for further studies (Kanji & e Sa', 2001; Northouse, 2006).

Leadership is a process of “influencing others to understand and to agree about what needs to be done and how it can be done effectively, and the process of facilitating individuals and collective efforts to accomplish a shared objective” (Yukl, 2002: 3). In another definition, leadership is a procedure of shaping firm from the present stage to the height that a leader aspires (Dess & Lumpkin, 2003). The gurus of the executive management and leadership mention that “today’s leaders are those who produce the leaders”. In fact, still there is a space for a clear and comprehensive definition of leadership (Bass, 1991; Lincoln, 2012). Burns (1978) argues that leadership is an art of utilizing individuals for definite purposes, standards and approaches to resources in a rivalry perspective and disputes in chasing the objectives. Evidences show that a comprehensive and clear description of a leader and a lucid distinction between an effective leadership and a poor leadership in the literature is not defined (Bass, 1991; Stogdill, 1974). However, it is beyond the scope of this study to define leadership. The aforesaid attempts to define leadership led significant organizational and social studies on leadership styles and behaviors (Ryan & Tipu, 2013). Previous studies created ambiguities for top management of the organizations to pursue an appropriate style of leadership. This research work is vital as it contributes in assessing and reviewing the various leadership theories and suggests an appropriate leadership style to successfully fit in current dynamic business environment.

2.3 Theories of Leadership

For this study, six major theories on leadership have been focused: Great Man theory of leadership, trait theory of leadership, behavioral or skills theory of leadership, power or influence theory of leadership, contingency theory of leadership, and integrative theory of leadership. These theories have great influence in the field of leadership.

2.3.1 Great Man Theory of Leadership

A Scottish writer, Thomas Carlyle, introduced the leadership theory of Great Man in 1840. He considers “Leader” as hero. He presents examples of several leading personalities in the human history to support his argument that these few great personalities are behind the significant historical development and advancements. These personalities had the aptitude and style to control and command the majority of people. These far-sighted and visionary personalities led multitudes of people in attaining the goals (Carlyle, 1993). He argues that leaders cannot be developed but by birth with God gifted capabilities. By analyzing a few military and political leaders, Carlyle argues that a leader is an authoritative individual who dictates or commands others in the events and advancements. On the other hand, Herbert Spencer challenges this theory by arguing that history is not made by these leaders, it is the outcome of a series of happenings and the need of time. He also suggests that history is the tide of occurrences which happens when it has to happen. Consequently, the so-called individuals who have God-gifted capabilities cannot be deemed as the manifest change agents. However, there is affection for those special individuals who contribute noticeably in events and advancements in human history (Kellerman, 1984).

The Great Man Theory focuses on the personality attributes. This theory explains such areas of expertise which can make great men or leaders. However, it does not mean that this theory agrees that leaders can be made through this theory explains a leadership concept in the mid-nineteenth century by analyzing the personality attributes but fails to provide solid explanation of the procedures to make a leader.

2.3.2 Trait Theory of Leadership

The trait theory of leadership is an early work on leaders and their attributes. This theory emphasizes on the attributes of personality of leaders based on well-developed hypotheses on the basis of leaders' traits (Fleenor, 2006). Researchers and practitioners of trait theory have attempted to discover and illustrate the complimentary attributes and traits of effective leaders. Stogdill (1948) firstly hypothesized that personality interaction of people and situational factors contribute to describe the concept of leadership. Later on, Stogdill (1974) authenticated his hypothesis on traits after carrying out more studies and inferred that traits of personality and situational antecedents have significant role in defining leadership traits.

A number of researchers and practitioners recognize traits of personality and state their own approach with adequate support of empirical studies. Big Five Personality Traits, also known as Five Factor Model (FFM), is a well-known model among the trait theorists and researchers. FFM includes five major characteristics or traits of leaders. These traits are: first, openness to experience; second, conscientiousness; third, extroversion; fourth, agreeableness; and fifth, neuroticism.

Openness to experience is defined as an individual's desire for investigating and attempting to find novel things. The aptitudes of these individuals admit and enthusiastically welcome to strange solutions for complicated problems. They are always ready to try novel things cognitively and emotionally (Atkinson, Atkinson, Smith, Bem, & Nolen-Hoeksema, 2000). The leaders who have openness to experience are rich in notions, intelligent risk-takers and eager to know or learn something and are committed to complete tasks and achieve business goals.

Secondly, conscientiousness is the personality characteristic that allows people to feel safe and secured to face unknown circumstances by being self-regulated, well disciplined, be dutiful in performance, and have sound aims for the achievement of the targeted objectives (Mount & Barrick, 1995). People with such traits of personality demonstrate elevated performance as they utilize all available resources to achieve their goals through proper planned arrangements. Such arrangement and planning contribute to reduce the failure possibilities.

Thirdly, the extroversion trait is a process of social connections of people. Extrovert individuals are more outspoken, have social relations with other people, have an aptitude to speak and spread their ideas among large group of people, feel happy among people, and are excited while working in groups. Extrovert individuals feel pleasure and become energetic by interacting with others (Gosling, Rentfrow, & Swann, 2003). Introversion is opposite to extroversion. It is viewed that the introvert individuals are not socialized, and consequently they stay away from crowds and like better to work alone.

Fourthly, agreeableness is defined as a kind, caring, sympathetic, and generous trait of people. Agreeable individuals regard others, and demonstrate friendly, trustworthy and cooperative behavior. The agreeable people are soft-hearted and make others feel comfortable in their company; they also respect the emotions and feeling of others, and communicate sympathetically with others (Rothmann & Coetzer, 2003).

Finally, neuroticism is defined as lack of emotions. These people get annoyed immediately, shift their emotions rapidly, and get irritated and uncomfortable in negative circumstances. This characteristic symbolizes comparatively a weak position

of emotions and lesser emotional quotient in managing the counterproductive and hectic circumstances (Jeronimus, Riese, Sanderman, & Ormel, 2014). Facing the enormous propensity of negative emotions, neuroticisms perceive ordinary circumstances threatening and vulnerable, and even a slight signal of disappointment leads them pessimistic. People with lesser neuroticism comparatively have constant reactions of emotions and do not disappoint easily as those who have elevated neuroticism.

Although marvelous attention has been given to define traits of leadership, efforts have failed to present essential understandings because of theoretical and operational limitations. These limitations contain unsuccessfulness in delineating the conclusive traits of leadership, failure to consider situations, subjective determinations of significant traits of leadership, unsuccessfulness in trait association and consequences of leadership, and lastly, not a beneficial approach to develop and train leaders (Draft & Lane, 2008; Durbin, 2004; Lussier & Achua, 2010; Northouse, 2006; Yukl, 2006). Particularly, there is no supporting theory to relate study of traits with the outcome of managers such as effectiveness and identification (Stogdill, 1948). Investigation of one trait separately is an additional boundary of the trait research (Yukl, 2006). This approach remains unsuccessful to account for how traits link to affect behavior of an individual (people rely on several traits, talents beliefs, skills, and emotions to create position behavior and performance).

2.3.3 Behavioral or Skills Theory of Leadership

The concept of behavioral or skills theory of leadership arose after a failure of efforts to present essential underpinnings for explaining the trait theory of leadership. Trait theory of leadership emphasizes on the characteristics of personality of leaders, hence if such characteristics are present in an individual, he/she could be an effective leader. These

traits are considered to be important in coping with particular circumstances. Trait researchers and practitioners claim that leaders are born with particular traits which differentiated them from others.

Opposing to the trait theory of leadership, the researchers of the behavioral theory of leadership argue that particular behaviors describe the leadership style of how a certain behavior gets particular response. Behavioral scholars further emphasize that leadership aptitudes can be learned, and are not by birth. The most important distinction between trait theory and behavior theory is that the former emphasizes on what leaders are and the later constitutes what leaders perform.

The studies of behavioral theory of leadership emphasize on particular attributes which distinguish leaders from non-leaders. These particular behaviors demonstrated by leaders are organized in a framework. These studies also try to differentiate good and effective leaders from those who are not good and ineffective. This process or element is ignored by the trait theory of leadership. Consequently, studies based on the behavioral theory of leadership critically analyze the antecedents and behavioral model of good leaders. The exemplary activities and behaviors of leaders might be adapted to develop and train leadership aptitudes in non-leaders. On the pattern of the behavioral theory of leadership, three kinds of leaders have been identified: first, autocratic; second, democratic; and third, laissez-faire leaders (Lewin, 1944; Lewin, Lippitt, & White, 1939).

Firstly, autocratic leadership style is authoritative and leader-centered in nature. They take decisions by themselves and do not involve others in the decision-making process including employees (Bernard M Bass, 1990). Autocratic leaders, being authoritative in

nature, command and lead the followers, subordinates or their groups toward achieving the goals. The positive aspect of these leaders is rapid decision-making without wasting resources and time. Nevertheless, one-man show does not make sure the right decision since there is only one person deciding all about what to do (Rosenfeld & Plax, 1975).

Secondly, democratic leaders ask and welcome suggestions and proposals from subordinates or employees for appropriate and effective decision making. Democratic style of leadership has a great benefit over the autocratic style of leadership because it engages subordinates and employees to actively contribute in the process of strategy development and implementation. They engage in participative decisions. Consequently, democratic leaders provide an enthusiastic atmosphere to subordinates and employees which motivate them by identifying their worth and precious recommendations (Bass, 1990; White & Lippitt, 1968). Nevertheless, such behaviors of leadership obstruct rapid decision-making since the engagement of several parties makes the process of decision lengthy and sometimes even complex.

Finally, the laissez-faire style of leadership involves no interference in the decision-making process, rather the leaders leave the decisions to followers and subordinates to make and implement their own decisions in attaining the targeted goals (Bass, 1990). This style is effective when subordinates or employees are motivated, determined, intelligent, and competent enough to make decisions. This style may prove unsuccessful where the subordinates or employees are inactive and incompetent (Goodnight, 2004; Lewin, 1944). Two vital studies have been carried out in the Ohio State University and the University of Michigan to investigate the behavioral patterns of leaders (Ibukun, Oyewole, & Abe, 2011).

2.3.3.1 The Ohio State University Studies

In the Ohio State University, a group of researchers developed a questionnaire to examine the behavioral model of leaders to discover their behaviors at the workplace. Two aspects of the leaders' behaviors are identified through these studies. First, commencing the structure and second is consideration (Schriesheim & Bird, 1979). Commencing the structure is the job-oriented leaders' behavior to achieve organizational objectives or goals by a clear definition of members and leaders' roles, distribution of jobs and responsibilities, resources of an organization and identify how group members can accomplish targeted objectives and achieve goals effectively and efficiently. Second, the consideration aspect of the study is on the element of people-oriented. The leaders demonstrate association, mutual trust, concern, and friendship for the subordinates or employees and give regard to their recommendations in the accomplishment of objectives and goals (Schriesheim & Bird, 1979).

2.3.3.2 University of Michigan Studies

Rensis Likert in 1950s carried out these studies with a purpose to discover the major principles of leadership which contribute to the production and job satisfaction. Two aspects of leadership are highlighted by these studies. First, employee orientation, and second is production orientation. The leaders who are employee-oriented think that employees or subordinates are humans with their personal requirements and distinctions. Such leaders establish interpersonal association to make the subordinates more productive. The leaders who are production-oriented consider employees or subordinates as means of achievement of tasks and emphasize on scientific and production associated facets. The results of these studies demonstrate that subordinates' or employees' orientation provide elevated performance and better impacts than that of considering them only as a medium to obtain work. Likert (1981) believed that this is

participative-group system (system 4) which symbolizes the most participatory set of leaders' behavior (Lussier & Achua, 2015).

2.3.3.3 Blake-Mouton Managerial Grid

Robert Blake and Jane Mouton developed the Managerial Grid framework in 1964 to analyze the managerial level of leaders and contrast of the degree to which leaders emphasize on subordinates or employees and job orientation. This managerial grid is divided into four quadrants, concern for people is taken on vertical line and concern for job is taken on horizontal line. Every quadrant explains a particular style of leadership. The quadrant of country club management demonstrates the elevated group members' preference and low preference for job. The quadrant of authority compliance asserts that leaders are more related to job performance instead of development and requirements of employees or subordinates. The quadrant of impoverished management states low concern for both employees and the tasks. The quadrant of team management shows high concern for both employees and tasks. There is a moderate level which represents a moderate concern of leaders towards employees and jobs which is known as middle-of-the-road management (Eagly & Johnson, 1990; Yukl, 1994).

2.3.3.4 Role Theory of Leadership

Role theory of leadership is another popular theory. This theory argues that the leaders' role is explained by their followers' or subordinates' expectations. Leaders consider the expectations of their followers, and outline and practice their roles accordingly. Two most important types of roles are present in organizations (Bernard M Bass & Bass, 2008). First, the formal role, explained through the policies, processes, principles, and course of actions of the organization to perform the particular roles. Leaders characterize their roles following the guidelines of the formal principles and course of

actions. Second, corporate culture and beliefs are also vital to explain leaders' role. The informal information guides the leaders to design informal roles. Expectations of roles towards leaders depend on one specific situation to the other. Conflict of roles may occur where expectations are too low, mixed or different from the leaders' perception (Bass & Bass, 2008).

The behavioral theory of leadership also faces a lot of issues recognized by the trait theory of leadership, developed on the built-in propensity to search for simple descriptions to critical conditions (Yukl, 2006). Many associated studies emphasize on personal performance separately instead of investigating the patterns of leadership behaviors (Yukl, 2006). Behavioral studies from 1950 to 1985 emphasized almost entirely on two groups of leaders' behavior: (1) attention for followers and (2) development of the organizational structure. Findings of these studies were blended (Northouse, 2006). Behavioral studies have proven its unsuccessfulness to connect the theory with performance leadership and forecasting (Yukl, 2006).

2.3.4 Power or Influence Theory of Leadership

Power or influence theory emphasizes on leaders' efforts to affect the behaviors and attitudes of employees or followers. The primary principles of this theory are to interact with trade-offs in personal power (French & Raven, 1959) and position power (information, reward, ecological, legitimate, and coercive).

The most vital queries or problems studied in this school of leadership are: first, best combination of leader's power; second, exploitation of power by leadership position; third, unethical effect of power on leader; fourth, followers' effect on leader; and fifth, issue of how the power should be delegated in firms (Yukl, 2006). Although, there is a

discrepancy that the utilization or exploitation of power is a vital perspective of leadership, emerging studies are not proceeding towards practitioner-application in a consequence of low support of associated suppositions. Therefore, leaders are educated and trained for the moral use of power and effect methods. Furthermore, power or influence theory of leadership does not present a theory for assisting performance of leadership and predication.

2.3.5 Contingency Theory of Leadership

Both trait and behavioral theories of leadership present deep understandings and assist in evaluating leaders' personality and behaviors towards subordinates or employees. Both the theories also help the leaders in achieving the organizational goals. But these theories fail to provide guidelines about how behaviors of leaders change in different environments and in different circumstances as well as their responses. The absence of situational connection limits role understanding and leaders' performance on a particular task or job in different circumstances. The contingency theory of leadership fills this gap of connection absence. Fiedler (1964) presented the contingency theory of effectiveness in an attempt to evaluate relation-motivation and contextual antecedents. Studies have revealed that relation-motivations or tasks are contingent on leaders' ability to control the team consequences. Contingency theories of leadership focus on leaders' behavioral and leadership styles are effective only in particular circumstances. Leadership styles depend on the circumstances and the requirements posed by the circumstances. Below are some theories which are classified as contingency theories of leadership.

2.3.5.1 Fiedler Contingency Model

The Fiedler's Contingency model hypothesizes that there is no best leadership style, rather the effectiveness of a leader is based upon the situation. This theory constitutes three major areas: first, recognizing the leader's style; second, specifying the situation; and third, matching the style of a leader with the situation. Fiedler (1964; 1967) hypothesized on the basis of behavioral studies that a leader either could be task-oriented by emphasizing on outputs or could be personnel-oriented by developing and sustaining interpersonal association to organize and get work completed in an environment of mutual trust. Nevertheless, the style of a leader can also be a mixture of both according to the circumstances. Fiedler (1964) developed a least preferred co-worker (LPC) scale to measure the style of a leader. The high score of this scale characterizes the leader as relationship-oriented and low score refers to the leader as task-oriented.

Fiedler (1964; 1967) also presented situations in three distinct factors: first, leader-member relations; second, task structure; and third, leader's position power. First, leader-member is defined as the extent to which employees or subordinates have confidence, trust, and respect for their leader. Second, task structure is defined as the uniform process of tasks or job achievement. Third, position power refers to the degree of power or authority of a leader. Power includes authority to recruit, dismiss, promote, and reward etc. OA leader realizes his/her style and the situation using a questionnaire of LPC. Then, the leader can balance by either using style of leadership according to the situation or change the situation according to the style.

2.3.5.2 Cognitive Resource Theory

Fiedler and Garcia (1987) presented the cognitive resource theory as an extension of Fiedler's Contingency Model. This theory emphasizes on the intelligence and experience of leaders as well as their response to the different stressful circumstances. Stress is the foremost antecedent that declines rationality of human behavior and affects an individual as well as the performance of a group of individuals (Fiedler, 1986). Leaders face trouble to think logically and perform rationally in stress but the stress influence can be reduced via cognitive intelligence and experience.

Cognitive resource theory anticipates that the cognitive ability and intelligence of a leader can be valuable in augmenting the performance of group if the style of a leader is directive. Moreover, stress has negative relationship with quality of decision making and intelligence. Low stress helps the leaders make quality decisions (Fiedler & Garcia, 1987). On the other hand, in circumstances of higher level of stress, effective decision-making and cognitive ability of leaders are reduced, and the leaders demonstrate low performance. In higher stress level, the experience of leaders plays a vital role in dealing with the situation and making quality decisions. Finally, cognitive resource theory anticipates that when employees or followers are allocated easy tasks, which do not require special cognitive aptitudes; it does not matter whether the leaders have higher experience or greater level of intelligence (Fiedler, 1986; Fiedler & Garcia, 1987).

2.3.5.3 Hersey & Blanchard's Situational Leadership Theory (SLT)

Hersey and Blanchard (1988) and Hersey, Blanchard, and Natemeyer (1979) propound the theory of situational leadership which is mainly based upon the concepts of contingency thinking. Consistent with this theory, there is no particular style of leadership which is suitable for all circumstances or situations. Therefore, leaders are

required to adopt and use a style of leadership which fits the specific situation. Furthermore, the adopted style of leadership depends on the followers' readiness. The word "readiness" refers to the degree to which employees or subordinates have aptitude, readiness and willingness to welcome and follow the directions of leaders to perform the particular tasks and achieve objectives. If leaders remain unsuccessful in getting good response from their followers or employees, the effective performance cannot be attained. Consistent with the theory, objectives and tasks are dissimilar in nature from the means they are achieved. So, any style of leadership cannot be deemed the best for each job. Thus, an effective leader is an individual who pursues diverse styles according to the requirements of circumstances.

There are four styles of leadership according to the situational leadership theory. These styles are: first, telling; second, selling; third, participating; and fourth, delegating. First, telling leadership style relates that leaders obtain work completed by their employees or followers by telling them what to do and how to do (Graeff, 1997). Second, the selling leadership style is comparatively employee or follower-oriented where leaders express their suggestions or proposals and prepare the followers to accept their suggestions. Third, participating leadership style is a step forward and engages the participants or followers in making decisions and achieving goals. Collective or participative decision-making is done by discussing and brainstorming the tasks. Fourth, delegating leadership style relates that leaders delegate most of the powers to the members of the group to make a decision by themselves regarding what to perform and how to achieve the common objectives successfully (Hersey & Blanchard, 1988; Hersey et al., 1979). A critical analysis of all these leadership styles reveals that both telling and selling leadership styles are task-oriented whereas participating and delegating are follower or employee-oriented.

The theory of situational leadership states four distinct situations named as maturity levels denoted as M1, M2, M3, and M4. M1 refers to low level of maturity where people have lower levels of knowledge, skills, and abilities to accomplish the tasks. Owing to the absence of confidence, people are not ready to work on tasks. In such situations, telling leadership style is suitable to motivate the subordinates or employees to get the work completed (Graeff, 1997). M2 is considered as average level of maturity with lower skill levels determined by lower confidence and skills. The people lying in this category are ready to work on a task but due to the absence of experience and absence of ability they remain unsuccessful in accomplishing the tasks effectively. In such circumstances, selling leadership style is most appropriate when followers are willing to accomplish task but they need guidance (Hersey & Blanchard, 1988). M3 is referred as medium level of maturity with higher skill level, and pertains to the situation when employees or followers lack in confidence. Support via participating leadership style is most appropriate alternative for such circumstances where leaders engage employees in setting the targets and instilling the confidence via energetic participation and cooperation (Paul Hersey et al., 1979). M4 is referred as high level of maturity determined by highly trained and confident employees. The followers or employees of this group are experienced and skilled, and they are dedicated towards their work. In the aforesaid circumstances, delegating leadership style is suitable as it shifts authority and power to the employees or followers to enable them to perform the assigned tasks (Graeff, 1997; Hersey & Blanchard, 1988).

2.3.5.4 Path-Goal Theory

Robert House initially presented the concepts of Path-Goal Theory of leadership in 1971 and later on revised the same in 1996. According to this theory, behaviors of leaders depend on the level of encouragement, satisfaction, and assist in explaining and

perusing the path which is simple and clear to accomplish the objective (House, 1971). Particularly, leaders get associated in three kinds of actions. First, leaders elucidate the path for employees to achieve the goal. Second, leaders may engage in the tasks that eliminate or reduce the hindrances for the employees in accomplishing the goals. Finally, the leaders may focus on appreciation and rewards to stimulate the employees or followers to accomplish the goals effectively (House, 1996). It is not essential that leaders must engage only in one specific activity, rather they can perform more or a combination of all activities according to the situation. House (1996) anticipates four diverse styles of leadership on the basis of the behaviors of leaders.

Directive path-goal oriented style of leadership demonstrates and elucidates processes, rules and methods to followers or employees which they are required to accept or follow in the accomplishment of goal. Thus, the followers realize what their job is, and how that job is to be performed (House, 1996). Supportive behaviors of leaders are identified by organizations, caring social satisfaction, and leaders' psychological support for their employees or subordinates to make them feel more confident. These behaviors of leaders provide psychological support to the followers and are aimed to enhance the performance (House & Mitchell, 1974). The participative leaders encourage their followers to contribute and participate in the processes of goal setting, decision making, and accomplishment of the tasks. Leaders demand suggestions and ideas from employees or subordinates about the tasks allocated to them, as they consider the task could be accomplished, through overcoming the obstacles (House, 1996). The accomplishment-oriented behavior is identified by targeting the challenging goals for employees or subordinates, attempting developments in accomplishment, and the methods to increase the distinction and performance. This style of leadership is beneficial when subordinates or employees are not motivated (House, 1996).

The above-mentioned theories help the leaders opt for an appropriate style of leadership in a certain situation. In simple words, leadership or style of leader is contingent with the specific situation. This theory of leadership is proved by several empirical researches that a specific leadership (styles of leaders) is successful in a particular situation. The results of such studies assist in forecasting how to choose leaders for particular settings, and how those leaders will be successful. Likewise, these studies also explore the causes for unsuccessfulness of leadership. Nevertheless, despite the significant amount of empirical support, there is a very little applied support for this leadership theory (Draft & Lane, 2008; Durbin, 2004; Lussier & Achua, 2010; Northouse, 2006; Yukl, 2006). Particular issues to this theory constitute: first, Fiedler (1967) criticism of Least Preferred Coworker (LPC) scale; second, forecasting issues with the respondent employing LPC scale; third, it is not possible to change style of leadership to fulfill every change in the setting; fourth, leader's or follower's uncertainty over transformation of style; and fifth, organizational issues when there is no coherence between the style of leader and the setting. The present business environment has been saturated due to globalization, continuous technological change, increased competition, and uncertainty. This turbulent and contemporary business environment demands such a leadership that ensures successful survival of business.

2.3.6 Integrative Theory of Leadership

The integrative theory of leadership has received much attention of scholars and practitioners since 1980s (Lussier & Achua, 2010; Yukl, 2006). This is because of globalization, continuous change, increased competition, and uncertainty which have saturated the business environment. The new strategic aspects demand that organizations must transform for successful survival. Firms must learn to transform their cultures, bring innovation, and engage employees to achieve the firms' aims and

goals. The focus of integrative theory of leadership considers the leader as a mean for organizing organizational requirements to employees. These transformative leaders have good understandings of people than general public and have great purpose in life (Morrisette & Oberman, 2013). These leaders are capable to affect followers to chase the organizational objectives through role modeling and vision articulation. Therefore, followers' self-interest is replaced by organizational-joint interest and general mission accomplishment. Whereas, most of the studies on integrative theory of leadership are about transformational and charismatic leaders. There are various kinds of leadership: autocratic, authoritarian, steward and servant who are transformational leaders for their followers (Choi & Mai-Dalton, 1999; Farling, Stone, & Winston, 1999; Hernandez, 2008). Till now, this theory of leadership presents the ground for the training, practice, and identification.

In 2008, Bass and Bass categorize this theory of leadership as "New Leadership". They argue that substantial number of comments are available since 1980s but empirically little attention has been given by researchers. This new leadership approach has been employed to explain and classify several leadership approaches which appeared in 1980s (Bryman, 1992) and led scholars and practitioners to conduct studies on novel approaches and styles of leadership. Researchers used various terms to explain new leadership types or styles to which they are associated: transformational and transactional leadership (Bass, 1985), visionary leadership (Sashkin, 1988; Westley & Mintzberg, 1989), and charismatic leadership (Conger, 1989; House, 1977). Later on Avolio and Bass (2004) developed Multifactor Leadership Questionnaire (MLQ Form 5x-short) in which they employed three theories: transformational, transactional and passive-avoidant theories of leadership. Moreover, significant part of studies on leadership also focused on these leadership theories (Bass, 1985; Bass & Avolio, 1994;

Bass, Avolio, & Atwater, 1996; Burns, 1978; Bush, 2003; Lowe, Kroeck, & Sivasubramaniam, 1996; Powell & Graves, 2003). An overview of empirical studies is given in Table 2.1 along with details about these theories of leadership.

University of Malaya

Table 2.1: Studies on Leadership Styles

Study	Year	Country	Leadership Styles		
			Transformational	Transactional	Passive-Avoidant
Hetland et al	2011	Norway	✓		✓
Birasnav	2014	Bahrain	✓	✓	
Hamstra et al	2014	Netherland	✓	✓	
Kara et al	2013	Turkey	✓	✓	
Westerlaken & Woods	2013	Australia	✓	✓	
García-Morales et al	2012	Spain	✓		
Lincoln	2012	Nigeria	✓	✓	✓
Corona	2010	USA	✓	✓	✓
Valdiserri & Wilson	2010	USA	✓	✓	✓
Matzler et al	2008	Australia	✓		
Visser et al	2005	South Africa	✓		
Kark et al	2004	Israel	✓	✓	✓
O'Regan & Ghobadian	2004	UK	✓	✓	✓
Bass et al	2003	USA	✓	✓	

2.3.7 Transformational Leadership

Burns (1978) initially defined the concept of transforming leadership as “leaders and followers make each other advance to a higher level of morality and motivation” which is extended by Bass (1985) who introduced the term transformational leadership. Later on, Bass and Avolio (1995) developed a theory and named it as “transformational leadership”. In the following section both theories, i.e. Burns’ transforming theory and Bass’s transformational theory are discussed.

2.3.7.1 Burns’ Transforming Leadership

Initially, James McGregor Burns in his book “Leadership” (1978) introduced the concept of transforming leadership and state that both leaders and followers lead themselves to a greater level of motivation and morality. Burns focused that both leadership and management are distinct from each other on the basis of nature and attributes of roles. Emphasizing on the leadership of the transformation type, he further stated that it assists followers to transform and change their attitudes and life styles. Therefore, transforming leader designs a way by redesigning the prevailing concepts and values of performing work. Transformational leadership gives motivation to the followers where they prefer the objectives of organizations to their own goals. Hence, transforming leaders bring change in individuals and in the organizational system. This is the source of advanced motivation and morale which gains employees’ active participation in the accomplishment of organizational objectives by a number of mechanisms where leaders present themselves as role models. The leaders relate the identity of individuals with the organizations, understand the followers’ weaknesses and strengths, and delegate the work ownership to the followers.

2.3.7.2 Bass Transformational Leadership

Bass (1985) further extended the work of Burns (1978) and introduced the transformational leadership theory. Bass studied this concept with a psychological mechanism point of view. Bass (1985) employed the word “transformational” in place of “transforming”. As Bass (1985) was curious to study the psychological mechanism at the back of the leaders’ mind to affect followers or employees to transform their concepts, values, aspirations, perceptions, expectations and assessing the degree as well as the leaders’ efficacy. Because of sincerity, confidence, loyalty and other qualities, followers or employees pursue their leader. Bass (1985) conducted a psychometric study by developing and validating of multifactor leadership questionnaire (MLQ). In this questionnaire, he introduced four measures or constructs of transformational leadership: first, idealized influence; second, inspirational motivation; third, intellectual stimulation; and fourth, individual consideration. Later on, Avolio and Bass (2004) refined this questionnaire and divided idealized influence into two parts; idealized influence (attributed) and idealized influence (behavior). Detailed explanations of these five elements are as below:

Idealized influence (behavior)

Idealized influence (behavior) can be defined as transformational leaders displaying behaviors which enable them to be role models for their followers. Transformational leaders motivate and inspire followers through their behaviors to achieve organizational goals and objectives. In simple words, leaders display ethical and moral behaviors and perform as role models in front of followers or employees. Furthermore, leaders show sincerity, respect, infuse passion and self-importance in their followers or employees (Bass, 1985; Bass, Waldman, Avolio, & Bebb, 1987).

Idealized influence (attributed)

Idealized influence (attributed) is defined as followers respecting the leaders with the belief that leaders define behavior standards for followers' motivation. It also includes leader's consistent and distinct understanding of direction and moral behavior. Bass and Riggio (2006) argue that clarification of future goals enhances a leader's commitment to organization's objectives.

Inspirational motivation

Inspirational motivation can be referred as the degree to which leaders express the vision and mission which appeals to the employees or followers. This appealing vision stimulates the employees or followers to work for achieving the elevated standard objectives and performing difficult tasks. Such leaders always use the optimistic approach to inspire employees or followers to attain the organizational objectives.

Intellectual stimulation

Intellectual stimulation is defined as the extent to which leaders question the followers' basic assumptions, take risks and start analyzing the feasibility of followers' ideas. Through intellectual stimulation, leaders promote creativity among followers by questioning the established beliefs and standards which results in the form of firm-level innovation (Bass & Riggio, 2006). Leaders, by using intellectual stimulation, promote critical thinking, employ logic and stimulate followers to rethink the basic assumptions and to restructure problems. Therefore, it fills the gap of confidence and trust among employees or followers and unlocks the doors of individual creativity (Bass, 1985). Employing intellectual stimulation, leaders anticipate that followers learn, experience,

and develop themselves inside the groups and teams when they are guided and supported by the leaders. Leaders also insist that their followers take risks where novel solutions or ideas are welcomed even if those ideas are opposed to the leaders' own ideas.

Individualized consideration

Through individualized contemplation, leaders consider the needs and requirements of followers or employees. Leaders develop their followers through mentoring, feedback and effective communication (Bass & Riggio, 2006). Leaders identify the needs and requirements of followers or employees, and openly communicate to the followers (Avolio, Bass, & Jung, 1999; Bass, 1985). Through identifying needs and requirements of each follower, leaders assist them in achieving both individual and organizational objectives. Transformational leaders individually consider followers as team individuals and give recognition, respect, and admiration of their role in the teams. In result, followers perform better than previously especially in challenging tasks. Individualized concern emphasizes on the relationship of leaders and followers where leaders identify the value of different needs when they design the development plans of their followers or employees.

2.3.8 Transactional Leadership

Transactional theory of leadership is recognized as the second main style of leadership in the literature (Eyal & Kark, 2004). The concept of transactional leadership was also introduced by Burns (1978) in his book *Leadership*. Later on, Bass (1985) worked on this concept and introduced the theory of transactional leadership. This theory of leadership is based on the relationship of “give and take” (Bass, 1991; Burns, 1978).

Transactional leaders involve their followers in interdependence association in which both parties are rewarded for their contributions (Kellerman, 1984). Yukl (1981) argues that transactional leadership denotes the exchanges between leader and followers in which both affect one another and as a result both parties are benefited. Simply, followers get what they want in exchange of the leaders' demands (Kuhnert & Lewis, 1987). Leaders get work completed by others and pay respect, bonuses, increments, and other facilities to those who work efficiently. However, various punishments are used to motivate those followers or employees who do not perform well (Bass, 1991). Therefore, it can be said that transactional leadership is characterized by dyadic relationship. In these circumstances, leaders are powerful enough to affect the followers' interest. Effective transactional leaders try their best to fulfill the followers' hopes and expectations.

Even though transactional leadership can be defined as exchange of valued consequences, a wide range of studies in the literature recommends that each and every exchange is not the same (e.g. Dienesch and Liden (1986). In fact, the two levels of transactions can be differentiated. Similarly, both Burns (1978) and Bass (1985) differentiate the transactional leadership levels. Burns argues that transactional leaders' and followers' links range from the obvious (jobs for votes, subsidies for campaign contributions) to the less obvious (trust exchanges, respect, and commitment). Likewise, Bass asserts that transactional leaders have different transactions available to them. These transactions are generally based on the knowledge of leaders about the followers' activities to accomplish their expectations (e.g., paid leaves for working long time). In these relationships, transactional leaders elucidate about the followers' roles and the requirements of tasks which they have to accomplish to attain their personal and organizational objectives.

On the other hand, transactional leadership engages commitments or promises which are based on “exchangeable” values, for example, trust and respect. Burns (1978) calls these values as “model values”. Model values link leaders to followers in an effort to realize the requirements of both the parties. Therefore, transactions of a lower order rely on leaders’ control of resources (special benefit, increase the pay) which are the followers’ expectations (Yukl, 1981). If these types of incentives are not under the direct control of leaders, they lose their bargaining power. On the other hand, higher order transactional leadership depends on the dyad of intangible rewards to sustain the performance of followers. These exchanges are directly controlled by the leaders given that followers depend on the intangible values and rewards.

According to Quiun (1988) and Spreitzer, De Janasz, and Quinn (1999) a leader who has strict check and balance by focusing compliance with processes and rules, inspecting the work quality, appraising the performance of individuals, and by monitoring behavior, it would result in a higher performance organization. Monitoring intention is related to management theory (Eyal & Kark, 2004). Due to literature differences between management and leadership, it is proposed that leadership is innovation and change-based while management is based on managing existing structure (Bennis & Nanus, 1985; Yukl, 1998; Zaleznik, 1977). Therefore, monitoring suggests behavioral intention to monitor others for preserving the existing workplace environment (Bass, 1985; Kotter, 1990). For a better understanding of management or managers, it can be said that promotion of incremental changes in firms for making current procedures is more efficient.

Contingent reward and management by exception are the constructs of transactional leadership. Through contingent reward, transactional leaders define the performance standards for followers and to appreciate good performance (Nielsen & Lassen, 2012; Xirasagar, 2008). They emphasize on contractual agreements as a basic tool for motivation (Bass, 1985) and use extrinsic rewards to increase the motivation of followers. Management-by-exception-active is defined as timely-point out of the variation in the expected behavior of followers. The leaders actively monitor the followers' behavior, forecast issues, and take initiatives for correction before their behaviors could cause severe problems.

2.3.9 Passive-Avoidant Leadership

Passive-avoidant leadership, as Bass & Avolio (2004a) define is that these leaders shun defining agreements, expectations or standards of behavior, and specifying goals or objectives to be attained by followers. These leaders make less participation in vital concerns of firms and try to postpone their feedback to crucial problems (Bass & Avolio, 2004b). Passive-avoidant leadership has two elements: management-by-exception-passive and laissez-faire.

Management-by-exception-passive is defined as leaders' initiative for correction after a problem arises or becomes serious (Rukmani, Ramesh, & Jayakrishnan, 2010). They emphasize on correction of issues just to maintain the performance standards (Bass & Avolio, 2004a). These leaders show slight concern for employees' activities and the subsequent influence on the firm's performance. This non-transactional style neither specifies principles nor gives response on consequences; thus this style of leadership leads to the followers' demotivation (Filip, Geit, & Coetsier, 1997).

Laissez-faire leadership was initially defined by Lewin et al. (1939). It is also called “hands off” for the reason that leaders assign the jobs or tasks to the employee with little or no guidance. It is considered deficient as this style of leadership shows a behavior of non-leadership with propensity of avoiding obligations (Bass & Riggio, 2006). Bass and Avolio (2004a) argue that passive-avoidant leaders shun taking decisions and address problems only when they became serious. Various studies state that these leaders do not pay enough attention to increase productivity and essential accomplishment of obligations (Downey, Papageorgiou, & Stough, 2006). ‘Escape to intervene’ is the chief quality of laissez-faire leadership style (Filip et al., 1997). Consequently, these escaping activities increase the frustration level among employees and followers and decreases their self-esteem (McColl-Kennedy & Anderson, 2005). Figure 2.1 shows the evolution of leadership theories.

2.3.10 Evolution of Leadership Theories



Figure 2.1: Evolution of Leadership Theories

2.4 Corporate Entrepreneurship

The concept of corporate entrepreneurship has been initiated long before the rise of the modern technological era. Schumpeter (1934) initially presented this concept referring to entrepreneur as the person who interrupts the market equilibrium by bringing new combination of resources and assists in the growth of the country's economy. It means entrepreneurship can take place in existing firms by incorporating new combinations of

resources. Review of scholastic work reveals that researchers are unanimous about the essential qualities of an entrepreneurial firm. The concept of corporate entrepreneurship was initially introduced by Pinchot III (1985) who outlined the recommendations and guidelines for the top management of existing firms to bring forward and establish novel ideas.

Corporate entrepreneurship entails several strands. For example, Vesper (1984) illustrates three elements of corporate entrepreneurship: first, new strategic way; second, start from ground; and third, establishment of autonomous venture. To Vesper (1984), conceptualization of corporate entrepreneurship is any or all of these types considered as corporate entrepreneurship. Similarly, Covin and Miles (1999) state three types of corporate entrepreneurship: first, initiation of new business within established firm; second, novel ideas of products in corporate setting; third, circumstances in which the whole firm is transformed through entrepreneurial philosophy. Furthermore, Jennings and Lumpkin (1989) recognize four activities which are linked with corporate entrepreneurship. These activities comprise participative decision-making, skilled and specialized members' participation, participative establishment of performance objectives, and risk-taking by top management.

The above-mentioned description is almost identical but very comprehensive as compared to that presented by Birkinshaw (2003). He considers corporate entrepreneurship as starting a separate, proactive undertaking that leads to a novelty for the business to employ or enlarge its resources. In retrospect, Stevenson and Jarillo (1990) reviewed a comprehensive literature on entrepreneurship seeking to present a pattern of entrepreneurship as a procedure by which people utilize opportunity either

inside a firm or otherwise without considering the current resources. They argue that entrepreneurship is not a one-time activity in the business ventures. It involves a firm-wide series of activities.

From a different perspective, Covin and Miles (1999) argue that due to the deficiency of clarifying the meaning of corporate entrepreneurship, it is difficult to define the sources of corporate entrepreneurship activities. They further assert that there are countless meanings associated with the concept of corporate entrepreneurship which cause confusion. Corporate entrepreneurship has certain competitive benefits though such benefits are not systematically and explicitly associated with corporate entrepreneurial activities. Moreover, the archetypical shapes in which corporate entrepreneurial activities are frequently displayed have not been uniformly presented in the literature. Covin and Miles further argue that entrepreneurship is not only a multidimensional phenomenon, but it also may involve many people in firm.

Likewise Dess, Lumpkin, and McGee (1999) proclaim that even though some researchers like Vesper (1984) restrict the idea of entrepreneurship to the creation of new business, corporate entrepreneurship can be interpreted more comprehensively in two ways. Those ways are: first, developing a new business within the established venture through joint venture or interior newness; and second, firm's strategic transformation or self-renewal, for example, wealth development via new complement of resources.

Moreover, Birkinshaw (2003) differentiates between dispersed and focused corporate entrepreneurship. Dispersed corporate entrepreneurship takes place all over the firm

whereas focused corporate entrepreneurship takes place in creating new venture division, with main focus to indicate and target the opportunity of new business (Burgelman, 1983; Kuratko, Montagno, & Hornsby, 1990; Sykes, 1992). Birkinshaw (2003) states that rather than establishing different unit or division as entrepreneurial, one should also establish an entrepreneurial culture which is the main factor to start a business (Covin & Slevin, 1991; Kanter, 1986; Zahra, 1993a). This study would follow the approach of dispersed corporate entrepreneurship to develop a conceptual framework as described by Birkinshaw (2003). Following are some of the common definitions of corporate entrepreneurship.

2.4.1 Definitions of Corporate Entrepreneurship

Schollhammer (1982) states that corporate entrepreneurship involves the whole formalized entrepreneurial actions in an established business firm. Formalized interior entrepreneurial actions are those which accept explicit firms' dedication of resource for the aim of innovative corporate ventures – development of new products, upgrade of products, and novel ways and processes.

Burgelman (1983) defines it as a process in which firms, through interior improvements, involve in change. This change demands new resource compliments to spread the firms' actions in irrelevant or little relevant zones to its existing area of capability and consistent opportunity set. In contrast, Miller (1983) makes three strands of corporate entrepreneurship: first, the ability of a firm to bring innovation in products or in the process; second, firm's aptitude to perform proactivity comparatively to competitors to lead the market trends instead of just following the market trends; and third the capacity of a firm to take risks.

Vesper (1984) asserts that corporate entrepreneurship comprises three processes: first, the establishment of new firm or business unit within an existing firm; second, growth and application of entrepreneurial strategic thrusts; and third, appearance of novel thoughts from different stages in the firm.

Intrapreneurship is a form of entrepreneurship. Nielsen, Peters, and Hisrich (1985) state that intrapreneurship is the improvement in a large firm inside the markets and comparatively independent and small divisions planned to improve new services of personnel, ways or technologies inside a firm.

Pinchot III (1985) defines intrapreneurs as those people who are ready to accept responsibility for producing newness of any type inside a firm, “dreamers who do”. They can be originators or creators but all the time dreamers who outline how to convert a notion into a profitable fact.

Spann, Adams, and Wortman (1988) define it as corporate entrepreneurship which may include the creation of strategic business unit (SBU), profit center, secondary firm, or separate unit to launch new goods or services, formation of a new market, or use of a new technology. Similarly, Jennings and Lumpkin (1989) also define it as the degree to which novel products are introduced or/and new markets are explored. A firm is entrepreneurial if it introduces novel products or/and markets more than average.

Schendel (1990) describes corporate entrepreneurship as novel ideas to establish new ventures in already existing ventures and dramatic conversion of inactive or dead

existing ventures for improvement. Likewise, Guth and Ginsberg (1990) argue that corporate entrepreneurship includes two kinds of processes: first, creation of new ventures inside the already established firms, i.e. through venturing or inner newness; and second, dramatic conversion of firms via renewal of the major notions on which they formed, i.e., strategic renewal.

Covin and Slevin (1991) define corporate entrepreneurship as increasing a firm's area of capability and consistent with opportunities through developing new combinations of resources. In addition, Kuratko et al. (1990) state that self-renewal of a firm being the element of corporate entrepreneurship is necessary for any firm in this competitive environment to compete with rivals.

Zahra (1993a) considers corporate entrepreneurship as innovation (products and processes), new business venturing (introducing new products in existing markets or new markets for existing products), and self-renewal (revise the ideas on which a firm is based and formulated) of the firms. Likewise, Jones and Butler (1992) introduce the concept of Internal Corporate Entrepreneurship (ICE), and define it as entrepreneurial performance inside the firm.

Zahra (1995; 1996) defines corporate entrepreneurship as an aggregate of firm's innovation, venturing, and renewal attempts. Innovation is defined as developing and launching new products, processes, and organizational systems. Renewal is defined as re-energizing the firm's activities by shifting the ventures scope, and firm's tactics to compete or both. It can also be defined as developing or obtaining new competencies and creatively holding them to enhance the value for shareholders. Venturing is defined

as the entrance of a firm in new businesses by extending the activities in new or already existing markets. Chung and Gibbons (1997) define corporate entrepreneurship as the procedure of converting individual thoughts into shared activities via proper management of ambiguities.

Antoncic and Hisrich (2001) consider four elements of corporate entrepreneurship in their study. These elements are innovation, new business venturing, self-renewal, and proactivity. Eyal and Kark (2004) take innovation and proactivity as corporate entrepreneurship. Antoncic (2007) conducted a study and employed same strands of corporate entrepreneurship. Ling et al. (2008), like Zahra (1995; 1996), consider three dimensions of corporate entrepreneurship in their study: innovation, new business venturing, and self-renewal.

Conversely, Seborá and Theerapatvong (2010) conducted a study in Thailand and, like Covin and Slevin (1991), and Zahra (1995) they took three dimensions of corporate entrepreneurship: innovation, proactivity, and risk-taking. Furthermore, Schmelter, Mauer, Börsch, and Brettel (2010) employed five dimensions (all possible) of corporate entrepreneurship and conducted a study in Germany. Yildiz (2014) associated four dimensions to corporate entrepreneurship: innovation, new business venturing, self-renewal, and proactiveness. Furthermore, Bierwerth, Schwens, Isidor, and Kabst (2015) reviewed literature related to the three dimensions of corporate entrepreneurship: innovation, new business venturing, and self-renewal.

As discussed above noticeably, different scholars associate different meanings to the same concept. Therefore, it shows a mutual design with common antecedents among different descriptions. Dimensions of corporate entrepreneurship described by different authors are as follows:

Table 2.2: Corporate Entrepreneurship Dimensions

Study	Year	Country	Dimensions				
			Innovation	New Business Venturing	Self-Renewal	Proactivity	Risk-taking
Bierwerth et al	2015		✓	✓	✓		
Yildiz	2014	Turkey	✓	✓	✓	✓	
Schmelter	2010	Germany	✓	✓	✓	✓	✓
Sebora & Theerapatvong	2010	Thailand	✓			✓	✓
Ling et al	2008	England	✓	✓	✓		
Antoncic	2007	USA & Slovenia	✓	✓	✓	✓	
Eyal & Kark	2004	Israel	✓			✓	
Antoncic & Hisrich	2001	Slovenia & USA	✓	✓	✓	✓	
Zahra	1996	USA	✓	✓	✓		
Zahra & Covin	1995	USA	✓			✓	✓
Zahra	1993	USA	✓	✓	✓		
Covin and Slevin	1991		✓			✓	✓
Kuratko, Montagno, & Hornsby	1990	USA	✓		✓	✓	✓
Schendel	1990			✓	✓		
Jennings & Lumpkin	1989		✓	✓			
Spann, Adams, and Wortman	1988		✓	✓			
Pinchot	1985		✓		✓		
Nielsen, Peters, and Hisrich	1985		✓	✓			
Vesper	1984		✓	✓			
Miller	1983		✓			✓	✓
Burgerlman	1983			✓			
Schollhammer	1982		✓		✓		

From the above table, this study has accommodated all the possible dimensions of corporate entrepreneurship as Antoncic and Hisrich (2001) and Antoncic (2007) did. The details of these dimensions are given below.

2.5 Dimensions of Corporate Entrepreneurship

The definitions of the main dimensions of corporate entrepreneurship used in this study are as follows: innovation, proactivity, risk-taking, new business venturing, and self-renewal (Schmelter et al., 2010; Yildiz, 2014).

2.5.1 Innovation

Various scholars explained innovation in different ways. Innovation is the process of bringing newness in products or services with special focus on technological development (Knight, 1997; Schollhammer, 1982). It is also defined as the commitment of a firm to produce novel products or services, process of production or manufacturing, and a system of organization with technological development focus (Covin & Slevin, 1991; Lumpkin & Dess, 1996; Zahra, 1996). Keeping in view the discussions and definitions above, this study considers innovation as to bring newness in products and processes to develop or manufacture products, and finally bring them to the market successfully. It means that innovation includes the development of new products, bringing improvement in the existing products, developing new production process, introducing new product in the existing market, or introducing existing product in new market. Its focus is on activities or ideas which give indication about leaving the existing patterns. The primary focus of innovation is to analyze that to what extent the products or activities of a firm are new, distinct, and unique. Innovation also includes

considering such a problem which is not previously discussed. Innovation also involves the transformation of a method to deal with a problem.

2.5.2 New Business Venturing

New business venturing is a vital dimension of corporate entrepreneurship as it creates new businesses within the already established firm (Stopford & Baden-Fuller, 1994), through transforming the products and processes of a firm (Rule & Irwin, 1988; Zahra, 1991), and through exploring new markets for the business (Zahra, 1991). It refers to the establishment of new businesses associated with the already established markets or products regardless of the size or autonomy (Hisrich & Peters, 1984; Kanter & Richardson, 1991; MacMillan, Block, & Narasimha, 1984; Rule & Irwin, 1988; Schollhammer, 1981, 1982; Stopford & Baden-Fuller, 1994; Vesper, 1984). Antoncic and Hisrich (2001) define it as establishing new business within an already established firm. New business venturing is the process to establish new business in terms of existing or new products in new or existing markets (Antoncic, 2007). Against the backdrop of scholastic work, this study defines new business venturing as the creation or establishment of new business in an already established firm by transforming the firm's products for existing markets or creating new markets for existing products.

2.5.3 Self-Renewal

Self-renewal can be defined as the transformation of the major concepts of a firm on which that firm is established (Guth & Ginsberg, 1990; Zahra, 1991). It includes strategic transformation of a firm through reorganizing, renewing the business idea, and inauguration of system-wide-transformation (Zahra, 1993b). Keeping in view this conception, self-renewal refers to strategic and radical transformation which comprises

renewing the business idea, reorganization, and launching the system-wide transformations. Self-renewal is an entrepreneurial effort which brings substantial changes in the firm's business, corporate strategy, or in hierarchy. These changes transform the pre-established linkages inside the firm or with its external environment.

It is noted from the preceding explanations that both new business venturing and self-renewal recommend transformations in either the structure or strategy of an established firm. As per Sharma and Chrisman (1999), the major distinction is that new business venturing involves establishment of new business whereas self-renewal refers to the reorganizing of established business inside the corporate setting.

2.5.4 Proactivity

Proactivity is referred to the degree to which firms try to lead competitors or rivals in same core business realm development of new products, utilization of technologies, and administrative methods (Covin & Slevin, 1991). Covin and Slevin (1991) and similarly, Knight (1997) asserts that proactivity is the aggressive attitude to perform as compared to rivals. This study considers proactivity as adoption of the proactive approach. A proactive firm is a firm which takes initiatives to avail opportunities. Such a firm tries to lead competitors other than follow them. Entrepreneurial firms are trend setters, and not the followers of trends (Miller, 1983). Accordingly, the core of proactivity is the application that involves implementation of creative ideas in firms (Morris and Kuratko, 2002). Proactivity is all about constantly exploring the opportunities with possible outcomes to shift the trends of markets and customers (Venkatraman, 1989).

2.5.5 Risk-taking

Risk-taking involves taking sound steps through undertakings, making investment of substantial resources in unanticipated settings and/or heavy borrowings (Lumpkin, Cogliser, & Schneider, 2009; Rauch, Wiklund, Lumpkin, & Frese, 2009; Wang & Zhang, 2008). Furthermore, Zahra and Garvis (2000) refer to it as the ability of a firm to promote innovative activities, though the consequences of these activities are doubtful. Therefore, these activities increase the ability of a firm to identify and utilize market opportunities before its rivals. Morris and Kuratko (2002) state that risk-taking involves a readiness to bear losses or substantial fluctuations in performance are equal. They argue that entrepreneurship does not involve irresponsible and thoughtless decision making. It seeks realistic consciousness about the risks associated with entrepreneurs' decisions. Certain phenomena including facing different trials, examining markets, and making experiments make an entrepreneur capable of deciding the appropriate moves. Moreover, they stated that these expertise come after certain failures which lead to success in the long run. Firms which do not innovate themselves are probable to counter greater risk of not recognizing technological and market changes which are exploited by rivals.

2.6 Absorptive Capacity

The common conception is that learning promotes learning. It raises a person's ability to absorb knowledge. This concept was formalized in the context of organization by Cohen and Levinthal (1990). They initially introduced this concept and named it as absorptive capacity. They define it as the capability of firms to identify, assimilate, process and exploit the novel knowledge achieved through outside firm sources. The knowledge-based theory proposes that this capability can considerably enhance the

ability of a firm to identify and discover novel opportunities by developing new abilities and decreasing cognitive inflexibility among top management (Zahra et al., 2009). Building and sustaining of absorptive capacity is essential for the success and long-term survival of a firm. Absorptive capacity can strengthen, refocus, or balance the knowledge base of a firm.

2.6.1 Leadership styles and Absorptive Capacity

Leadership style is emphasized as the significant antecedent to influence absorptive capacity (Nonaka & Takeuchi, 1995). Kavanagh and Ashkanasy (2006) argue that leadership is essential to establish a system which promotes absorptive capacity in a firm. Transformational leadership style, as compared to transactional leadership style, is suitable to fuel knowledge into firms which helps to create competitive benefit for firms (Howell & Avolio, 1993). Likewise, Bass (1999) argue that transformational leaders can develop a firm in a better way through absorptive capacity. Transformational leaders promote absorptive capacity amongst the firm-members by supporting followers' autonomy and empowerment. They render information, obligations, expertise, and abilities to the firm-members. They can then employ it to acquire, implement, transform, and employ a novel exercise and advance inside firm communication system by eliminating hurdles in sharing knowledge through enhancing absorption process efficiency (Van Den Bosch, Volberda, & De Boer, 1999).

2.6.2 Absorptive Capacity and Corporate Entrepreneurship

Cohen and Levinthal (1990) state that one major cause why fewer firms are capable to understand, value, and apply fresh knowledge with minimum efforts and resources than others is that they have already invested in absorptive capacity. Cummings and Teng

(2003) argue that this ability diminishes the obstacles of exchanging knowledge among the firms. Firms which have higher absorptive capacity can identify outdoor knowledge, assimilate it with their current knowledge and target novel understandings about competition, technologies, markets, and customers (Zahra et al., 2009; Zahra & George, 2002). Absorptive capacity allows firms to learn by doing something new i.e. ‘learning-by-doing’ which permit firms to perform better than past (Lane, Koka, & Pathak, 2006). Zahra et al. (2009) argue that these novel understandings help firms to identify opportunities and novel alternatives for corporate entrepreneurship. Teng (2007) argues that it allows firms to bridge up knowledge holes to chase corporate entrepreneurship. Therefore, it is supposed that absorptive capacity, by making understanding and utilization of outside firm knowledge, improves a firm’s capacity to identify and target the turbulent possibilities (Sakhdari, Burgers, & Davidsson, 2014).

2.7 Nexus-Leadership Styles, Absorptive Capacity, and Corporate Entrepreneurship

In this study, two theories have been used – social cognitive theory and resource-based view. These two theories appropriately explain the rationale of variables used in this study. These theories demonstrate the relationship among leadership styles (transformational, transactional, and passive-avoidant), absorptive capacity, and corporate entrepreneurship. Social learning theory establishes the relationship between leadership styles (transformational, transactional, and passive-avoidant) and corporate entrepreneurship, whereas resource-based view theory explores the mediating role of absorptive capacity between leadership styles and corporate entrepreneurship.

The following section details both the theories and the linkage between the variables of this study.

2.7.1 Social Cognitive Theory: Leadership Styles and Corporate Entrepreneurship

Social cognitive theory (Bandura, 1986) is used to delineate the relationship of leadership styles and dimensions of corporate entrepreneurship. Being an extension of the social learning theory (Bandura, 1963, 1977), social cognitive theory provides a framework to understand, predict, and shape human behavior in the work context or job environment. Social cognitive theory is based on six general principles. First, people learn by observing others especially model behaviors; second, models can be seniors, peers, actors or sports figures etc.; third, effective models have prestige and power; fourth, cognition and motivation play important role in learning (knowing results or consequences of learned behavior); fifth, self-efficacy is a key part of social cognitive theory, i.e. individual's belief of his/her abilities (it plays a key role in how an individual approaches goals, tasks, and challenges); finally, self-regulation is essential for continuous learning which includes forethought phase (goal setting, planning and motivation), performance phase (self-observation, self-control), and self-reflection phase (self-evaluation and reaction).

Leaders serve as role model for the followers. Followers get inspiration from the behaviors of leaders. Leaders shape the behaviors of followers required to achieve organizational goals and objectives. Leaders motivate their followers in achieving collective goals. On the other hand, followers through cognition and observation can sense the potential outcomes of a particular behavior. Through motivation, leaders enhance individuals' self-efficacy which helps them to tap on difficult situations and accomplishment of challenging tasks. This results in the form of individuals' creativity, which in turn contributes to the organizational abilities of innovation, proactivity, and risk-taking. Through a forethought phase of self-regulation, leaders set goals and plan to target those goals. In a second phase, leaders observe and control firm performance. In

the final phase, leaders renew their approach to achieve the targeted goals for the sake of the self-renewal of the firm.

2.7.2 Resource-Based View: Mediation of Absorptive Capacity

Theory of resource-based view (RBV) is used to delineate the mediating relationship of absorptive capacity between leadership styles and corporate entrepreneurship. Initially, Wernerfelt (1984) introduced the concept of resource-based view and stated that assessing firms in the form of their resources might cause insights that vary from conventional contexts. Later on Barney (1986; 1991) further refined this concept and presented a comprehensive framework to discover the required features of a firm's resources to create sustainable competitive advantage. These features of resources comprise valuable, rare, inimitable, and non-substitutable characteristics of an organization. "Valuable" refers to the characteristics of a firm's resources to exploit the opportunities or/and defuse the hazards prevailing in the firm's environment. The resources of firms are rare among the current and potential competitors of a firm. "Inimitable" refers to the fact that a firm has such a resource which other firms cannot duplicate or copy perfectly and it can provide competitive advantage. Finally, the non-substitutable resources of a firm are those which other firms cannot imitate.

Amit and Schoemaker (1993) divided the term "resources" into resources and capabilities. Resources can be referred as assets which are not permanently bound to a firm (Maijoor & Witteloostuijn, 1996; Wernerfelt, 1984). These resources comprise physical, financial, commercial, human, organizational assets, and technological measures employed by firms to manufacture, develop, and distribute goods and services to their customers (Barney, 1991). Resources can be categorized into tangible (physical

or financial) and intangible (knowledge, experience, skills, reputation and brand of firm etc.). On the contrary, capability is defined as the capacity of a firm to organize and manage diverse resources, frequently in amalgamation, employing organizational processes, to influence a desired outcome (Amit & Schoemaker, 1993; Grant, 1996; Hamel & Prahalad, 1990). These are firm-specific and are employed to associate the resources inside the firm like knowledge transfer through an implicit process inside the firm.

According to resource-based view, competitive advantage in this continually changing business environment is essential for the successful survival of a firm. Therefore, firms continuously obtain, develop, and improve their capabilities and resources if they want to stay competitive. The major issue firms are facing is to discover the basis of capabilities and resources which increase the competitive advantage of a firm. A number of scholars have argued that leaders play a vital role to enhance the capabilities of a firm (Hamel & Prahalad, 1990). In this backdrop, leadership ability augments firm's absorptive capacity which further allows the firm to chase its objective. Therefore, it is apprehended that absorptive capacity, by making an understanding and utilization of outside firm knowledge, improves the firm's capacity to nurture corporate entrepreneurship (Sakhdari et al., 2014).

The next sections 2.7.3 – 2.10 discuss the relationship among the various variables utilized in this study, empirical evidences and hypotheses development.

2.7.3 Transformational Leadership and Corporate Entrepreneurship

Transformational leaders are role model for their followers (employees) through idealized influence (behavior), also known as charisma. Through idealized influence (attributed), leaders being model for followers effectively communicate consistent and distinct understandings of future goals and beliefs and realize the importance of collective goals to followers. In response, they motivate the employees to imitate their beliefs and standards. Transformational leaders are proactive; they have propensity to form the environment instead of reacting or following it passively (Covin & Slevin, 1991). Proactivity can also be described as the intention to take actions to make rivals react (Slevin & Covin, 1990) and lead firms to achieve goals and objectives (Judge & Bono, 2000). Through inspirational motivation, leaders show particular behaviors to express a shared vision, and to inspire and stimulate followers to achieve the targeted objectives. In response, as stated by (Morrisette & Oberman, 2013), transformational leaders achieve acceptance of employees about the transformed values and beliefs (vision and mission) of firms which are considered self-renewal of firms.

Leaders question the established beliefs and standards by employing intellectual stimulation (Bass & Riggio, 2006). They use logic to promote critical thinking and to stimulate followers to rethink basic assumptions and restructure problems. When employees are stimulated to seek fresh approaches in solving existing problems, it leads towards creativity. Thus individual creativity is enhanced through appreciating individuals' creative ideas resulting in firm-level innovation. Followers are encouraged to take risks in a conducive environment where novel solutions and ideas are welcomed, though these ideas are opposed to those of the leaders. Risk-taking is primarily important to implement creative ideas at the firm level. Leaders, through individualized consideration, identify needs and values both at the individual and the firm level.

Transformational leaders contribute to individuals' development through mentoring, feedback, and effective communication (Bass & Riggio, 2006) to target new business opportunities. On the other hand, by identifying needs and requirements of each follower, leaders help them in achieving both individual and organizational objectives.

García-Morales et al. (2012) found that transformational leadership affects innovation positively by means of procedures of creating organizational knowledge (Cohen & Levinthal, 1990; Nonaka & Takeuchi, 1995; Senge, Roberts, Ross, Smith, & Kleiner, 1994). Furthermore, transformational leadership also influences innovation due to strategic aspects (organizational learning and communication) and the reciprocal link between them (Lei, Slocum, & Pitts, 2000; Schein, 1993; Senge, 1990).

2.7.4 Transactional Leadership and Corporate Entrepreneurship

Transactional leaders develop relationship with followers on the basis of an exchange process where leaders and followers (employees) clearly recognize what their benefits are. According to Quiun (1988) and Spreitzer et al. (1999), transactional leaders have strict check and balance by emphasizing on the compliance of followers' actions with predefined rules and procedures, inspecting the work quality, and appraising the performance of individuals. These leaders aim at improving the firm's performance.

Transactional leaders clarify the standards and expected outcomes to the followers (Bass & Avolio, 2004b) and actively monitor the followers' behaviors and/or their performance. They use extrinsic rewards for increasing motivation to achieve the expected outcomes. They take measures for the required corrections in performance.

Followers follow performance standards if the leaders interfere actively and take corrective actions. Strict monitoring of the job performance, job standards, and clear expected outcomes discourage individual creativity which hinders the organizational innovation and consequently due to ignoring future perspectives/trends and business opportunities, firms fail in new business venturing. Transactional leaders emphasize on short-term planning, organizing and controlling (Scott, 2012). As a result firms fail to perform proactively as compared to competitors. Following predefined performance standards, followers do not focus on self-renewal and their propensity to take risk remains limited which also influences risk-taking at the firm level.

2.7.5 Passive-Avoidant Leadership and Corporate Entrepreneurship

These leaders do not want to define goals and expected behaviors to achieve objectives. These leaders show less or no participation in the vital concerns of firms and try to postpone their feedback to crucial problems (Bass & Avolio, 2004b). Using management-by-exception-passive approach, these leaders take actions after problems arise and focus on corrections just to maintain the performance standards (Bass & Avolio, 2004b). Therefore, such leaders do not develop or motivate followers to do something new which could result in newness at the firm level. Using the laissez-faire approach, leaders also avoid taking obligations. Consequently, these escaping activities increase frustration among employees and followers and decrease their self-esteem (McCull-Kennedy & Anderson, 2005). Consequently, innovation, new business venturing, self-renewal, proactivity, and risk-taking are vanished.

2.7.6 Mediation of Absorptive Capacity

Transformational leaders acquire knowledge from outside the firm by using external sources. These leaders, through individualized consideration, also make contacts with employees and get external information related to the core industry of firm. Therefore, transformational leaders, using external and internal knowledge of firms, develop strategies and policies to achieve the organizational goals and objectives. Through inspirational motivation, they communicate these strategies to the followers. They use intellectual stimulation to motivate followers to adopt behaviors necessary to achieve organizational goals. In short, transformational leaders make a combination of valuable resources which provide a competitive advantage to a firm over its competitors. These advantages can be sustained over a long period of time to the degree, to which a firm is able to protect imitation, substitution, or transfer of resources.

Transactional leadership being close to the management theory, monitoring and management of routine activities has strict check and balance on employees. These leaders through contingent reward motivate employees and make correction of employees on the basis of knowledge acquired from their sources related to firm's industry and business environment. Resources of knowledge can also be the competitive advantage of a firm, as according to the RBV resource should be valuable, rare, inimitable, and non-substitutable. Thus, transactional leaders through management-by-exception-active develop the strategies and policies accordingly to achieve the organizational goals and objectives. However, absorptive capacity being the resource of knowledge plays a vital role to achieve organizational objective of corporate entrepreneurship. By employing the absorptive capacity, these leaders can remain updated with new and turbulent trends or shifts of business imperatives.

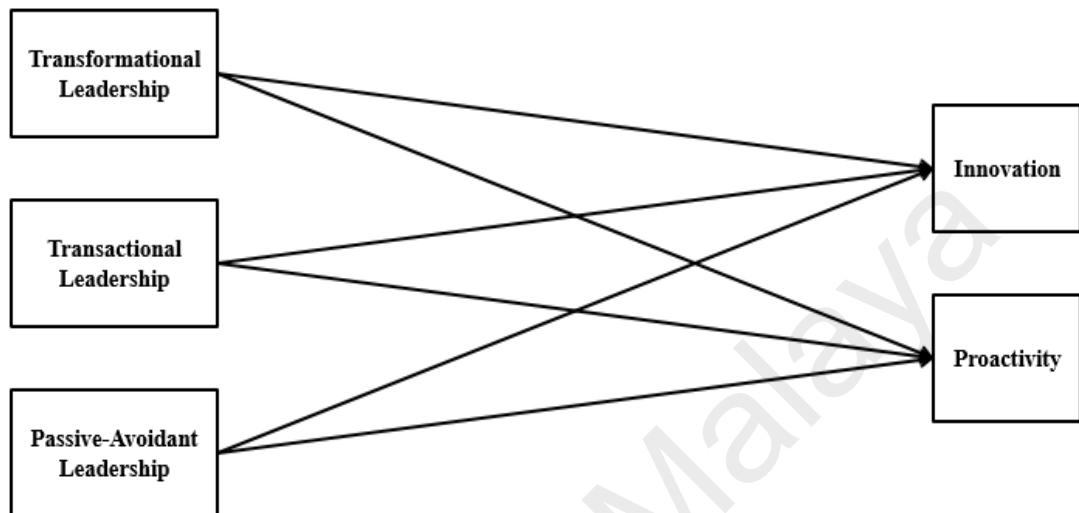
In passive-avoidant leadership, leaders avoid making interaction with the followers. These leaders do not intervene until problems or issues become serious. Such leadership style is normally found to be negatively associated with creativity and entrepreneurial activities. On the basis of the above-stated literature and previous empirical studies, the following hypotheses are proposed.

2.8 Previously Developed Frameworks

A number of models have been developed to conceptualize the relationship of leadership styles and corporate entrepreneurship. These models have tried to encapsulate the various possible dimensions of corporate entrepreneurship and their linkage with vital leadership styles. Prominent studies illustrating such models are Eyal and Kark (2004), Yang (2008), Politic and Harkiolakis (2008), Roslan (2010), Öncer (2013), and Bakar and Mahmood (2014).

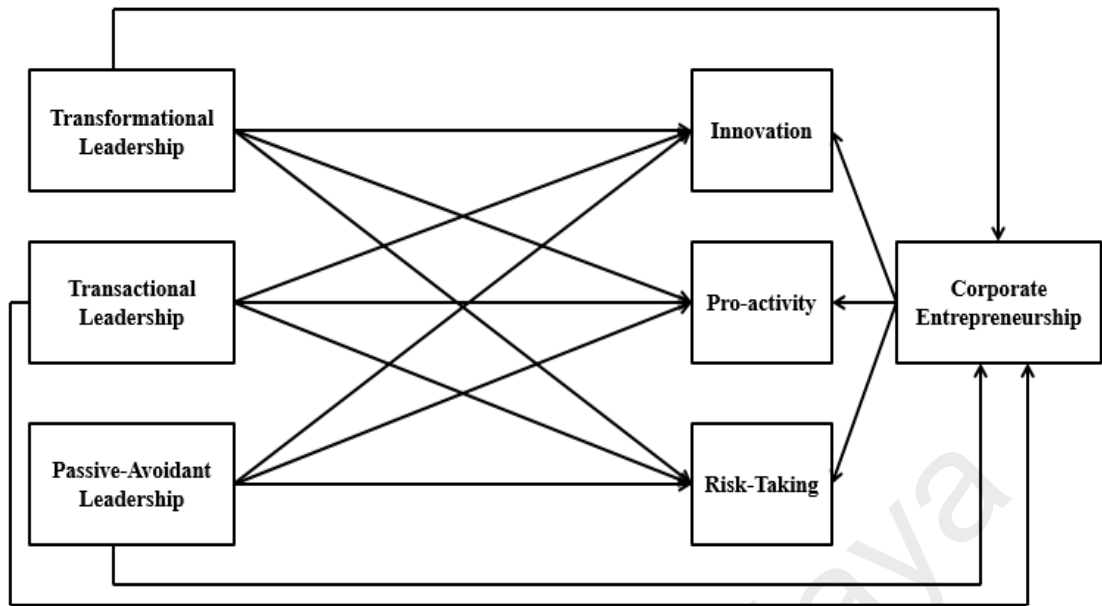
Besides some serious concerns, these studies have well conceptualized the underlying conception. Eyal and Kark (2004) developed and tested a framework using three leadership styles (transformational, transactional, and passive-avoidant) and two dimensions of corporate entrepreneurship (innovation and proactivity). They empirically analyzed their framework in Israeli elementary schools. This model explains the juxtaposition of various leadership styles on individual dimensions of corporate entrepreneurship. However, their framework ignored the impact of leadership styles on overall corporate entrepreneurship. Likewise, the framework also put aside three important dimensions of corporate entrepreneurship, i.e. new business venturing, self-renewal, and proactivity. Furthermore, their study did not consider any mediating or

control variable, particularly absorptive capacity, which can be a vital mediator in the relationship of corporate entrepreneurship and leadership.



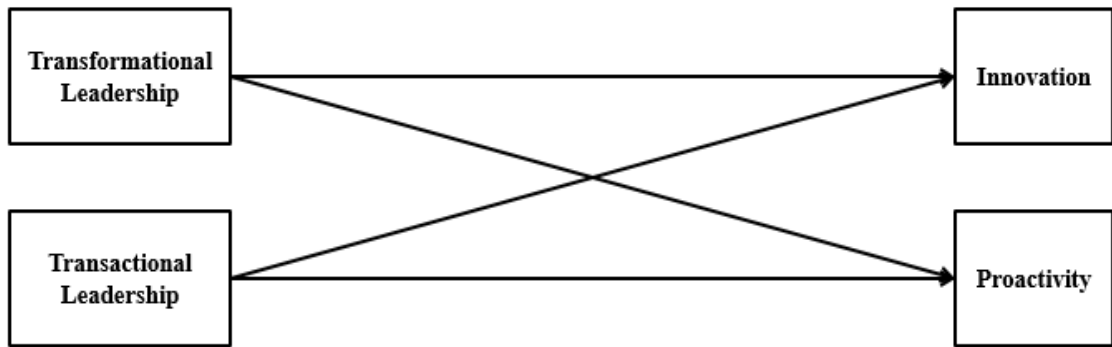
Source: Eyal and Kark (2004)

Overcoming one weakness of Eyal and Kark's (2004) framework, Yang (2008) developed another framework employing the same three leadership styles (transformational, transactional, passive-avoidant) and three dimensions of corporate entrepreneurship, i.e. innovation, proactivity, and risk-taking. He added risk-taking to Eyal and Kark's (2004) work. Yang (2008) tested this framework in the SMEs of Taiwan. Although Yang's (2008) model was better than its predecessors, he also ignored two dimensions of corporate entrepreneurship, namely new business venturing and self-renewal. In addition, he also ignored the role of capacity to absorb knowledge.



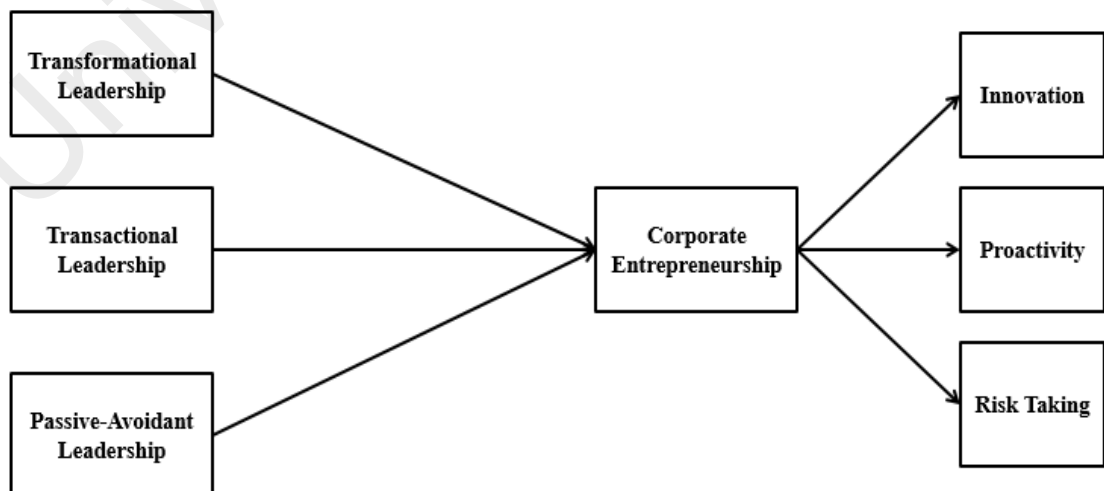
Source: Yang (2008)

Parallel to Yang's (2008) contemporary research, Politic and Harkiolakis (2008) presented the relationship of transformational and transactional leadership styles with three dimensions of corporate entrepreneurship: innovation, risk-taking, and proactivity. They analyzed this framework empirically in six service organizations of Dubai. However, like Yang (2008), they ignored some vital elements in their framework. For example, they precluded passive-avoidant leadership, new business venturing and self-renewal from the model. Passive-avoidant is an important style of leadership whereas new business venturing and self-renewal are the vital elements of corporate entrepreneurship. They also ignored the influence of each leadership style on collective corporate entrepreneurship by combining both the measures of innovation and risk-taking/proactivity. The role of capacity to absorb knowledge was also ignored in this framework.



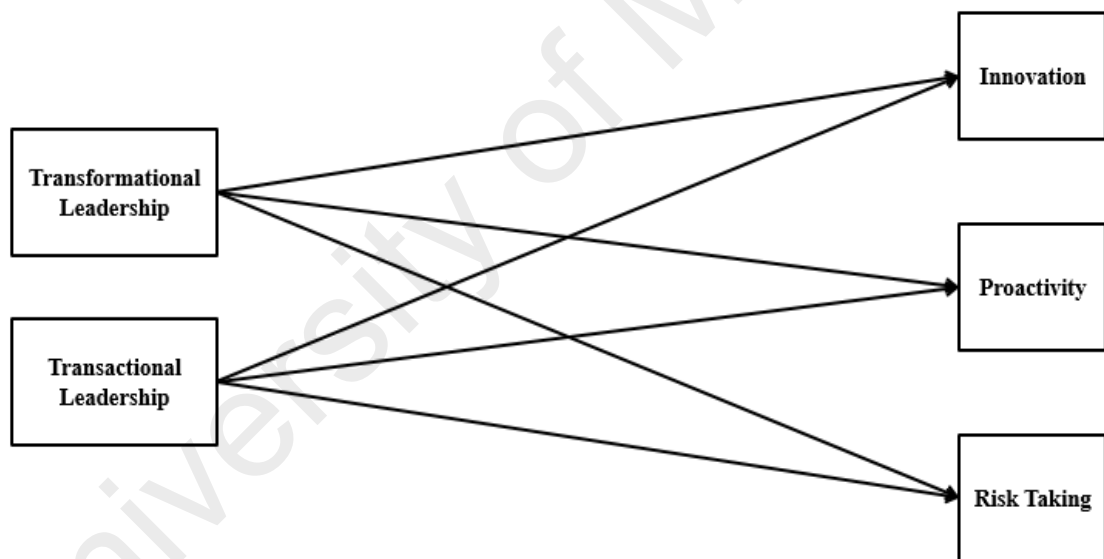
Source: Politic & Harkiolakis (2008)

The improved framework in his context was presented by Roslan (2010). He hypothesized the framework in which transformational, transactional, and passive-avoidant leadership styles affect three dimensions of corporate entrepreneurship: innovation, proactivity, and risk-taking. Roslan (2010) empirically investigated this relationship in the SMEs of Malaysia. Although Roslan (2010) employed three leadership styles but he ignored two dimensions of corporate entrepreneurship and the role of knowledge absorption. He also ignored the effect of each leadership style on each dimension of corporate entrepreneurship.



Source: Roslan (2010)

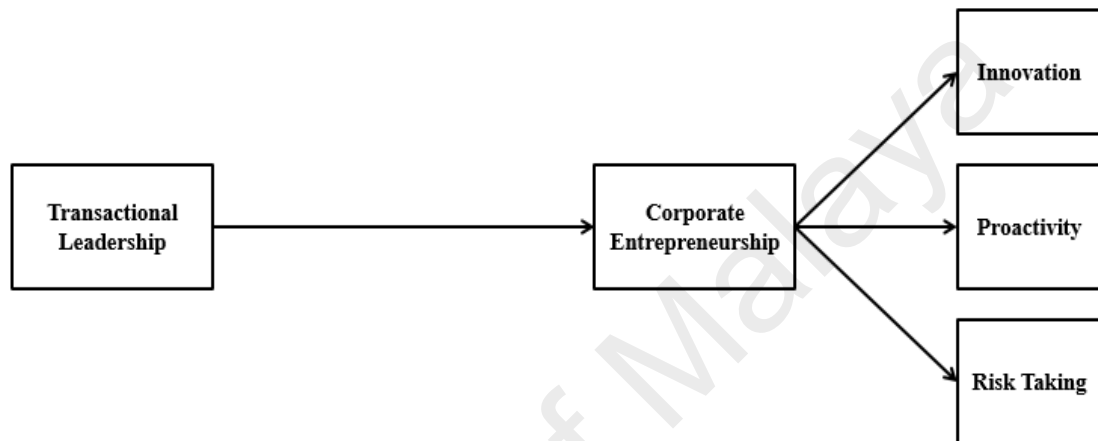
Öncer (2013) also developed a framework in which he proposed that transformational and transactional leadership styles affect innovation, proactivity, and risk-taking (three dimensions of corporate entrepreneurship). He analyzed this framework in three multinational companies in Istanbul, Turkey. In this framework, Öncer (2013) ignored one leadership style, i.e. passive-avoidant leadership and two dimensions of corporate entrepreneurship: new business venturing and self-renewal like Yang (2008) and Eyal and Kark (2004). They also ignored the effect of each leadership style on collective corporate entrepreneurship by combining the measures of innovation, proactivity, and risk-taking.



Source: Öncer (2013)

Recently, Bakar and Mahmood (2014) hypothesized the relationship between transformational leadership and three corporate entrepreneurship dimensions: innovation, proactivity, and risk-taking. They analyzed this relationship in the context of public higher education institutions of Malaysia. In this framework, they ignored

transactional and passive-avoidant leadership styles, two dimensions of corporate entrepreneurship, and absorptive capacity role in contributing to corporate entrepreneurship. They also ignored the effect of transformational leadership style on each dimension of corporate entrepreneurship.



Source: Bakar and Mahmood (2014)

Owing to the weaknesses of the previously developed frameworks, the following framework is developed for this study. This framework overcomes the lacunas which ought to be filled in order to truly understand the paradox of leadership and corporate entrepreneurship. The following section briefly delineates the derivation and novelty of the framework of this study.

2.9 Derivation of Conceptual Framework

Before explaining the model, it is important to explain the context in which this model is being constructed. It is a well-established fact that corporate entrepreneurship is essential for organizational survival. Similarly the dimensions of corporate

entrepreneurship like innovation, new business venturing, self-renewal, proactivity, and risk-taking are vital while conceptualizing corporate entrepreneurship. In this modern era of technological change, innovation plays a key role in gaining a competitive edge. New business venturing is also important to deal with competitors by targeting business gaps and opportunities. Firms need to renew themselves for surviving in this continuously changing environment. Proactive understanding of customers' needs and business opportunities in the market is crucial to meet competition. Risk-taking is the basis of all initiatives to bring innovation in products, establishments of new ventures, for self-renewal in a competitive environment. It is also vital to proactively understand and target the needs of customers and market opportunities.

It is needed to adopt an appropriate leadership style for promoting corporate entrepreneurship in firms for their survival. Several researchers have contributed in the literature of leadership styles (See for comprehensive studies (Bryman, 1996; Yukl, 1998). A significant part of leadership studies focused on transformational, transactional and passive-avoidant leadership styles generally and specifically in SMEs (Bass, 1985; Bass & Avolio, 1994; Bass et al., 1996; Burns, 1978; Lowe et al., 1996; Powell & Graves, 2003). Given the literature, the following conceptual framework has been developed for this study:

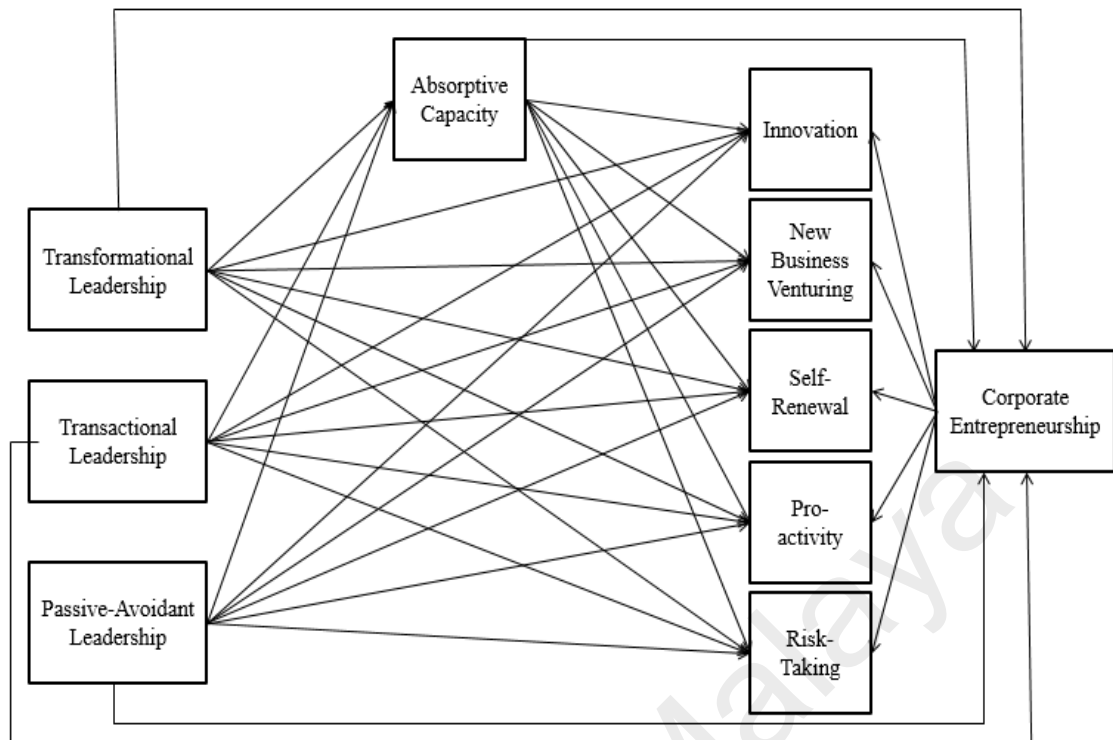


Figure 2.2: Conceptual Framework

Three leadership styles namely transformational, transactional, and passive-avoidant leadership have been taken as independent variables. Corporate entrepreneurship represented by five dimensions, namely innovation, new business venturing, self-renewal, proactivity, and risk-taking have been taken as dependent variables. Additionally, owing to the weaknesses of previous frameworks, absorptive capacity has been included as a mediator. It mediates the relationship of leadership styles (transformational, transactional, and passive-avoidant) and corporate entrepreneurship. The transformational leaders use individualized consideration and intellectual stimulation to enhance the capacity of employees to absorb knowledge. Once their capacity to absorb knowledge is increased, they can contribute through creative ideas which results in innovation, gaps and ways to enter new businesses or markets. Firms can use proactive approach to lead competitors rather than follow them. This knowledge facilitates organizations to renew themselves according to the current requirements of

business environment and provides a secure platform to take risk. The uniqueness of this framework is that the impact of these three leadership styles on each dimensions of corporate entrepreneurship can be seen directly and through absorptive capacity. Therefore, this study is also analyzing the impact of each leadership style on overall corporate entrepreneurship directly and indirectly through absorptive capacity. These two components are persistently missing in the extant scholastic literature. The previous studies have not taken absorptive capacity into account. Moreover, previous studies have not comprehensively conceptualized corporate entrepreneurship. For example most of the frameworks in the previous researches have taken three dimensions of corporate entrepreneurship namely innovation, proactivity, and risk-taking. Therefore, those models have missed some of the dimensions of corporate entrepreneurship. The uniqueness of this framework comes in three ways: first, it takes absorptive capacity as a mediator; second, it extends the dimensions of corporate entrepreneurship; third, it checks the impact of various leadership styles on individual dimensions and overall corporate entrepreneurship. From this conceptual framework, the list of following hypotheses is extracted.

2.10 Empirical Evidences and Hypotheses Development

Keeping in view the theoretical exposition, previously developed frameworks, conceptual framework of this study, and empirical evidences, this section entails the development of hypotheses. The development of hypotheses is divided into three sub-sections: first, transformational leadership and corporate entrepreneurship; second, transactional leadership and corporate entrepreneurship; and third, passive-avoidant leadership and corporate entrepreneurship. In addition, a final list of all hypotheses is also presented in Appendix F.

2.10.1 Transformational Leadership and Corporate Entrepreneurship

Heap of scholastic and empirical works have examined the juxtaposition of transformational leadership and corporate entrepreneurship. The majority of such works argue for a positive momentous effect of transformational leadership on corporate entrepreneurship. For example, Morrisette and Oberman (2013) opine on the finding of Ling et al. (2008) that transformational leadership positively affects the entrepreneurial activities in small firms more than big organizations. For example Yang (2008) proposes that transformational leadership has positive association with corporate entrepreneurship and has found positive link of transformational leadership with corporate entrepreneurship. Similarly, Roslan (2010) and Bakar and Mahmood (2014) also propose that transformational leadership has positive relationship with corporate entrepreneurship. Furthermore, transformational leaders enhance employees' capacity to absorb knowledge by supporting their autonomy and empowerment. These leaders provide information, obligations, expertise, and abilities to the employees. Then employees can employ it to acquire, implement, transform, and employ a novel exercise and advance inside firm communication system by eliminating hurdles in sharing knowledge to enhance the absorption process efficiency (Van Den Bosch et al., 1999). Therefore, absorptive capacity permits firms to learn by doing something new contrasting with learning-by-doing which permits firms to obtain better outputs than the previous one (Lane et al., 2006). Zahra et al. (2009) argue that these novel understandings help firms through identifying opportunities and novel alternatives for corporate entrepreneurship. Teng (2007) argues that specifically transformational leadership allow firms to bridge knowledge gaps to elevate corporate entrepreneurship. Against this backdrop, this study has the following hypotheses.

H1: Transformational leadership has positive relationship with corporate entrepreneurship

H2: Absorptive capacity mediates the relationship of transformational leadership and corporate entrepreneurship

Corporate entrepreneurship possesses various dimensions, and the influence of transformational leadership can vary across the various dimensions of corporate entrepreneurship. Therefore, it is vital to analyze the impact of transformational leadership on each dimension of corporate entrepreneurship. Starting from innovation, researches argue that transformational leaders have charismatic personality which motivate and foster intellectual inspiration. These attributes enhance the processes of organizational learning and communication which make firms innovation-oriented (Bass, 1999; Bass & Avolio, 2000; Conger, 1989). Eyal and Kark (2004) propose that transformational leadership has positive association with innovation. Yang (2008) also examined and found positive association between transformational leadership and innovation. Consistent with Yang (2008), Öncer (2013) also found a positive link between transformational leadership and innovation. Indirectly, transformational leadership also affects innovation through organizational knowledge (Cohen & Levinthal, 1990; Nonaka & Takeuchi, 1995; Senge et al., 1994). The discussion on the influence of transformational leadership on innovation leads us to draw the following hypotheses.

H1a: Transformational leadership has positive relationship with innovation

H2a: Absorptive capacity mediates the relationship of transformational leadership and innovation

New business venturing is the second vital dimension of corporate entrepreneurship. Transformational leadership also influences this dimension as Covin and Slevin (2002) and Gupta, MacMillan, and Surie (2004) argue that transformational leadership is necessary for the top management to move successfully towards new business venturing. Ensley, Hmieleski, and Pearce (2006) found that transformational leadership positively affects the performance of new venture under the conditions of a dynamic environment. Although theoretical exposition supports that transformational leadership affects positively to new business venturing directly or indirectly through absorptive capacity, the researcher did not find any empirical literature to support the aforesaid conception directly. So, this study is first of its kind to draw and test the following hypotheses:

H1b: Transformational leadership has positive relationship with new business venturing

H2b: Absorptive capacity mediates the relationship of transformational leadership and new business venturing

The third dimension of corporate entrepreneurship is self-renewal which is also influenced by transformational leadership. Theoretical description supports the association between transformational leadership and self-renewal directly or indirectly through absorptive capacity. Transformational leaders, through using inspirational motivation demonstrate particular behaviors of expressing a shared vision, inspiring and stimulating the followers to achieve the targeted objectives. In response, as stated by (Morrisette & Oberman, 2013), these leaders achieve acceptance of employees about the transformed values and beliefs (vision and mission) of firms which is termed as self-

renewal of firms. Moreover, transformational leaders acquire knowledge from outside the firm by using external sources. They also get external information from their concerned employees through individualized consideration. This external knowledge also helps transformational leaders to promote self-renewal. Therefore, keeping in view the above situation, this study draws and tests the following hypotheses.

H1c: Transformational leadership has positive relationship with self-renewal

H2c: Absorptive capacity mediates the relationship of transformational leadership and self-renewal

Proactivity is the third dimension of corporate entrepreneurship. Transformational leaders are proactive; they have the propensity to form the environment instead of reacting or following it passively (Covin and Slevin, 1991); and they proactively lead the firms towards goals and objectives (Judge and Bono, 2000). Eyal and Kark (2004) propose that transformational leadership has positive and significant link with proactivity. Yang (2008) has also found positive association of transformational leadership with proactivity. Williams, Parker, and Turner (2010) have also examined and found positive relationship between transformational leadership and proactivity. Although the mediation of absorptive capacity between transformational leadership and proactivity is supported by theoretical exposition but it lacks empirical support. Considering the theoretical exposition, empirical evidences and gaps, this study hypothesize that:

H1d: Transformational leadership has positive relationship with proactivity

H2d: Absorptive capacity mediates the relationship of transformational leadership and proactivity

The last dimension of corporate entrepreneurship is risk-taking. A numbers of scholars argue that transformational leaders enhance the risk-taking propensity of a firm. Morrisette and Oberman (2013) argue that transformational leaders provide employees or followers a secure environment to take risk. Significant empirical literature also claims that transformational leadership enhances the risk-taking ability of a firm. For instance, Yang (2008) also found positive association of transformational leadership with risk-taking. Consistent with his findings, Öncer (2013) also found positive relationship of transformational leadership risk-taking. Although the mediation of absorptive capacity between transformational leadership and risk-taking is supported by theoretical exposition, it lacks empirical evidences. Keeping in view the above discussion, this study draws the following hypotheses:

H1e: Transformational leadership has positive relationship with risk-taking

H2e: Absorptive capacity mediates the relationship of transformational leadership and risk-taking

2.10.2 Transactional Leadership and Corporate Entrepreneurship

Significant literature explains the relationship between transactional leadership and corporate entrepreneurship. Transactional leaders as role models develop relationship with followers on the basis of an exchange process where leaders and followers (employees) clearly recognize what their benefits are. Some of the empirical studies also analyzed this affect, e.g., Yang (2008) found that transactional leadership has

positive association with corporate entrepreneurship but this association is less significant than the association of transformational leadership and corporate entrepreneurship. Similarly, Roslan (2010) also hypothesized and found a positive linkage between transactional leadership and corporate entrepreneurship. Empirical studies have found the linkage of transactional leadership and corporate entrepreneurship in three dimensions: innovation, proactivity, and risk-taking. Even though the theoretical exposition is available on the mediation of absorptive capacity between transactional leadership and corporate entrepreneurship, it lacks empirical evidences. Considering the above discussion on theoretical and empirical association, this study draws the following hypotheses:

H3: Transactional leadership has positive relationship with corporate entrepreneurship but less than transformational leadership

H4: Absorptive capacity mediates the relationship of transactional leadership and corporate entrepreneurship

As corporate entrepreneurship possesses various dimensions and transactional leadership influence can be different across its dimensions. Therefore, it is also important to analyze the influence of transactional leadership on each dimension of corporate entrepreneurship. Innovation is the first dimension and a number of empirical studies have examined this relationship. For example, Eyal and Kark (2004) proposed that transactional leadership has positive relationship but less than transformational leadership with innovation. The results do not support these hypotheses and an insignificant relationship is found between them. Politic and Harkiolakis (2008) also proposed the same relationship as proposed by Eyal and Kark (2004) and found positive

relationship of transactional leadership only with innovation. Öncer (2013) proposed that transactional leadership has positive association with innovation but to an insignificant level. Although theoretical exposition is available on the mediation of absorptive capacity between transactional leadership and corporate entrepreneurship but no empirical evidences have been found. Keeping in view the above conditions of empirical evidences, hypotheses and findings, this study proposes:

H3a: Transactional leadership has positive relationship with innovation but less than transformational leadership

H4a: Absorptive capacity mediates the relationship of transactional leadership and innovation

The second dimension of corporate entrepreneurship is new business venturing. Although theoretical description supports the association between transactional leadership and new business venturing directly and indirectly through absorptive capacity as explained previously. Transactional leaders define performance standards to the employees or followers. The followers follow performance standards, otherwise if deviate leaders interfere actively and take corrective actions. Strict monitoring of job performance, job standards, and clear expected outcomes discourage the individual creativity which hinders the organizational innovation. Consequently, due to ignoring future perspectives/trends and business opportunities, firms fail in new business venturing. So, considering the above theoretical linkage and lack of empirical evidences, this study proposes:

H3b: Transactional leadership has positive relationship with new business venturing but less than transformational leadership

H4b: Absorptive capacity mediates the relationship of transactional leadership and new business venturing

Similar to previous section on new business venturing, theoretical description also supports the relationship of transactional leadership with self-renewal directly and indirectly through absorptive capacity. Transactional leaders define performance standards to the employees or followers. Employees or followers always try to follow these standards. Following the predefined performance standards, followers do not focus on self-renewal which results in ignoring self-renewal of the firm. Considering above theoretical linkage this study proposes:

H3c: Transactional leadership has positive relationship with self-renewal but less than transformational leadership

H4c: Absorptive capacity mediates the relationship of transactional leadership and self-renewal

Eyal and Kark (2004) propose that transactional leadership has positive relationship but less than transformational leadership with proactivity. The results do not support these hypotheses and an insignificant relationship exists between them. As Scott (2012) assert that transactional leader emphasizes on short-term planning, organizing and controlling, and as a result firms still fail to perform proactively as compared to competitors. Politic and Harkiolakis (2008) also proposed the same relationship as proposed by Eyal and Kark (2004), and found insignificant relationship with proactivity. Öncer (2013)

proposed and found a significant relationship between transactional leadership and proactivity.

H3d: Transactional leadership has positive relationship with proactivity but less than transformational leadership

H4d: Absorptive capacity mediates the relationship of transactional leadership and proactivity

Similarly, Öncer (2013) proposed that transactional leadership has positive association with risk-taking and found their significant relationship. Politic and Harkiolakis (2008) hypothesized that transactional leadership has less association with risk-taking than transformational leadership but found that transactional and transformational leadership equally affected risk-taking. Yang (2008) proposed that transactional leadership has positive association with risk-taking and found also significant association with risk-taking. The mediation of absorptive capacity is supported theoretically as explained in theoretical part but no empirical findings are available. Therefore, the following hypotheses are proposed:

H3e: Transactional leadership has positive relationship with risk-taking but less than transformational leadership

H4e: Absorptive capacity mediates the relationship of transactional leadership and risk-taking

2.10.3 Passive-Avoidant Leadership and Corporate Entrepreneurship

Passive-avoidant leaders, being role-models for their followers, do not want to define goals and expected behaviors to achieve objectives. These leaders show less or no participation in vital concerns of firms and try to postpone their feedback to crucial problems (Bass & Avolio, 2004b). Using management by exception-passive approach, these leaders take actions after the problems have arisen, and they focus on corrections just to maintain the performance standards (Bass & Avolio, 2004b). Therefore, such leaders do not train or motivate the followers to do something new which could result in newness at firm-level. Therefore, Yang (2008) proposed that passive-avoidant leadership has positive association with corporate entrepreneurship but found negative association between passive-avoidant leadership and corporate entrepreneurship. Similarly, Roslan (2010) also hypothesized that passive-avoidant leadership has positive linkage with corporate entrepreneurship. There is by far no empirical finding on the mediating role of absorptive capacity between passive-avoidant leadership and innovation. So, this study proposes:

H5: Passive-avoidant leadership has negative relationship with corporate entrepreneurship

H6: Absorptive capacity does not mediate the relationship of passive-avoidant leadership and corporate entrepreneurship

Passive-avoidant leaders through laissez-faire approach avoid taking obligations. Consequently, these escaping activities increase the frustration levels among employees and followers, and decrease the level of self-esteem among them (McColl-Kennedy & Anderson, 2005). Therefore, Eyal and Kark (2004) proposed insignificant association

between passive-avoidant leadership and innovation and found negative relationship. Yang (2008) hypothesized the positive relationship of passive-avoidant leadership and innovation but found insignificant relationship. Moreover, the researcher has not found any empirical study which explicates the mediation of absorptive capacity between passive-avoidant leadership and innovation. So, keeping in view above theoretical and empirical linkages, the researcher proposes the following hypotheses:

H5a: Passive-avoidant leadership has negative relationship with innovation

H6a: Absorptive capacity does not mediate the relationship of passive-avoidant and innovation

Theoretical description also does not support the relationship of passive-avoidant leadership with new business venturing directly and indirectly through absorptive capacity. Likewise, the escaping activities of passive-avoidant leaders increase the frustration level among employees or followers and decrease their level of self-esteem (McCull-Kennedy & Anderson, 2005), which in result, does not allow moving further for new business venturing. But no empirical study has been found to examine this relationship directly or indirectly through absorptive capacity. Thus, the following hypotheses:

H5b: Passive-Avoidant Leadership has negative relationship with new business venturing

H6b: Absorptive capacity does not mediate the relationship of passive-avoidant leadership and new business venturing

Similar to previous section, theoretical descriptions do not support this link with passive-avoidant leadership and self-renewal directly and indirectly through absorptive capacity. Likewise, the avoidance behavior of passive-avoidant leaders augment the frustration levels among employees or followers and decrease their level of self-esteem (McColl-Kennedy & Anderson, 2005), which does not allow thinking for self-renewal. No empirical study has been found in the existing literature which examined the relationship of passive-avoidant leadership and self-renewal directly and indirectly through absorptive capacity. So, by keeping in view this theoretical linkage and empirical gap the following are proposed:

H5c: Passive-avoidant leadership has negative relationship with self-renewal

H6c: Absorptive capacity does not mediate the relationship of passive-avoidant and self-renewal

Passive-avoidant leaders show less or no participation in vital concerns of firms and try to postpone their feedback to crucial problems (Bass & Avolio, 2004b). This approach hinders the pro-activeness of firm to proactively understand the customer needs and wants, market trends, technological change, and grab these business opportunities in profitable way. Eyal and Kark (2004) examined and found negative relationship between passive-avoidant leadership and proactivity. Yang (2008) hypothesized the relationship of passive-avoidant leadership and proactivity, but found an insignificant relationship empirically. But no empirical study is found on the mediation of absorptive capacity between passive avoidant leaders and proactivity. So, considering the above theoretical and hypothetical link, the following hypotheses are proposed:

H5d: Passive-avoidant leadership has negative relationship with proactivity

H6d: Absorptive capacity does not mediate the relationship of passive-avoidant leadership and proactivity

Passive-avoidant leaders avoid interfering in employees' or followers' matters and do not pay attention to guide them even in serious matters. These leaders are not supportive for their followers to take novel actions. That is why followers do not take risk and do not try anything new. Yang (2008) hypothesized the association between passive-avoidant leadership and risk-taking and found an insignificant relationship. Although theoretical link explicates the mediation of absorptive capacity between passive-avoidant leadership and risk-taking, but no empirical evidence is available to support this conception. By keeping in view above theoretical and empirical linkage and gap, it is proposed that:

H5e: Passive-avoidant leadership has negative relationship with risk-taking

H6e: Absorptive capacity does not mediate the relationship of passive avoidant leadership and risk-taking

2.11 Summary

This chapter presents the review of literature related to this study. It starts with the definitions and theories of leadership and corporate entrepreneurship. Social cognitive theory is used to delineate the relationship of leadership styles and corporate entrepreneurship, whereas resource-based view is employed to define the mediating role of absorptive capacity between the leadership styles and corporate entrepreneurship. Thus, conceptual framework is derived on the basis of literature, empirical findings, and theoretical relationship.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is mainly divided in two sections. Section 1 presents the methodology employed to conduct study and section 2 comprises the analysis techniques used to address the research questions. This section comprises population, sample, data collection, and instruments on reliability and validity. Section 2 includes the data analysis techniques where structural equation modeling (SEM) is utilized.

3.2 Research Design

Research design is a structure or plan to conduct a study for getting the answers of research questions, and includes the whole pattern or scheme of the study (Kerlinger & Lee, 2000). A cross-sectional survey research design is used in this study. Survey research is used to answer the non-experimental questions intended to analyze the association among different variables in social systems like organizations, communities, and institutions (Kerlinger, 1992). Sample survey research has many advantages. First, it facilitates in collecting substantial information as compared to big sample (Kerlinger, 1992). Second, it ensures maximum units of population as sample which are useful to generalize the results of a study (Scandura & Williams, 2000). Moreover, relevant literature recommends that information received through survey study is reliable because of the very specification of an instrument.

It is quite a sensitive issue to ask from respondents about their leadership styles and their firms' focus on innovation, new business venturing, self-renewal, proactivity, risk-

taking, and the capacity of a firm to absorb knowledge. Owing to the aforesaid constraint, survey technique is suitable for data collection on sensitive organizational issues. Survey is an appropriate way to collect data from population through a sample to derive inferences considering general results (Chisnall, 1992; Creswell, 1994). Hair, Bush, and Ortinau (2003) argue that survey research is useful for big sample size. Survey research has prompt response, less expensive, and easy to organize (Churchill, 1995; Sekaran, 2003; Zikmund, 2003).

On the contrary, this technique is criticized because of its dependency on provided details (Spector, 1992). Difficulty in deciding the precision of responses, insufficient details, control deficiency on appropriateness is among the many disadvantages of survey research. To overcome the drawbacks of survey research, recommendations presented by Hair et al. (2003) have been incorporated. For example, previously developed and tested scales are used to collect data in this study because of their validity and reliability. Moreover, to decrease biasedness in responses and to ensure respondents' complete understandings; instrument is translated in Urdu language.

3.2.1 Population

According to SMEDA (2013), there are 2.5 million SMEs in Pakistan. According to Federal Bureau of Statistics, from provincial distribution perspective, 65 per cent SMEs are located in Punjab, 18 per cent in Sindh, 14 per cent in Khyber Pakhtunkhwa, and other 3 per cent in Baluchistan and 2 per cent in Islamabad (Figure 3.1). There are 72 districts in Pakistan. Major clusters of SMEs are in ten districts: Lahore, Faisalabad, Karachi, Multan, Hyderabad, Sialkot, Gujarat, Sheikhpura, Gujranwala, and Quetta.

Out of these ten, seven districts are from Punjab (CMI, 2005-6). Textile, leather, surgical, food, and sports are the major constituents of manufacturing SMEs.

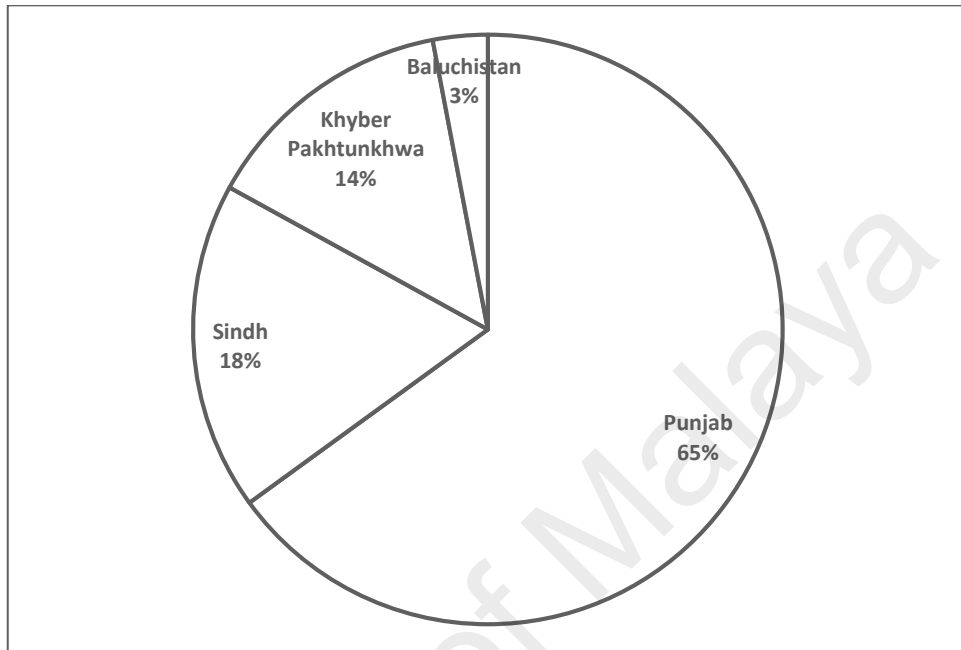


Figure 3.1: SMEs Distribution

Source: SMEDA (2013)

3.2.2 Sample

Keeping in view the above information; 65% SMEs are in Punjab and seven out of ten top SMEs clusters are in Punjab. Manufacturing SMEs of Punjab are targeted in this study. However, 15159 SMEs are registered with SMEDA in Punjab. This study follows cluster sampling technique as adopted by Bhutta et al. (2008). SMEs were selected from each cluster according to their proportion in total population. Table 3.1 shows the number of SMEs taken from each industry for this study.

The study selected 950 firms (798 from six major industries and 120 from different small industries including carpet weaving, printing, chemical, and fan industries) as sample of the study. The sample is selected by following the guidelines of Krejcie and Morgan (1970) and Barlett, Kotrlik, and Higgins (2001). Moreover, the study of Mubarik, Govindaraju, & Devadason (2016) also has been considered while selecting sample. Textile is the leading manufacturing sector contributing in GDP of Pakistan followed by Food and Beverages, and Leather (Government of Pakistan, 2013). Moreover, textile and leather sectors are major manufacturing industries and have substantial contribution in exports and domestic employment. Textile and leather sector contributes in exports and employment up to 24 per cent to 21 per cent respectively. Although food and surgical (metal, machinery, and equipment) sectors may not substantially contribute to exports and employment but these industries are constantly contributing in exports and employment. These industries are emerging and their contribution can be increased. Sports sector has a great potential for contributing much more in exports; for example, recent FIFA World Cup is one example.

Table 3.1: Industry Based Samples Distribution

Sr. No.	Industry	%	Firms
1	Textile	21	199
2	Leather/Footwear	14	134
3	Sports	12	114
4	Food & Beverages	19	180
5	Metal	8	76
6	Wood & Furniture	10	95
7	Others	16	152
Total		100	950

The city distribution of selected sample along with number of SMEs registered in a particular city appears in Table 3.2. The data of registered SMEs were taken from the Chamber of Commerce, Punjab Directory of Industrial Establishments, and Jamal Yellow pages.

Table 3.2: Demographic Distribution of Sample

Cluster	Percentage	Number of firms sampled
Lahore	29	276
Faisalabad	18	171
Sialkot	13	124
Gujranwala	19	181
Multan	9	85
Gujrat	7	66
Shiekhupura	5	47
Total	100	950

3.2.3. Data Collection Procedure

First, questionnaire is translated in the national language of Pakistan i.e. Urdu, and also English (See appendix A). SMEs top level management (CEOs/owners/top managers) are targeted to fill the questionnaire. Questionnaire along with the study description and assuring confidentiality of both identity and results was delivered to the respondents to fill in. Some of the managers filled immediately and some later. The details of data collected are presented in Table 3.3.

Table 3.3: Sample Collected

Cluster	Questionnaires Received
Lahore	110
Faisalabad	77
Sialkot	107
Gujranwala	78
Multan	32
Gujrat	19
Shiekhupura	10
Total	433 (useable-400)

3.3 Description and Measurements of Variables

This study integrates different variables into one framework. Mainly, the study involves three variables: leadership styles, corporate entrepreneurship, and absorptive capacity. Leadership styles (transformational, transactional, & passive-avoidant) are independent variables. Corporate entrepreneurship is dependent variable while absorptive capacity is mediating variable. Therefore, three survey instruments were employed in this study. Each variable is measured according to its appropriate instrument. The explanation of these instruments is as follows.

3.3.1 Leadership Styles

Multifactor Leadership Questionnaire (MLQ-Form 5X) is used to measure leadership styles i.e., transformational, transactional, and passive-avoidant. It is employed to measure top level management (CEOs/owners/top managers) leadership style (transformational, transactional, passive-avoidant). MLQ developed and refined by

(Bass & Avolio, 1995; Bass & Avolio, 2004a). It includes 36 items ranging from “1=Not at all” to “5=frequent”.

Transformational leadership is measured by five constructs: idealized influence-attributed, idealized influence-behavior, inspirational motivation, intellectual stimulation, and individualized consideration. In addition, each construct is measured by four elements. Transactional leadership is measured by two constructs i.e. contingent reward, and management-by-exception-active and further four elements measured this each construct. Passive-avoidant leadership is also measured by two constructs which is management-by-exception-passive and laissez-faire leadership. Four items are also used for measuring each construct.

MLQ (Form-5X) is multi-cultural and widely employed instrument to measure leadership styles of top level management (CEOs/owners/top managers) (Avolio and Bass, 2004). In other words, it is reliable and can be used in the context of Pakistan as used by Khan, Rehman, and Fatima (2009), Nawaz and Bodla (2010), Tipu, Ryan, and Fantazy (2012) and Ryan and Tipu (2013). Operationalization of independent variables is as follows:

Variables	Definitions
Transformational	Transformational leader is a leader who motivates and inspires followers through his behavior to achieve organizational goal. He motivates them using four dimensions: idealized influence (attributed), idealized influence (behavior), inspirational motivation, intellectual stimulation, individual consideration (Bass & Riggio, 2006) and achieve organizational goals and objectives.
Transactional	Transactional leaders involve their followers in interdependence association in which leader gets work accomplished according to the instructions provided to the followers and followers also get reward according to the terms and conditions they set (Kellerman, 1984).
Passive-avoidant	These leaders shun defining agreements, expectations or standards of behavior, and specifying goals or objectives to be attained by followers. These leaders demonstrate less participation in vital concerns of firms and try to postpone their feedback to crucial problems (Bass & Avolio, 2004b).

3.3.2 Corporate Entrepreneurship

Corporate entrepreneurship is measured by combining two different scales, namely corporate entrepreneurship scale and ENTERSCALE. Corporate entrepreneurship scale includes innovation, new business venturing, and self-renewal which is developed and

refined by Zahra (1991; 1993a) and tested by Zahra (1996) and Antoncic (2007). ENTERSCALE comprises proactivity and risk-taking which is developed by Khandwalla (1977), refined by Covin and Slevin (1989), and finally refined by Knight (1997). Top level management (CEOs/owners/top managers) also filled this section.

Each innovation and new business venturing are measured by five items ranging from “1=Increased Significantly” to “5=Decreased Significantly”. Self-renewal is also measured by five items ranging from “1=Minor Emphasis” to “5=Major Emphasis”. Proactivity is measured by four items, risk-taking is measured by six items which are ranging from “1=Strongly Disagree” to “Strongly Agree”.

Variables	Definitions
Innovation	<p>In this study, innovation refers to bringing newness in products, process to develop or manufacture products, and then bring them to the market successfully.</p> <p>Innovation includes the development of new products, brings improvement in the existing products, development of new production process, introducing new products in existing market, or introducing existing product in new market. Consistent with this definition, this study uses Zahra’s (1996) instrument to measure innovation.</p>
New Business Venturing	<p>It is defined as creation or establishment of new business in already established business by transforming the firm’s products i.e. goods and services or creating</p>

	new markets.
Self-Renewal	It focuses on firms' transformation via redefining the main objectives on which they formed. It refers to strategic and radical transformational consequences and comprises on redefining the idea of business, restructuring, and launching the system-wide transformations for newness.
Proactivity	This concept recommends adopting proactive approach to have an edge over competitors. A proactive firm is a firm which takes initiatives with risk to avail opportunities. This firm tries to lead competitors than following them. Entrepreneurial firms are trend setters, and not the followers of trends (Miller, 1983). Morris and Kuratko (2002) stated that core of proactivity is application. Application means implementation of creative ideas in firms. Constant exploration of opportunities with possible outcomes to shift the trends (Venkatraman, 1989).
Risk-taking	Readiness to chase opportunities in which chances are equal to bear loss or substantial fluctuations in performance (Morris & Kuratko, 2002).

3.3.3 Absorptive Capacity

Absorptive capacity is measured by 14 items scale which is developed by Zahra and George (2002), later refined by Tessa C Flatten, Engelen, Zahra, and Brettel (2011). This scale is used by Jiménez-Castillo and Sánchez-Pérez (2013) and assures its

reliability. This 14-item scale is measured through 5-point Likert scale ranging from “1=Strongly Disagree” to “5=Strongly Agree”. In addition, there is no method variance due to insertion “absorptive capacity” into the analysis of two variables of leadership styles and corporate entrepreneurship.

Variables	Definitions
Absorptive Capacity	Absorptive capacity is the capability of firms to identify, assimilate, process and exploit the novel knowledge achieved from outside firm sources (Cohen and Levinthal, 1990). The knowledge-based theory proposes that this capability can considerably enhance the ability to identify and discover novel opportunities by developing new abilities and decreasing cognitive inflexibility among top management of a firm (Zahra et al., 2009).

Furthermore, the comprehensive details about the instrument are presented in Table 3.4. In order to test the exogenous effect, control variables are also employed. The next section presents details about control variables.

Table 3.4: Data Collection Instrument

Scales	Developed	Refined	Tested	Used
Leadership Styles (36-items scale) Multifactor Leadership Questionnaire-MLQ 5x Transformational (20-items) Transactional (8-items) Passive-avoidant (8-items)	Bass & Avolio 1995	Bass & Avolio 2004a	Muenjohn & Armstrong 2008	Khan et al 2009 Bodla & Nawaz 2010 Ryan & Tipu 2013
Corporate Entrepreneurship Combined two scales; Corporate Entrepreneurship & ENTERSCALE	Antoncic & Hisrich, 2001 Antoncic, 2007			Antoncic 2007 Antoncic & Hisrich, 2001
Corporate Entrepreneurship (3 Constructs): -Innovation (5-items) -New Business Venturing (5-items) -Self-renewal (13-items)	Zahra, 1991	Zahra, 1993	Zahra, 1996 Antoncic 2007	Ling et al 2008 Yildiz, 2014
ENTERSCALE (2 Constructs): Proactivity (5-items) Risk-taking (4-items)	Khandwalla 1977	Covin & Slevin 1989	Knight 1997	
Absorptive Capacity (14-items)	Zahra & George 2002	Flatten et al 2011	Jiménez-Castillo & Sánchez-Pérez 2013	Engelen et al 2014

3.3.4 Control Variables

Since this study analyzes the effect of leadership styles (CEOs/Top managers/Owners) on corporate entrepreneurship, two types of control variables are used. Leaders' (CEOs/Top Managers/Owners) experience as individual control variable and firm size, type of industry, and years in business as firm-level control variables.

Leaders' experience can affect corporate entrepreneurship and entrepreneurial skills (Natarajan, Wittmann, & Iyer, 2014). Firm size, type of industry, and firm age (operating in business) are also vital to affect corporate entrepreneurship (Dunlap, Kotabe, & Mudambi, 2010; Hitt, Hoskisson, & Kim, 1997; Javalgi & Todd, 2011; Jung, Chow, & Wu, 2003; Sciascia, Mazzola, Astrachan, & Pieper, 2012). Therefore, it is required to control the effect of these variables.

3.4 Survey Questionnaire: Validity and Reliability

It is important to assure the validity and reliability of the questionnaire before proceeding towards estimation. Validity means the aptitude of a construct or scale to assess what it aimed to be assessed (Zikmund, 2003). Face, and construct validity (convergent and discriminant validity) techniques are used to assess validity in this study. Zikmund (2003) stated that reliability is the extent to which constructs are random error free and produce reliable output. Its purpose is to reduce the chances of bias and errors in the study (Yin, 1994). In this study, three reliability techniques are employed i.e. average variance extracted (AVE), composite reliability (CR), and Cronbach's alpha.

3.4.1 Face Validity

It is also called content validity. Face validity can be defined as the degree to which items of a scale gauge a construct (Malhotra, Agarwal, & Peterson, 1996). Since the instruments are adopted by experts of respective fields, content validity is assured. As the questionnaire was also translated into the national language of Pakistan, Urdu, it became necessary to assure face validity. The instrument was sent to the experts for translation into Urdu. Experts compared the questionnaire in English and Urdu to figure out any difference. During this process, comments and suggestions given by the SMEs experts for using simple words and removing vague words were incorporated. Furthermore, Urdu and English statements were written side by side for better understanding of an item. So, face validity of the instrument was assured.

After formatting the questionnaire, it was discussed with SMEs experts, human resource managers, and organizational development consultants of manufacturing sector SMEs in Pakistan. The feedback and discussion helped to improve the appropriateness of questionnaire. The improved questionnaire was then sent to eight professionals (four with whom it was previously discussed and four more) to check for any irrelevant, meaningless, or unclear items. They were also asked to suggest if any item needed more explanation. The professionals identified some of the items, which required improvements. Some of the minor changes were incorporated in terms of rephrasing as pointed out by experts. After the experts approved the questionnaire, data were collected from fifty SMEs for pilot study. Cronbach alpha is calculated employing SPSS to check reliability of the questionnaire. The result of pilot study is presented in Appendix E.

3.4.2 Construct Validity

Construct validity is defined as what the scale is measuring (Churchill, 1995). It is the degree on which a set of measurements or items represent the latent construct or measure for which these items are developed (Hair, Anderson, Tatham, & Black, 1998). Convergent and discriminant validity is used to measure construct validity.

3.4.2.1 Convergent Validity

Convergent validity is defined as the degree to which two items or indicators of a construct or measure are similar to each other. It is important to assure that items which are similar according to theory should be similar in reality. Confirmatory factor analysis (CFA) is conducted to measure the convergent validity. Convergent validity is measured through factor loadings (≥ 0.50) and AVE (≥ 0.50)

3.4.2.2 Discriminant Validity

Discriminant validity is defined as the degree to which the item or items of one construct is not similar to item or items of other construct. It is vital to assure that items which are dissimilar according to theory should be divergent actually. CFA is conducted to measure the discriminant validity. Discriminant validity is measured by correlation between factors in the measurement model (< 0.85). Moreover, construct validity is assured by goodness-of-fit of model with the data employing CFA.

3.4.3 Reliability

Confirmatory factor analysis (CFA) is used to test the internal consistency of this study. It is significant to ensure that each construct and item used in this study is reliable through which researchers become confident about the measurement (Hair et al., 1998). As recommended by Fornell and Larcker (1981), AVE and CR are used to test reliability. AVE and CR of constructs or variables should be equal to or more than 0.50 and 0.60 respectively (Bagozzi & Yi, 1988). Cronbach's alpha is general technique employed to check reliability (Sekaran, 2003). Now, it is deemed first method to check constructs reliability (Churchill, 1979; Nunnally, 1978). There are variations of accepted threshold value. For example, Nunnally (1978) recommended that its value should be more than 0.70, whereas, Carmines and Zeller (1979) recommended it should be more than 0.80 whereas Nunnally and Bernstein (1994) suggested it should be more than 0.60. Regardless of these different threshold values, it is appropriate to use a generally accepted value equal to or more than 0.70 to assess the internal consistency of constructs. However, 0.70 threshold value is used in this study.

3.5 Data Analysis Technique

Structural Equation Modeling (SEM) is used to test the conceptual model because of several relationships to run simultaneously. Covariance based SEM (CBSEM) is used as basic statistical technique to address the objectives of this study. Presently, CBSEM in statistical packages depends primarily on maximum likelihood estimation.

3.5.1 The Reasons for Using SEM

SEM is based on flexible statistical method than any other multiple regression analysis. SEM identifies the measurement error, difference between a construct and a measure being measured. Not identifying measurement error may lead to wrong conclusion (Rigdon 1994). It is easy to analyze all steps of dependent and independent variables and error terms in one combined model in the case of CBSEM. The whole combined measurement and structural model is estimated in both CBSEM and partial least square (PLS), then outcomes are portrayed as one combined model in which the path analysis of models, measurement and structural are depicted (Gefen, Straub, & Rigdon, 2011). This process leads to better estimation of measurement and structural model in CBSEM (Anderson & Gerbing, 1988). This process formulates estimates presented by SEM better than those which are presented by linear regression when the distribution hypotheses are made. Even the measures of interest can be calculated with restricted vagueness (i.e. price or weight). SEM has exclusive benefits on linear regression that it permits formation and analysis of models with numerous dependent variables and their interrelationships simultaneously.

3.5.2 SEM Assumptions

While using SEM, it should be ensured that data fulfills SEM assumptions like sufficient sample size and normality in data. Assumption of normality is very significant, for the reason that non-normality sign may add to breach of other assumptions. Data normality, missing data and outlier and treatment will be discussed in following sub-section (preliminary data analysis).

For SEM analysis, it demands more sufficient sample size for the reason that correlations and covariance are less constant when analyzed from small sample sizes (Kline, 2005). In addition, small sample sizes limit the control to identify important path coefficients and have propensity to sample error in covariance matrix, often consequently in unacceptable results and less than satisfactory goodness-of-fit indices (Quintana & Maxwell, 1999).

One hundred is the least sample size to make sure a suitable application of maximum likelihood estimation in SEM. Alternatively, some of the researchers state that maximum likelihood estimation in SEM might merely be employed when the sample size is two hundred or above (Boomsma & Hoogland, 2001). One more criterion for sample size is to evaluate the complication of the model evaluated. A ratio of three to five should be estimated for each parameter in the model (Bollen, 1989) whereas Bentler (1990) recommends that a ratio of five participants per evaluated parameter is the least acceptable to produce constant parameter estimates. Sample size for this study is 400 which is a sufficient sample size (Boomsma & Hoogland, 2001) and is also suitable in employing SEM analysis.

3.6 Steps in SEM

SEM analyses are conducted by four major steps: model specification, model estimation, model evaluation, and reporting or interpretation (Hoyle, 2012). Model re-specification is an additional step which is applied if the model does not fit. Figure 3.2 shows these steps in a sequence.

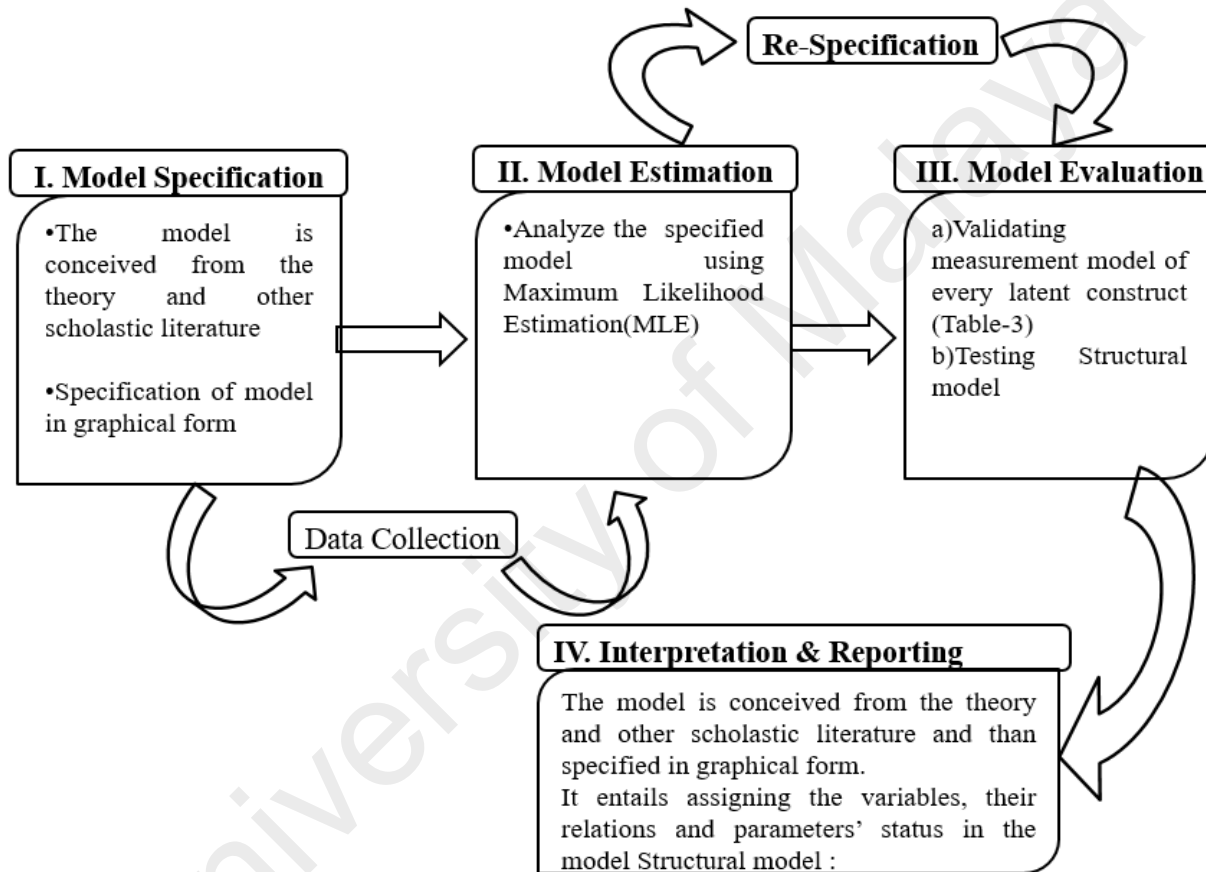


Figure 3.2: Steps in SEM

3.6.1 Model Specification

Model specification is first step in SEM even before data collection. It is difficult statistically to develop conceptual framework using relevant, applicable theory or theories, and available literature to address the relationship of variables. A model should be based on sound grounds and existing literature. Reasonable grounds and logical base should be for the whole model as well as for the relationship of variables in model. Before estimating the parameters of a model, associations of variables in model are identified. It is also essential to develop a distinctive estimate for each parameter. The parameters are also identified with their titles e.g. freely (unidentified parameter which requires to be estimated), fixed (which is fixed at particular value, normally 0/1), or limited (unidentified parameter but limited to similar one or other parameters).

The above discussion relates to finding the direct effect of leadership styles (transformational, transactional, and passive-avoidant) on corporate entrepreneurship and indirect affect through absorptive capacity. As discussed earlier, leadership styles (transformational, transactional, and passive-avoidant) are measured by thirty six items, corporate entrepreneurship is measured by five latent variables, and absorptive capacity is measured by fourteen items. For analysis, this relationship is further divided into three objectives. First, to find the relationship and effect of leadership styles (transformational, transactional, and passive-avoidant) on corporate entrepreneurship directly; second, to analyze this effect indirectly through absorptive capacity. Third, effect of leadership styles (transformational, transactional, and passive-avoidant) on the dimensions (latent variables) of corporate entrepreneurship are analyzed directly, and indirectly through absorptive capacity. Two models are specified, Model 1 (Figure 3.3) covers first objective and third objective whereas Model 2 (Figure 3.4) covers second objective of the study.

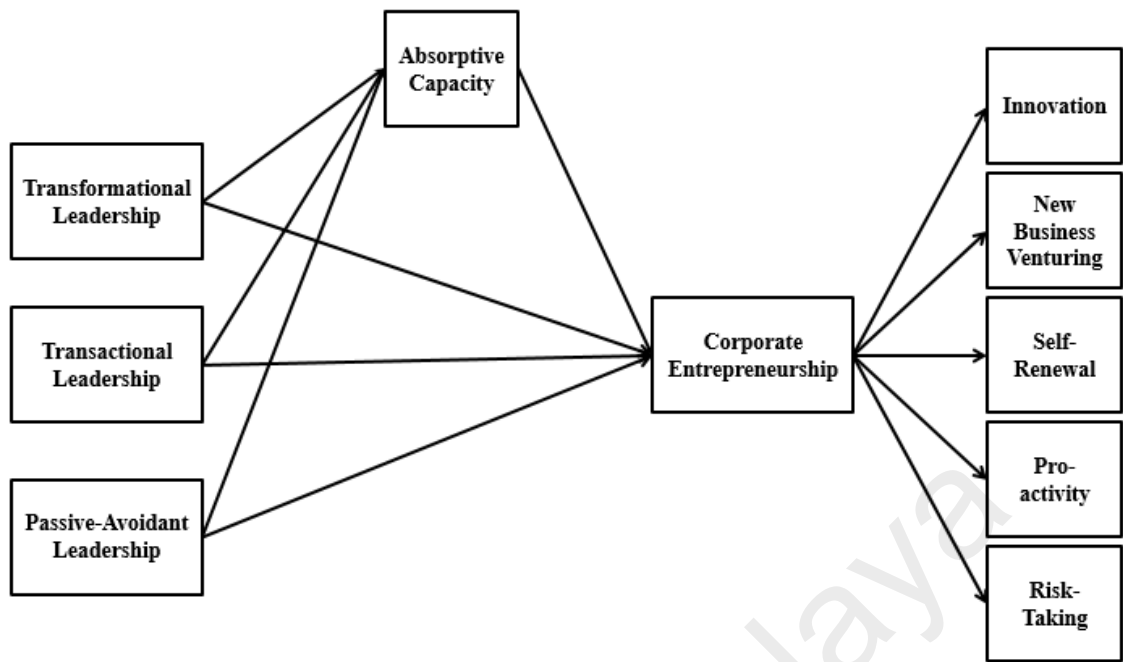


Figure 3.3: Model 1

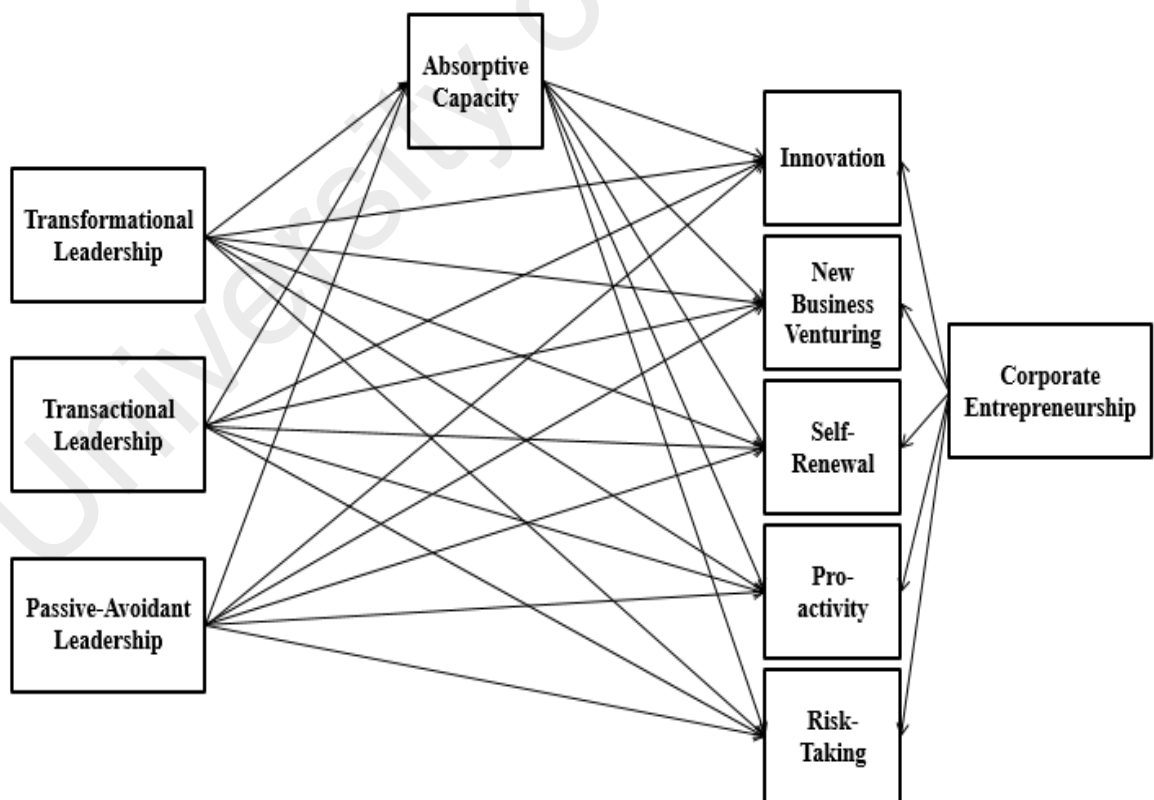


Figure 3.4: Model 2

Model 2 (Figure 3.4) conceptualizes the relationship of each leadership style with every strand of corporate entrepreneurship. A total of three leadership styles affect the five dimensions directly, and through absorptive capacity.

3.6.2 Model Estimation

After model specification and data collection, next step is to estimate a model. Maximum Likelihood estimation technique is used to estimate a model in SEM. This technique is robust and efficient and provides unbiased results, and shows the multivariate normality of data. Generalized least square (GLS), weighted least square (WLS), or asymptotically distribution free (ADF) estimation can be employed for evaluating the structural model if data voids the normality assumption of SEM.

3.6.3 Model Evaluation

Model evaluation is the third step in the analysis of SEM. This step is divided further into two steps: measurement model and structural model. In measurement model, each and every latent variable or construct is validated. In structural model, all the latent variables or constructs are joined according to the conceptual relationship of variables.

Several statistical packages (computer programs) are available for analysis. Using appropriate statistical package (SPSS and AMOS in this study), fitness of the model with data is evaluated which means the estimate on how much data explains the model. Normally, model may not fit with data in social sciences. When it happens then it moves to the next step of model modification. After assuring the fitness of model is adequate, researchers move toward analyses and their interpretation.

3.6.3.1 Validation of Measurement Model

Several items are employed to measure each underlying factor in every measurement model. Measurement model requires re-specifying by eliminating the unnecessary items (J. F. Hair, Black, Babin, Anderson, & Tatham, 2006; Kline, 2005). Parsimonious uni-dimensional measures will be attained with this method (Anderson and Gerbing, 1988).

There are three steps to ensure the uni-dimensionality of constructs. First, items or indicators identified to evaluate a recommended underlying factor should have comparatively high standardized loadings (≥ 0.50) on the factor (Hair et al., 2006). Second, the calculated relationship between factors should not be more than 0.85 (Kline, 2005). Finally, measurement model is analyzed to fulfill the criteria of multiple fit indices as explained in next section.

The conditions in which measurement models fulfill the above criteria, misfit sources, for example, modification index and residual covariance are analyzed. Modification index evaluates to what extent chi-square is supposed to reduce if a specific factor is changed. While residual covariance with + 2.58 value give indication that there is error in the specification of model which then mean that model needs to be re-estimated. The assessment of measurement model used in this study does not depend only on statistical rules but also on various theoretical reasons (Anderson and Gerbing, 1988; Hair et al., 2006; Kline, 2005).

In the measurement model (CFA), previously used items or indicators are observed variables and represent as factor or rectangle (latent variable) as egg-shaped. Single

headed arrows connect the factors (latent/unobserved) to their items or indicators (observed) and the single headed arrows connect the error terms to their respective items or indicators. The double headed arrows denote relationship within these factors. The values on the arrows show linking factors (latent/unobserved) with their indicators or items (observed) are factor loadings or standardized parameter estimates. The values beside the indicators or items edges are squared multiple correlations between the latent variables.

3.6.3.2 Goodness-of-fit Assessment

A number of goodness-of-fit indices (GFIs) are available to decide the fitness of model. Normally four-to-six fit indices are used to evaluate the models fitness in the structure of data (Medsker, Williams, & Holahan, 1994). Wheaton (1987) focuses on the significance of employing fit indices to estimate fit of model. Hair et al. (1998) suggest the minimum three fit indices: absolute fitness indices, incremental fit indices, and parsimonious fit indices.

Absolute fit indices comprise goodness-of-fit (GFI), chi-square (X^2), and root mean square error of approximation (RMSEA). It assesses how well the model in the data reports for observed covariance (Hu and Bentler, 1995). Incremental fit indices consist on comparative fit index (CFI), and normal fit index (NFI). Incremental fit indices make comparison that up to what extent the proposed model fits the data in relation to a baseline model that supposes independence among all of variables (Bentler, 1990). Finally, parsimonious fit indices include normed chi-square (X^2/df). Summary of goodness-of-fit used in this study is presented in Table 3.5.

Table 3.5: Goodness-of-fit Indices

Goodness-of-fit indices	Cut-off values	Description
Goodness-of-fit (GFI)	GFI \geq 0.90 (Hair et al., 1998)	A value near to zero defines poor fit, therefore value near to 1 show a perfect fit. In the model, it defines the degree of covariance between the latent variables.
Comparative fit index (CFI)	CFI \geq 0.90 (Bentler, 1990)	Make contrast between hypothesized model and null model.
Root mean square error of estimation (RMSEA)	RMSEA \leq 0.08 (Browne & Cudeck, 1993)	Value below than 0.05 deemed to be “good fit”. Values between 0.05-0.08 deemed “adequate fit”.
Normed chi-square (X^2/df)	$1.0 \leq X^2/df \leq 5.0$ (Kline, 2005)	Value up to or near 0.1 deemed satisfactory and defines the lesser bound fit. Value should not be below than 1.0 and not more than 5.0.

3.6.3.3 Validation of Structural Model

After validating each measurement model and ensuring their fitness, all the measurement models are linked according to the previously conceptualized relationship. SEM uses the maximum likelihood estimation to examine this structural model.

3.6.3.4 Maximum Likelihood Estimation

In this study, parameter estimates are acquired via the use of maximum likelihood estimation technique (Brown, 2006). This technique is largely employed of estimation processes (Bollen, 1989). The benefits of employing the maximum likelihood estimation technique comprise the aptitude to hold more complex models and the reality that this estimation technique is commonly vigorous to non-normality (Brown, 2006). Even though, other alternative techniques of estimation are available like weighted least square (WLS) which is not based on assumptions of existing data distribution, a big size of sample condition generally more than one thousand requires a large restriction in employing it (Bollen, 1989). Additionally, studies illustrate that parameter estimates created by this technique are not much reliable as compared to parameter estimates using the maximum likelihood estimation technique (Olsson, Foss, Troye, & Howell, 2000).

3.6.4 Model Modification

When model does not fit with the data, fitness can be attained by model re-specification. In AMOS, this is done by removing the items from the model through the modification index, fitness of model can be attained as in this study.

3.6.5 Reporting and Interpretation

To get the good fitness of measurement and structural models is not enough; it is required to obtain regression results to analyze relationships. On the basis of these results, relationships among variables are analyzed. Normally, p-value and beta coefficient are considered to check the relationships. In social sciences, generally, p-value less than 0.05 is considered suitable. Additionally in reporting, researchers sometimes fail to present complete and accurate results along with reasons for presenting results, consistency of results with literature, and implications (MacCallum and Austin, 2000). Therefore, in this final step of SEM, p-value and beta coefficient are considered in the results about the relationships among variables. However, along with these reasons, literary support, and probable implications are also discussed.

3.7 Summary

This chapter explains the methodology applied to address the research questions and objectives of this study. First section details about research design (population, sample, and data collection procedure). Second section includes the details on data measures. The third section constitutes validity and reliability of the survey instrument followed by the procedure of data analysis.

CHAPTER 4: RESULTS AND DISCUSSION

4.1 Introduction

This chapter comprises the analyses and empirical results. The chapter is divided into six sections. The introduction of this chapter describes the division of the chapter. Second section includes the summary of data analyses. In the third section, preliminary data analyses are conducted. Descriptive statistics are presented in section four. Section five comprises reliability and validity of analyses. Analyses and results of measurement models and structural models are provided in the sixth and the seventh sections.

4.2 Data Analyses: Summary

In the first step of data analyses, Statistical Package for Social Sciences (SPSS) has been used to examine the data. Zikmund (2003) recommends SPSS as an appropriate software for researchers and practitioners for examining data. It is employed to screen out the data i.e. coding, outliers, and normality. It is also used to calculate the descriptive statistics of the data like means, frequencies, and standard deviations, the non-response and common method bias tests.

In the second step, confirmatory factor analyses (CFA) has been performed employing SEM to analyze the hypotheses developed in Chapter Two. Sharma (1996) argues that SEM is a useful statistical technique in social and behavioral sciences. It assists researchers to evaluate uni-dimensionality, reliability, and validity of every measure or construct. Moreover, SEM facilitates in testing the fitness of overall model and individual parameter to evaluate at the same time (Kline, 2005). SEM has become a

general technique used in academic research (Bollen, 1989; Hair et al., 1998; Kline, 2005). In addition, literature also argues that SEM is an excellent technique for the analysis of multivariate data (Hershberger, 2003). Using SEM to analyze hypothesized associations between factors permits an entire examination of all hypothesized associations at the same time comprising associations among several dependent variables in a research (Byrne, 2010).

Researchers have two options while employing SEM, to employ covariance based package like EQS, LISERL, and AMOS or variance based package like Smart PLS and PLS-Graph (Chin & Newsted, 1999). The decision to use package or software actually depends on the features of a study. For developing or testing a theory, covariance based SEM is best to use. When causal predictive examination is involved, variance based SEM is best particularly when there is situation of low theoretical knowledge and high complexity (Barclay, Higgins, & Thompson, 1995). Analysis of Moment Structures (AMOS), which is covariance based SEM (CBSEM) software has been used in this study.

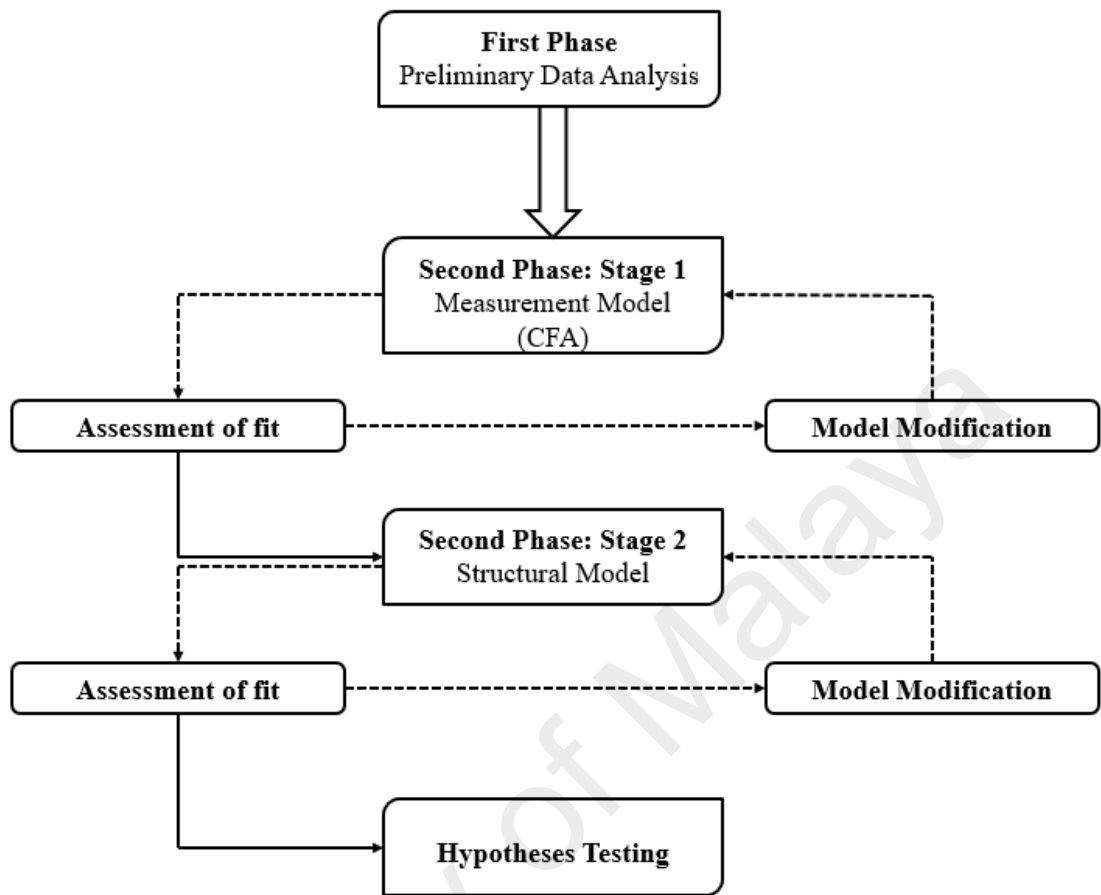


Figure 4.1: Summary of Data Analysis Process

Figure 4.1 presents the process of data analyses used in this study. The data analyses are divided into two steps: preliminary analysis, and SEM analysis. In the first step, screening process has been carried out in which it is assured that data is entered correctly and meets the assumption of normality. In the second step, two stage SEM process has been applied (Anderson & Gerbing, 1988). A two stage approach for SEM analysis is very well known in recent studies (Kaplan, 2000). The first step involves evaluating SEM measurement properties which engages in evaluation of uni-dimensionality of each latent variables, modification or re-specification of model and

assessment of reliability and validity of measurement properties. The second step provides the paths association in causal theoretical latent measures. When a good fitting structural model is recognized, the structural model is used for testing the hypotheses.

4.3 Preliminary Data Analyses

The initial steps of data analysis include data editing and coding in SPSS. To ensure that variables distribution is normal, it should be free from outliers. It is very important to verify the normality of data, as it is the assumption to use SEM (Hair et al., 1998) and therefore data is analyzed. Since this study is applying SEM, it is essential to check multivariate normality. Histograms, P-P and Q-Q plots are drawn to ensure multivariate normality using SPSS (Appendix G). Results demonstrate that data have both univariate and multivariate normality.

When respondents fail to respond one or more than one item, issue of missing data arise in the survey. Data screening shows that there is very low amount of missing data (lower than 4%). Up to 10% missing data does not create any problem to report results (Cohen & Cohen, 1983). Previous literature recommends expected maximization (EM) as a technique to deal missing data as compared to other techniques like mean substitution and list-wise deletion (Graham, Hofer, Donaldson, MacKinnon, & Schafer, 1997). But due to least missing data, the option may not have any considerable effect on the findings as every technique has its own pros and cons (Hair et al., 1998). These missing data were replaced by variable mean responses for each variable.

Therefore, this technique is considered suitable as mean substitution is very general (Schwab, 2005), and is extensively employed technique (Hair et al., 1998) to deal with missing data because it is based on valid appropriate responses to calculate the mean for missing data replacement.

4.4 Descriptive Analysis

The correlations values for all variables are presented in Table 4.1. The low and medium levels of correlation coefficients show that variables do not have high collinearity with each other.

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Table 4.1: Descriptive Statistics

	Mean	SD	1	2	3	4	5	6	7	8	9
1. TL	4.18	0.69									
2. Tr.L	3.38	1.09	0.082								
3. PAL	2.49	1.20	-0.100**	-0.018							
4. INN	4.03	0.80	0.350*	-0.012	-0.129**						
5. NBV	3.96	0.88	0.342*	0.065	-0.146*	0.347*					
6. SR	3.94	0.89	0.286*	0.087	0.038	0.304*	0.262*				
7. PRO	3.68	0.98	0.339*	0.096	0.085	0.175*	0.282*	0.351*			
8. RT	3.75	0.94	0.360*	0.129*	-0.057	0.184*	0.252*	0.347*	0.445*		
9. AC	4.10	0.76	0.361*	0.000	-0.114**	0.426*	0.343*	0.341*	0.380*	0.406*	
10. CE	3.87	0.60	0.506*	0.115**	-0.057	0.580*	0.641*	0.683*	0.704	0.690*	0.572*

**and ** represent level of significance at 1% and 5% respectively*

4.4.1 Response Rate

A total of nine hundred and fifty (950) questionnaires were distributed in SMEs of six major cities in Punjab, Pakistan to get a sufficient response rate which are registered with SMEDA. A total of 433 responses were finally collected with the response rate of almost 46 per cent. Twenty two (22) responses were excluded due to incomplete items. Eleven (11) responses were dropped because of same responses. The same responses, inaccurate, and incomplete responses were dropped to ensure the accuracy of data for analyses as shown in Table 4.2.

Table 4.2: Response Rate

Sr. No.	Number of Questionnaires	Percentage/Cause
Questionnaires distributed	950	100
Questionnaires received	433	46
Incomplete questionnaires	11	Same answers
Unusable questionnaires	22	More than 30% not answered

Response rate is deemed suitable in this study due to subsequent basis. First, 46% response rate is within the range of 21-50% response rate stated in business research (Randall & Gibson, 1990). Second, the response rate is alike in other business studies.

4.4.2 Respondents Profile

Profile of respondents is presented in Table 4.3. To make interpretation easy, all information is stated in percentages and figures. Total sample observations are 433. All the respondents are from SMEs of Punjab, Pakistan. Majority of the respondents are males (374) and the rest of the respondents are females (59). All the respondents are

capable in comprehending Urdu and do not have any difficulty. The age of most of respondents is below 40 years old (303) and 25 percent of the respondents have more than 10 years' work experience. The rest of the respondents have experience between 5-10 years (48%) and less than five years (25%).

Table 4.3: Demographics

Demographics	No. of Respondents	Percentage (%)
Gender:		
Male	374	86
Female	59	14
Age:		
Less than 40 years	303	70
More than 40 years	130	30
Education:		
Matric	56	13
F.A.	117	27
B.A.	178	41
M.A.	82	19
Industry:		
Textile	142	33
Leather/Footwear	115	27
Sports	82	19
Food & Beverages	36	8
Metal	11	2
Wood & Furniture	21	5
Others	26	6
Experience:		
< 5 years	117	27
5-10 years	208	48
>10 years	108	25

Respondents' profile depicts information about their gender, age, and education, industry and experience.

4.5 Validity and Reliability of the Constructs

After attaining the uni-dimensionality of all constructs, validity and reliability of every construct is measured (De Wulf, Oderkerken-Schröder, & Lacobucci, 2001). Validity is measured by construct validity (convergent and discriminant validity). Likewise, reliability is measured by average variance extracted (AVE), composite reliability (CR), and Cronbach's alpha.

CFA is also employed to evaluate constructs validity. Bagozzi and Yi (1988) argue that construct validity is important to test a theory. Construct validity is measured through convergent and discriminant validity. Convergent validity is assured on the basis of high factor loadings (>0.50) of all factors (Anderson & Gerbing, 1988; Holmes-Smith, Coote, & Cunningham, 2006). Furthermore, AVE outputs give an additional support to convergent validity. The results are portrayed in Table 4.4. Discriminant validity as suggested by Kline (2005), a correlation between factors in the measurement model is not below than 0.85 as reported in Table 4.1. Furthermore, construct validity is also assessed on the basis of GFI (Hsieh & Hiang, 2004) and discussed in section 4.6.

AVE and CR are computed employing CFA on the basis of formulas presented by Fornell and Larcker (1981) which confirm the reliability of the constructs; results are presented in Table 4.4. All constructs used in this study have CR above 0.60 and AVE not less than 0.50 as suggested by Bagozzi and Yi (1988), recommending the constructs' reliability. The values of Cronbach's alpha of all constructs are more than 0.70 (Nunnally, 1978) which also confirm the reliability.

Table 4.4: Instrument Reliability

Variables		FL	AVE	CR	Cronbach Alpha
TL	1	0.68	0.508	0.912	0.912
	2	0.72			
	3	0.7			
	4	0.67			
	5	0.7			
	6	0.7			
	9	0.69			
	14	0.76			
	15	0.75			
	20	0.75			
Tr.L	22	0.79	0.627	0.894	0.894
	23	0.81			
	24	0.8			
	26	0.77			
	27	0.79			
	29	0.83			
PAL	30	0.85	0.695	0.632	0.932
	32	0.83			
	33	0.82			
	34	0.84			
	36	0.83			
	CE	INN			
NBV		0.54			
SR		0.57			
PRO		0.63			
RT		0.66			
INN	37	0.68	0.562	0.773	0.771
	38	0.68			

	39	0.75			
	41	0.6			
NBV	42	0.64	0.518	0.81	0.804
	44	0.73			
	45	0.79			
	46	0.71			
SR	47	0.74	0.558	0.863	0.863
	49	0.77			
	53	0.8			
	54	0.73			
	57	0.69			
PRO	60	0.65	0.506	0.802	0.800
	61	0.79			
	62	0.77			
	63	0.62			
RT	65	0.68	0.536	0.821	0.815
	66	0.82			
	67	0.73			
	68	0.69			
AC	73	0.68	0.525	0.885	0.884
	74	0.7			
	77	0.73			
	78	0.77			
	80	0.81			
	81	0.68			
	82	0.69			

4.6 Evaluation of Measurement Models (CFA): Phase 1

Following Hair, Black, Babin, and Anderson (2010), this study uses two phase modeling (measurement and structural model). This approach is used due to two reasons (Anderson & Gerbing, 1988). First, this technique is recognized broadly; second, correct value of items reliability for every construct is carried out in two phases to abstain any relation of measurement and structural model (Hair et al., 2006).

Measurement model is essential to quantify how observed variables rely on latent or unobserved variables (Hair et al., 2006). Simply, measurement model means a part of a model which denotes how the observed variables be rely on the latent, unobserved, and composite variables (Arbuckle, 2005).

Confirmatory factor analysis (CFA) is conducted by employing AMOS 22.0. Kline (2005) refers this statistical method to examine whether the amount of loadings and weather the factors of measured constructs comply with standards. CFA is also argued to be an accurate method as it facilitates in properties test of the proposed measurement models, constructs, or measures applied in SEM (Hopwood & Donnellan, 2010; Thompson, 2004). Every measure or construct individually is examined in separate measurement model. Measurement models of each construct are presented in Appendix D. Moreover, where the consequences are not found to be reliable with previously specified model, they are re-specified and reexamined (Hair et al., 2006; Kline, 2005). For every construct's measurement model, the bases of uni-dimensionality, reliability and validity of the construct were estimated.

4.6.1 Transformational Leadership

Values for the fitness of model are shown in Table 4.5. Initially, there were 20 items to measure transformational leadership but due to low factor loading and for achieving fitness of the model, 10 items were deleted from the construct. The remaining 10 items have above 0.5 factor loading. Values of GFI and CFI are 0.934 and 0.949 respectively. RMSEA and normed chi-square values are 0.085 and 3.884 respectively.

Table 4.5: Goodness-of-Fit Model: Transformational Leadership

Transformational Leadership	GFI	CFI	RMSEA	Chisq/df
All items	0.821	0.839	0.112	5.983
Items 7,8,10,11,12,13,16,17,18,19 deleted	0.934	0.949	0.085	3.884

4.6.2 Transactional Leadership

There were eight items, initially for data collection. As depicted in Table 4.6, four items were deleted to assure the factor loadings of the items and fitness of the model. With the rest of four items in the construct, values of GFI, CFI, RMSEA, and chi-square are 0.976, 0.988, 0.081, and 3.602 respectively which represent the fitness of model.

Table 4.6: Goodness-of-Fit Model: Transactional Leadership

Transactional Leadership	GFI	CFI	RMSEA	Chisq/df
All items 21,22,23,24,25,26,27,28	0.9	0.929	0.136	8.398
Item 21,25,28,29 deleted	0.976	0.988	0.081	3.602

4.6.3 Passive-Avoidant Leadership

Initially, according to the instrument, eight items were used to collect data. In assuring the fitness of its measurement model, two items were deleted. With the rest of the six items, the measurement model values of GFI, CFI, RMSEA, and Chi-square are 0.977, 0.986, 0.084, and 3.804 respectively (Table 4.7) which show the fitness of this model.

Table 4.7: Goodness-of-Fit Model: Passive-Avoidant Leadership

Passive-Avoidant Leadership	GFI	CFI	RMSEA	Chisq/df
All items 29,30,31,32,33,34,35,36	0.952	0.966	0.109	5.781
Items 31&35 deleted	0.977	0.986	0.084	3.804

4.6.4 Innovation

Data have been collected through five items, but for assuring the fitness of measurement model, item number 40 was deleted as presented in Table 4.8. With the rest of the items (37, 38, 39, and 41), model for innovation fits to the data. Values of GFI, CFI, RMSEA, and chi-square are 0.982, 0.994, 0.055, and 2.194 respectively.

Table 4.8: Goodness-of-Fit Model: Innovation

Innovation	GFI	CFI	RMSEA	Chisq/df
All items 37,38,39,40,41	0.878	0.939	0.134	8.129
Item 40 deleted	0.982	0.994	0.055	2.194

4.6.5 New Business Venturing

New business venturing is measured by five items initially. So, for assuring fitness, item 43 was deleted. Items 42, 44, 45, and 46 fit with the data in the model. As reported in

Table 4.9 GFI, CFI, RMSEA, and chi-square values are 0.995, 0.998, 0.033, and 1.433 respectively.

Table 4.9: Goodness-of-Fit Model: New Business Venturing

NBV	GFI	CFI	RMSEA	Chisq/df
All Items 42,43,44,45,46	0.957	0.979	0.087	4.023
Item 43 deleted	0.995	0.998	0.033	1.433

4.6.6 Self-Renewal

Self-renewal has been measured by thirteen items as per the adopted instrument. Eight items were deleted to bring fitness in the measurement model as presented in Table 4.10. After deleting the mentioned eight items, values show fitness of model; GFI, CFI, RMSEA, and chi-square are 0.993, 0.997, 0.38, and 1.57 respectively.

Table 4.10: Goodness-of-Fit Model: Self-Renewal

Self-Renewal	GFI	CFI	RMSEA	Chisq/df
All items 47,48,49,50,51,52,53,54,55,56,57,58,59	0.844	0.87	0.13	7.779
Items 48,50,51,52,55,56,58,59 deleted	0.993	0.997	0.038	1.574

4.6.7 Proactivity

Proactivity is measured by four items. Measurement model for proactivity fits with the data as values shown in Table 4.11.

Table 4.11: Goodness-of-Fit Model: Proactivity

Proactivity	GFI	CFI	RMSEA	Chisq/df
All items 60,61,62,63	0.979	0.993	0.066	2.715

4.6.8 Risk-Taking

Risk-taking is measured by six items initially but two items (64, 69) were deleted to ensure fitness in the measurement model. Results in Table 4.12 show that the values of GFI, CFI, RMSEA, and chi-square are 0.986, 0.995, 0.057, and 2.291 respectively.

Table 4.12: Goodness-of-Fit Model: Risk-taking

RT	GFI	CFI	RMSEA	Chisq/df
All items 64,65,66,67,68,69	0.886	0.932	0.138	8.587
Items 64,69 deleted	0.986	0.995	0.057	2.291

4.6.9 Absorptive Capacity

Since the instrument is adapted to measure absorptive capacity, fourteen items were used. Seven items were deleted and seven items were taken to ensure the fitness of the data as presented in Table 4.13.

Table 4.13: Goodness-of-Fit Model: Absorptive Capacity

Absorptive Capacity	GFI	CFI	RMSEA	Chisq/df
All items 70,71,72,73,74,75,76,77,78,79,80,81,82&83	0.776	0.81	0.145	9.435
Items 70,71,72,75,76,79,83 deleted	0.966	0.977	0.071	3.014

4.6.10 Corporate Entrepreneurship

Corporate entrepreneurship has been measured by five constructs. After deleting unnecessary items from the five constructs, values show fitness of model; GFI, CFI, RMSEA, and chi-square are 0.898, 0.991, 0.063, and 2.605 respectively (Table 4.14).

Table 4.14: Goodness-of-Fit Model: Corporate Entrepreneurship

CE	GFI	CFI	RMSEA	Chisq/df
INN, NBV, SR, Pro, RT	0.898	0.911	0.063	2.605

4.7 Analysis and Results of Structural Models: Phase-2

Bollen (1989) argues that SEM helps pathways estimation among dependent (endogenous) variables and independent (exogenous) variables after reporting for measurement error. Normally, exogenous constructs have no single headed arrow indicating towards them. Though all exogenous constructs require to be correlated, no relationships are assumed (Kline, 2005). In contrast, the endogenous constructs have minimum one single headed arrow to guide them. Single headed arrows denote a causal association or path and the arrows' death defines that no association has been assumed. The error terms (r) denote constructs measurement. The parameter (z) defines the structural model affecting from random errors which have not been clearly modeled. The path values linking construct with a single headed arrow show standardized regression weights. Furthermore, the values on the borders of boxes show variance estimates, and the values beside the double headed arrows show correlations.

To ensure the fitness of structural model with data, it is to be assessed in the form of goodness-of-fit indices. Cunningham (2008) argues that good fitness of the model with sample data is essential.

To examine hypotheses, parameter estimates along with coefficient values were analyzed. Tabachnick and Fidell (2001) argue that parameter estimates are employed to get estimated population covariance matrix for the model. Values of coefficients are extracted through dividing variance estimate on its standard error (S.E). The parameter became statistically significant at 0.05 levels, when z-value or critical value (C.R) is > 1.96 for standardized estimates (regression weight).

4.7.1 Structural Model-1: Leadership Styles and Corporate Entrepreneurship

Structural model analysis is carried out by analyzing the hypothesized model as in Figure 4.2. Results of model fitness are presented in Table 4.15. Seven hypotheses are analyzed in this model. Results of hypotheses are presented in Table 4.16.

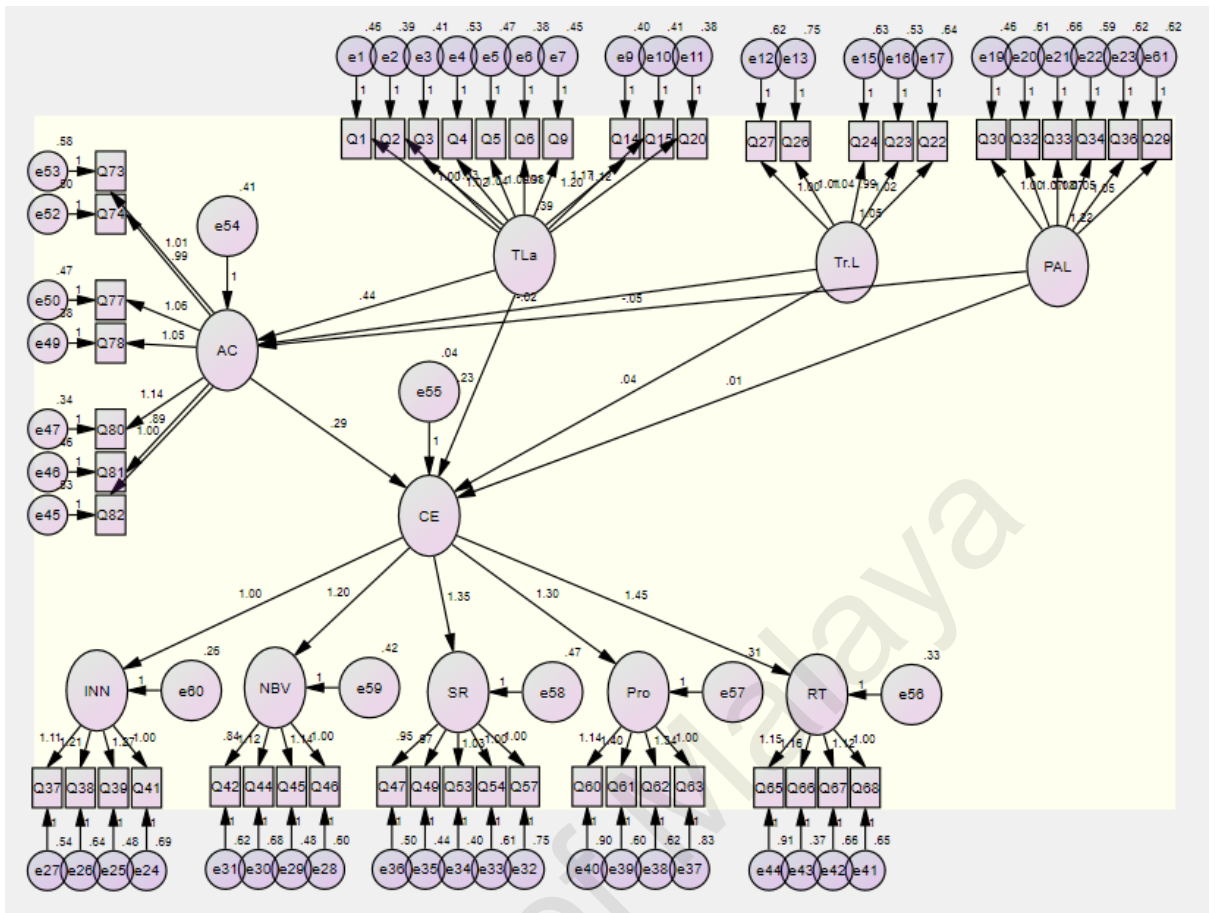


Figure 4.2: Structural Model 1

Results of structural model show the fitness of overall model. Table 4.15 shows that values of GFI and CFI are above 0.90 which means this structural model has fitness with measurement models and with the data. Values of RMSEA and chisq/df also show that model-fit with the data.

Table 4.15: Goodness-of-Fit Model: Structural Model-1

Complete Model	GFI	CFI	RMSEA	Chisq/df
Combining all constructs and variables	0.906	0.904	0.06	2.415

Table 4.16: Standardized Effects

Paths	Direct	Indirect	Total	Result
TL→CE	0.413*	0.225*	0.639*	Accepted
Tr.L→CE	0.120	-0.020	0.100	Failed to accept
PAL→CE	0.042	-0.047	-0.005	Failed to accept
TL→AC	0.391*	-	0.391*	Accepted
Tr.L→AC	-0.035	-	-0.035	Failed to accept
PAL→AC	-0.082	-	-0.082	Failed to accept
AC→CE	0.576*	-	0.576*	Accepted

**and ** represent level of significance at 0.1% and 5% respectively*

4.7.1.1 Transformational Leadership and Corporate Entrepreneurship

Results show that transformational leadership has a significant direct effect on corporate entrepreneurship and absorptive capacity at 0.1 per cent level. Coefficient of transformational leadership is 0.413, showing that one unit positive change in transformational leadership can bring 0.413 unit positive change in corporate entrepreneurship. Findings of the juxtaposition of transformational leadership with corporate entrepreneurship are aligned with the review literature. Extant literature argues that transformational leaders positively influence employees' creativity by addressing the followers' or employees' established beliefs, assumptions, and standards which results in firm-level innovation (Bass & Riggio, 2006). By involving employees in decision making process, this creativity of individuals is used by top management for new business venturing and self-renewal. Furthermore, using inspirational motivation approach, leaders express the vision and mission which appeals to the employees or followers. This appealing vision stimulates the proactive approach of employees or followers which results in overall proactivity of the firm. Transformational leaders insist their followers to take risks to apply their creative ideas and notions; leaders also take risks on the basis of novel solutions or ideas which are given by the followers. The results also demonstrate that absorptive capacity mediates the relationship of transformational leadership and corporate entrepreneurship. The coefficient is 0.225

which means that one unit positive change in transformational leadership will lead to 0.225 unit positive changes in corporate entrepreneurship because of absorptive capacity. The positive significant influence of absorptive capacity on corporate entrepreneurship has been extensively discussed in empirical literature. For example, García-Morales, Lloréns-Montes, and Verdú-Jover (2008) argue that transformational leadership positively influences the absorptive capacity. It infers that transformational leadership promotes absorptive capacity which in turn enhances corporate entrepreneurship. These results are largely in line with the previous empirical studies. Ling et al. (2008) also found positive relationship between transformational leadership (CEOs) and corporate entrepreneurship (innovation, venturing, and strategic renewal). Furthermore, previous studies show that transformational leaders influence TMT (top management team) members to promote corporate entrepreneurship. Moriano, Molero, Topa, and Mangin (2014) also found positive association between transformational leadership and corporate entrepreneurship (proactiveness, risk-taking, and innovativeness).

As discussed earlier, corporate entrepreneurship is essential for a firm's survival. Corporate entrepreneurship is the combination of five factors: innovation, new business venturing, self-renewal, proactivity, and risk-taking. Corporate entrepreneurship cannot grow until these factors grow, and the factors of corporate entrepreneurship do not grow without an appropriate leadership of the firm (Morrisette & Oberman, 2013). Appropriate leadership style is necessary and important to boost corporate entrepreneurship up (Shafique & Beh, 2016; Heriot & Loughman, 2009; Morrisette & Oberman, 2013). Corporate entrepreneurship cannot be shaped by order. Individuals cannot be commanded to become entrepreneurial. Appropriate leadership approach is required to shape people as they become innovative, proactive and risk takers, and they

renew their beliefs and thoughts. Previous literature, empirical studies and the results of this study confirm that transformational leadership can promote corporate entrepreneurship in the SMEs of Pakistan. So, the SMEs owners, top management, and all managers are most effective in assisting corporate entrepreneurship inside a firm when they develop the understanding of mission (through inspirational motivation), provide coaching or mentoring (using individualized consideration), encourage followers or employees to think out of the box (through intellectual stimulation), and get the confidence and trust of their follower and employees. Furthermore, the findings of this study are consistent with many of previous studies which found that transformational leadership promotes creativity and innovation of followers or employees (Howell & Higgins, 1990; Jung, 2001; Jung et al., 2003; Koh, Steers, & Terborg, 1995; Shin & Zhou, 2003).

4.7.1.2 Transactional Leadership and Corporate Entrepreneurship

The results illustrate that transactional leadership has insignificant direct and indirect (through absorptive capacity) relationship with corporate entrepreneurship. Transactional leaders have strict check and balance by emphasizing on compliance of followers' actions with predefined rules and procedures, inspecting the work quality, appraising the performance of individuals, and raising the financial position of the firm (Quiun, 1988; Spreitzer et al., 1999). Transactional leaders clarify the standards and expected outcomes to the followers (Bass & Avolio, 2004b) and actively monitor followers' behaviors and/or performance. They use extrinsic rewards for increasing motivation to reach at the expected outcomes. They actively take initiatives for required corrections in performance. Followers follow performance standards if leaders interfere actively and take corrective actions. Strict monitoring of the job performance, job standards, and clear expected outcomes discourage individual creativity, and hinders the

organizational innovation. Often, firms fail to achieve new business venturing. Transactional leaders emphasize on short-term planning, organizing and controlling (Scott, 2012), and thus firms fail to perform proactively as compared to competitors. By following predefined performance standards, followers do not focus on self-renewal, and their propensity to take risk remains limited that discourages risk-taking at firm-level.

The aforesaid results are consistent with previous findings like Eyal and Kark (2004) also found that there is an insignificant direct influence of transactional leadership on corporate entrepreneurship. Öncer (2013) also found insignificant linkages between transactional leadership and innovation and risk-taking (measurements of corporate entrepreneurship). Transactional leaders motivate employees extrinsically i.e. contingent reward and management-by-exception active. Therefore, employees do not go beyond the obligations of their work and do not struggle for creative thoughts for the betterment of their firms. On the other hand, Yang (2008) found positive association between transactional leadership and corporate entrepreneurship (innovation, proactivity, and risk-taking), although his findings seem less significant than transformational leadership, though there exists a correlation. Politic and Harkiolakis (2008) found negative association between transactional leadership and innovation; a dimension of corporate entrepreneurship.

This study finds an insignificant direct and indirect effect of transformational leadership on corporate entrepreneurship. Thus, managers who use the contingency reward system (extrinsic motivation) to motivate employees should revise their approach. The results of some studies contradict one another just because of geographical locations. These

leadership styles are based on how to deal followers to get organizational goals and objectives. Every culture demands a particular leadership style to deal with the followers in a way that organizational goals can be achieved. In the context of Pakistan, transformational leadership style may not be appropriate to promote the corporate entrepreneurship in the manufacturing sector of SMEs.

4.7.1.3 Passive-Avoidant Leadership and Corporate Entrepreneurship

The results demonstrate that passive-avoidant leadership has an insignificant relationship with corporate entrepreneurship directly and indirectly (via absorptive capacity). These findings are aligned with previous studies such as Yang (2008) who found insignificant association between passive-avoidant leadership and corporate entrepreneurship. However, some of the studies contradict with the results of this study; like Eyal and Kark (2004) found significant negative relationship between passive-avoidant leadership and corporate entrepreneurship. But in both cases, it is clear that passive-avoidant leadership does not affect corporate entrepreneurship positively which means it does not promote corporate entrepreneurship. The passive-avoidant leadership shows the behavior which opposed to change and apply new ideas which hinders the creativity at individual-level, and innovation at firm-level. Passive-avoidant leaders promote anti-entrepreneurial culture and conservative methods which do not allow firms to perform proactively (proactivity), to redefine the main objectives on which firms are established (self-renewal), and to create new business or new markets for an already established business (new business venturing).

SMEs owners, top management, or middle level management who are keen to develop entrepreneurial culture inside their firms avoid adopting passive-avoidant leadership style. As Bass & Avolio (2004a) define these leaders shun to delineate agreements, expectations or standards of behaviors, and denote goals or objectives to be attained by followers. But in the case of promoting corporate entrepreneurship inside a firm, it is necessary for managers to be role models for employees, as employees get inspiration from their managers. Managers involve the followers in decision making to make them feel as part of consideration. The followers or employees can question the established beliefs and values through creative ideas which in turn lead a firm towards firm-level innovation. It is essential for managers to participate actively in organizational matters and give quick response to the queries and confusions of employees. But passive-avoidant leaders show less participation in vital concerns of firms and try to postpone their feedback to crucial problems (Bass & Avolio, 2004b).

4.7.1.4 Results Summary: Leadership Styles on Corporate Entrepreneurship

The results show that transformational leadership has significant positive association with corporate entrepreneurship both direct and indirect through absorptive capacity (Table 1). The magnitude of direct and indirect association is substantial as evident from its coefficient value 0.413 and 0.225 respectively. These results are grossly consistent with previous literatures with some exceptions. For example, Ling et al. (2008) and Moriano et al. (2014) found positive relationship between transformational leadership and corporate entrepreneurship. Similarly, García-Morales et al. (2008) found that transformational leadership positively influences the absorptive capacity. Furthermore, Zahra et al. (2009) and Sakhdari et al. (2014) also found that absorptive capacity positively affects corporate entrepreneurship. Both transactional and passive-avoidant

leadership have insignificant association with corporate entrepreneurship, directly and indirectly (through absorptive capacity). Eyal and Kark (2004) also found that transactional leadership has insignificant association with corporate entrepreneurship.

Although, the results are grossly consistent with theory, it is vital to know that various styles of leadership influence certain strands of corporate entrepreneurship. The results of second model, in Table 4.18 illustrate the aforesaid relationship.

4.7.2 Structural Model-2: Leadership Styles and Corporate Entrepreneurship Dimensions

Analysis of structural model is carried out by analyzing the hypothesized model as shown in Figure 4.3. Results of model fitness are presented in Table 4.17. Twenty three hypotheses are analyzed in this model; results of hypotheses are presented in Table 4.18.

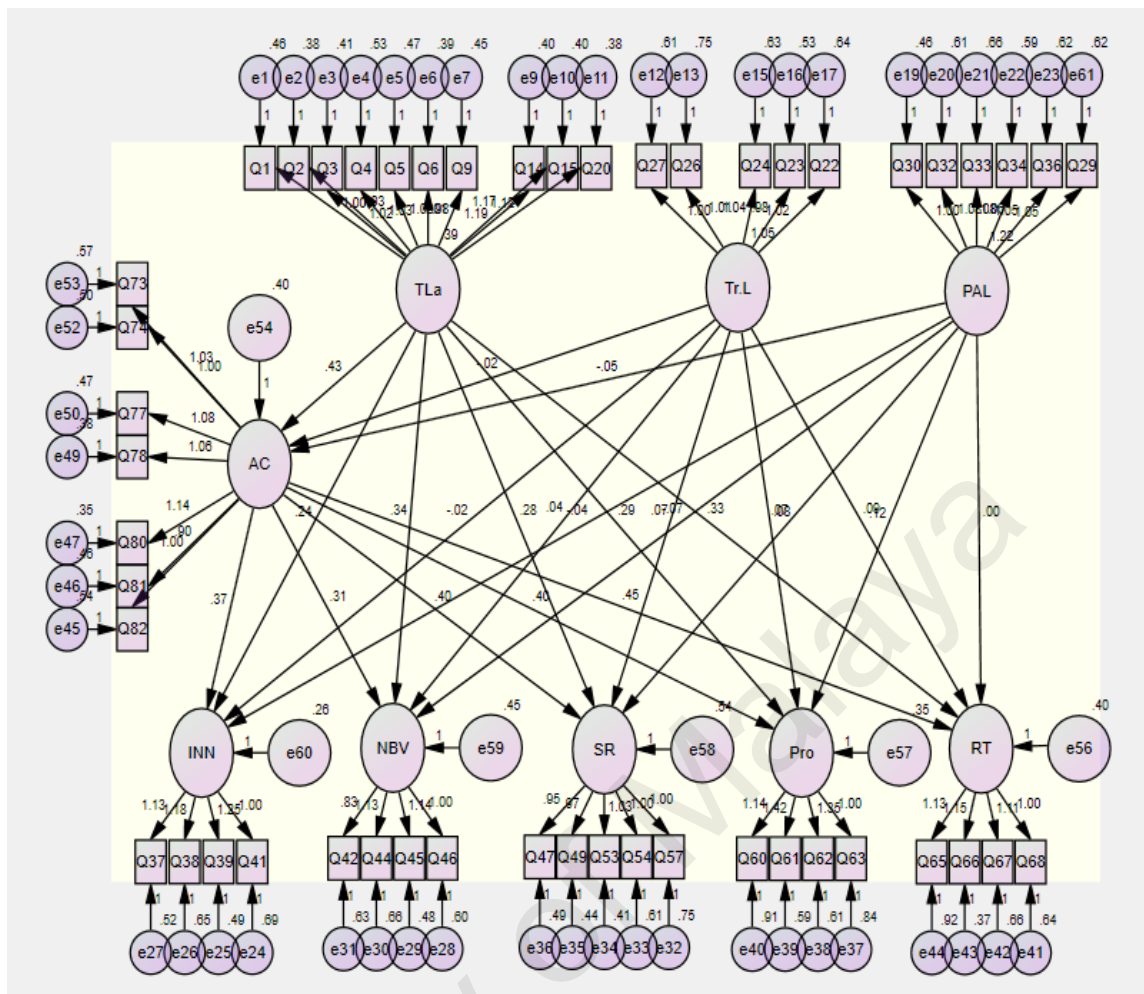


Figure 4.3: Structural Model 2

Results of structural model show the fitness of overall model. In Table 4.17, values of GFI and CFI are above than 0.90 which assure the fitness of the model. Values of RMSEA and chisq/df also show model fitness with the data.

Table 4.17: Goodness of Fit Model: Structural Model-2

Complete Model	GFI	CFI	RMSEA	Chisq/df
Combining all constructs and variables	0.943	0.910	0.06	2.443

Table 4.18: Standardized Effects

Paths	Direct	Indirect	Total	Result
TL→INN	0.246*	0.159*	0.405*	Accepted
TL→NBV	0.278*	0.109*	0.388*	Accepted
TL→SR	0.210*	0.131*	0.341*	Accepted
TL→PRO	0.252*	0.149*	0.401*	Accepted
TL→RT	0.264*	0.156*	0.420*	Accepted
TL→AC	0.390*	-	0.390*	Accepted
Tr.L→INN	-0.037	-0.015	-0.052	Failed to accept
Tr.L→NBV	0.055	-0.010	0.045	Failed to accept
Tr.L→SR	0.089	-0.012	0.077	Failed to accept
Tr.L→PRO	0.118**	-0.014	0.104	Accepted
Tr.L→RT	0.120**	-0.015	0.105	Accepted
Tr.L→AC	-0.037	-	-0.037	Failed to accept
PAL→INN	-0.071	-0.034	-0.105	Failed to accept
PAL→NBV	-0.106**	-0.023	-0.129	Accepted
PAL→SR	0.096	-0.028	0.068	Failed to accept
PAL→PRO	0.180*	-0.032	0.148	Failed to accept
PAL→RT	0.001	-0.033	-0.032	Failed to accept
PAL→AC	-0.083	-	-0.083	Failed to accept
AC→INN	0.409*	-	0.409*	Accepted
AC→NBV	0.280*	-	0.280*	Accepted
AC→SR	0.335*	-	0.335*	Accepted
AC→PRO	0.383*	-	0.383*	Accepted
AC→RT	0.401*	-	0.401*	Accepted

and represent level of significance at 0.1% and 5% respectively*

4.7.2.1 Transformational Leadership and Corporate Entrepreneurship Dimensions

Results demonstrate that transformational leadership has significant direct influence on innovation, new business venturing, self-renewal, proactivity, and risk-taking at 0.1%. Absorptive capacity mediates this relationship at 0.1%. The value of coefficient i.e. 0.227 shows that one unit positive change in transformational leadership will lead to 0.227 units of positive change in innovation. Furthermore, results illustrate that absorptive capacity mediates the relationship of transformational leadership and innovation. Transformational leaders, by employing intellectual stimulation, use logic to promote critical thinking, and stimulate followers or employees to rethink basic assumptions and restructure the problems. When employees are stimulated to seek fresh approaches in solving the existing problems, it leads to creativity. Thus, individual

creativity is enhanced through appreciating individuals' creative ideas which results in firm-level innovation.

Transformational leaders contribute to individuals' development through mentoring, feedback, and effective communication (Bernard M Bass & Riggio, 2006) to target new business opportunities. On the other hand, by identifying needs and requirements of each follower, leaders teach them in achieving objectives to enhance both individual and organizational objectives. As stated earlier, transformational leaders are proactive; they have propensity to form the environment instead of reacting or following it passively (Covin & Slevin, 1991). Through inspirational motivation, leaders demonstrate particular behaviors to express a shared vision, and to inspire and stimulate the followers to achieve targeted objectives. In response, as stated by Morrisette and Oberman (2013), transformational leaders achieve acceptance of employees about the transformed values and beliefs (vision and mission) of firms which is referred as self-renewal of firms. These leaders encourage the followers to take risks where novel solutions and ideas are welcomed even if their ideas oppose those of the leaders. Individuals' propensity to take risk through implementing creative ideas results risk-taking at firm-level.

The results are consistent with theory and past studies (Shafique & Beh, 2016; Beh & Shafique, 2016). García-Morales et al. (2012) and Ryan and Tipu (2013) found positive relationship between transformational leadership and innovation. For instance, Zahra et al. (2009) and Sakhdari et al. (2014) found that absorptive capacity positively influenced the corporate entrepreneurship activities and innovation. Ensley et al. (2006) found positive relationship between transformational leadership and new business

venturing but with moderating role of environmental dynamism. The findings of Eyal and Kark (2004) and Öncer (2013) also support the results of this study that transformational leadership has significant direct effect on proactivity of a firm. Furthermore, Williams et al. (2010) found positive relationship between transformational leadership and team proactive performance. Öncer (2013) also found positive relationship between transformational leadership and risk-taking. The findings of Sakhdari et al. (2014) show that absorptive capacity has significant direct influence on venturing and self-renewal. Zahra et al. (2009) found that absorptive capacity has significant positive association with risk-taking ability of a firm (Corporate entrepreneurship's measure). Following are some of the managerial implications of these findings on the basis of these results.

First, the SMEs owners and managers need to understand the importance of corporate entrepreneurship for the organization's survival, growth, and profitability. The SMEs necessitate venturing further through discovering new opportunities and exploring new markets. Corporate entrepreneurship cope with these transitions and opportunities and assure not only survival of a firm but also enhances its growth and profitability. Second, only shifting from management approach to leadership is not sufficient, rather an appropriate leadership style is required to promote the corporate entrepreneurship in firms. Furthermore, a leadership style links the firm with several sources to get outside firm knowledge to promote corporate entrepreneurship. The results of this study and previous empirical studies contend that transformational leadership is an appropriate leadership style as it has significant direct and indirect (through absorptive capacity) influence on all the dimensions of corporate entrepreneurship. Third, SMEs owners or top management should be careful in recruiting the managers or directors with special attention either he/she has skills or abilities of transformational leadership. So, SMEs

which are prone to develop entrepreneurial culture (corporate entrepreneurship) should make investment on research and development (R&D) department. Such SMEs should also develop relations with universities and training institutes, and focus on getting knowledge from other firms.

4.7.2.2 Results Summary: Transformational Leadership and Corporate Entrepreneurship Dimensions

Transformational leadership has direct influence on all the five constructs of corporate entrepreneurship i.e. innovation, new business venturing, self-renewal, proactivity, and risk-taking. All the constructs are significant at 1%. The results are presented in Table 2. García-Morales et al. (2012) and Ryan and Tipu (2013) also found positive association between transformational leadership and innovation. Ensley et al. (2006) found positive relationship between transformational leadership and new business venturing, but with moderating role of environmental dynamism. Eyal and Kark (2004) and Öncer (2013) found positive relationship between transformational leadership and proactivity. Furthermore, Williams et al. (2010) also found positive relationship between transformational leadership and team proactive performance. Öncer (2013) found positive relationship between transformational leadership and risk-taking.

Absorptive capacity also positively mediates between transformational leadership and all the constructs of corporate entrepreneurship at 1%. The results of García-Morales et al. (2008), Zahra et al. (2009) and Sakhdari et al. (2014) studies also support these results.

4.7.2.3 Transactional Leadership and Corporate Entrepreneurship Dimensions

The results show that transactional leadership has significant direct influence on the two dimensions of corporate entrepreneurship; proactivity and risk-taking at 5% but has not found significant relationship indirectly through absorptive capacity. Transformational leadership has no significant direct and indirect relationship with the rest of dimensions: innovation, new business venturing, and self-renewal. As explained in literature, transactional leaders make clear the standards and expected outcomes to the followers (Bernard M Bass & Avolio, 2004b) and actively monitor followers' behaviors and/or performance. This active and strict monitoring of job performance, job standards, and clear expected outcomes discourage individual creativity which hinders the organizational innovation. By following predefined performance standards, followers fail to renew their predefined standards, beliefs, and values, which in turn results in abstinence from self-renewal at firm-level also. Transactional leaders emphasize on organizing and controlling (Scott, 2012), followers get punishment when they failed to perform the expected behavior or performance, and they get rewarded when they meet the performance standards. To escape from punishment or to get reward, sometimes followers take risks to perform proactively, but their propensity to take risk remains always limited which also keeps low level of risk-taking at firm-level.

The substantial findings of previous studies support the results of this study. For example, Pieterse, Van Knippenberg, Schippers, and Stam (2010) found no direct relationship between transactional leadership and innovation, rather they found negative relationship by moderating role of psychological empowerment between them. Similarly, Eyal and Kark (2004) also did not find any relationship between transactional leadership and innovation. However, the results of this study contradict with some of

the previous studies. For instance, Eyal and Kark (2004) found insignificant relationship between transactional leadership and proactivity. Similarly, Öncer (2013) also found insignificant relationship of transactional leadership with risk-taking. It may be due to cultural differences as he conducted his study in Turkey empirically while this study has been conducted in Pakistan.

Contrasting direct and indirect effect of transformational leadership on the dimensions of corporate entrepreneurship, insignificant relationship was found between transactional leadership and on more than fifty percent dimensions of corporate entrepreneurship. The dimensions of proactivity and risk-taking have been found significant at 5%. It may be because of emphasis the routine management through transactional leadership. These findings may differ from narrated relationship between management and leadership in the existing literature. The results of this study recommend that managers who employ transactional style of leadership, which is linked to a managerial standpoint, do not lead towards innovation, new business venturing, and self-renewal. Thus, the results of this study support the idea that management and leadership should be considered as two different concepts.

4.7.2.4 Results Summary: Transactional Leadership and Corporate Entrepreneurship Dimensions

By keeping in view above discussion, it is summarized that transactional leadership has no relationship with corporate entrepreneurship. Studies also support these results (Öncer, 2013; Eyal and Kark, 2004). Absorptive capacity also does not mediate this relationship and in line with previous literature.

4.7.2.5 Passive-Avoidant Leadership and Corporate Entrepreneurship Dimensions

The results illustrate that passive-avoidant leadership has found insignificant relationship innovation, self-renewal, and risk-taking. Passive-avoidant leadership has significant negative influence on new business venturing at 5%. However, passive-avoidant leadership has significant positive influence on proactivity at 1%. Therefore, insignificant mediating effect between the relationship of passive-avoidant leadership and all the dimensions of corporate entrepreneurship. These leaders have very low or almost no participation in important concerns of firms and they try to postpone their feedback to crucial problems (Bernard M Bass & Avolio, 2004b) which limit the creativity of individual-level and innovation at firm-level. Using management by exception-passive approach, leaders take actions after problems arise and focus on corrections just to maintain the performance standards (B. M. Bass & Avolio, 2004a).

Therefore, such leaders do not develop or motivate followers to do something new which could result in newness at firm-level. Using laissez-faire approach, leaders also avoid taking obligations. Consequently, these escaping activities increase the frustration levels among employees and followers and decrease their level of self-esteem (McColl-Kennedy & Anderson, 2005). Thus, there is lack of innovation, new business venturing, self-renewal, and/or risk-taking.

The results are grossly consistent with the previous studies such as Yang (2008) and (Moriano et al., 2014) who found insignificant association between passive-avoidant leadership and the dimensions of corporate entrepreneurship. However, these results contradict with some of the previous studies like Eyal and Kark (2004) who found

significant negative relationship of passive-avoidant leadership with both innovation and proactivity.

Contrasting the influence of both transformational and transactional leadership, passive-avoidant leadership has insignificant association with corporate entrepreneurship. This style of leadership contrasts with the construct of leadership as normally these leaders do not define anything to the followers or employees. Topa, Moriano, and Morales (2008) argue that the managers who demonstrate these passive-avoidant behaviors may either do not mediate in the followers or employees job matters or may entirely avoid their managerial obligations. These leaders do not take intentional and active initiatives to lead followers or employees to promote corporate entrepreneurship inside a firm.

Results Summary: Passive-avoidant Leadership on Corporate Entrepreneurship

Dimensions

Passive-avoidant leadership has only direct effect on new business venturing and proactivity. Passive-avoidant leadership has negative relationship with new business venturing as it is significant at 5% having coefficient -0.106 which illustrates that one unit change in passive-avoidant leadership will lead 0.106 negative changes in new business venturing. But the relationship between passive-avoidant leadership and proactivity is significant at 5% with coefficient 0.180 which means one unit change in passive-avoidant leadership will lead to 0.180 positive changes in proactivity.

Overall, it can be concluded that there is no direct or indirect relationship between passive-avoidant leadership and corporate entrepreneurship. Therefore, results are consistent with previous studies, for example, Yang (2008) found that passive-avoidant has no relationship with absorptive capacity (knowledge sharing activities).

Control Variables

In order to check the exogeneity problem, leader's experience, firm size, type of industry and years in business are taken as control variables. After including these control variables, both models have been estimated. The estimated models and results appear in Appendix B. While comparing these results with the estimated ones without control variables, significant difference is not found. Nevertheless, leader's experience, firm size and type of industry have significant influence on corporate entrepreneurship and all of its dimensions. It infers the variant level of leaderships across selected industries. Similarly, it also explains that influence of leadership styles is higher in firms with the large occurrence in industry.

4.9 Path Analysis

It is better to ensure results accuracy through path analysis. The conceptual framework is analyzed through path models. First, variables are computed in SPSS and Models (1 & 2) are drawn in AMOS according to their conceptual relationship. The results of path models are computed and presented in Appendix C. The results show that there is no major variation as compared to previous results. The path models also support the results of Structural Model 1 and 2.

4.10 Summary

This chapter starts with analysis of preliminary data; editing of raw data (e.g., to exclude unfilled or partially filled questionnaires), coding (items are pre coded numerically), and screening (to check values range and data normality as it is a basic assumption of SEM). Descriptive statistics are then reported with the values of means, standard deviations, and correlations. Before proceeding towards results, reliability and validity is assured. Covariance-based SEM technique is used for analysis through AMOS software. Measurement models are validated considering the values of factor loadings and goodness of fit indices.

Two structural models are developed to test the hypotheses of this study. Structural Model 1 examines the impact of leadership styles; transformational, transactional, and passive-avoidant on overall corporate entrepreneurship direct and through absorptive capacity. Then, structural Model 2 analyzes the relationship of leadership styles with every construct or dimension of corporate entrepreneurship directly and through mediating role of absorptive capacity. The results of Model 1 show that transformational and transactional styles of leadership positively affect the corporate entrepreneurship directly or indirectly (mediation of absorptive capacity) at $p < 0.001$ and $p < 0.05$ respectively. Model 2 results indicate that transformational leadership affects all strands of corporate entrepreneurship positively at $p < 0.001$ whereas transactional leadership has no relationship with the strands of corporate entrepreneurship except proactivity and risk-taking ($p < 0.05$). Passive-avoidant leadership has also found no correlation except positive with proactivity ($p < 0.001$) and negative with new business venturing ($p < 0.05$).

CHAPTER 5: CONCLUSION, IMPLICATIONS AND LIMITATIONS

5.1 Conclusion

The focus of this study is on the role of leadership styles to promote corporate entrepreneurship in the manufacturing sector of SMEs in Pakistan. This study has three main objectives: first, to explore the relationship between leadership styles and corporate entrepreneurship of manufacturing sector SMEs in Pakistan; second, to discover the role of leadership styles in affecting the dimensions of corporate entrepreneurship i.e. innovation, new business venturing, self-renewal, proactivity, and risk-taking; third, to define the role of absorptive capacity between leadership styles and corporate entrepreneurship overall and individually with each dimension of corporate entrepreneurship.

Structural equation modeling (SEM) has been used to analyze the direct and indirect (via absorptive capacity) effect of leadership styles (transformational, transactional, and passive-avoidant) on corporate entrepreneurship (overall and individually with each dimension). The results illustrate that transformational leadership has positive significant effect on corporate entrepreneurship overall directly and indirectly through absorptive capacity. Transformational leadership has also a positive effect on the dimensions of corporate entrepreneurship: innovation, new business venturing, self-renewal, proactivity, and risk-taking directly and through absorptive capacity. However, the results demonstrate that all the leadership styles do not promote corporate entrepreneurship. Transactional leadership has no effect on corporate entrepreneurship overall directly and indirectly but has positive effect on proactivity and risk-taking. Through absorptive capacity (indirect effect), transactional leadership has no effect on any dimension of corporate entrepreneurship. Similarly, passive-avoidant leadership

does not affect corporate entrepreneurship overall directly and indirectly (through absorptive capacity). Passive-avoidant leadership has no direct positive effect on the dimensions of corporate entrepreneurship except proactivity but this leadership has negative direct effect on new business venturing. Passive-avoidant leadership has no indirect effect on the dimensions of corporate entrepreneurship through absorptive capacity.

The results of this study are grossly consistent with the theory and empirical evidences. For example, Eyal and Kark (2004) found that transformational leadership has positive relationship with corporate entrepreneurship; transactional leadership has insignificant relationship with corporate entrepreneurship; passive-avoidant leadership has a negative relationship with innovation and proactivity. Yang (2008) has also found insignificant relationship between passive-avoidant leadership and innovation, proactivity, and risk-taking overall and individually.

Although the results align with many of the previous empirical studies, they contradict some of the studies like Öncer (2013), who found that transactional leadership has insignificant relationship with risk-taking. Politic and Harkiolakis (2008) have found that transactional and transformational leadership equally affect proactivity and risk-taking. Yang (2008) found an insignificant association between transactional leadership innovation as compared to proactivity and risk-taking. Eyal and Kark (2004) found a negative relationship of passive-avoidant leadership with innovation and proactivity.

5.2 Implications

Though there are several leadership theories and styles as reviewed in literature, this study has used two most generally studied styles in the literature, especially in the context of SMEs. Therefore, social cognitive theory and resource-based view theory are utilized to delineate the relationship among leadership styles (transformational, transactional, and passive-avoidant), absorptive capacity, and corporate entrepreneurship (innovation, new business venturing, self-renewal, proactivity and risk-taking). Social cognitive theory demonstrates the nexus between leadership styles and corporate entrepreneurship whereas resource-based view explains the mediation of absorptive capacity between leadership styles and corporate entrepreneurship. Using social cognitive theory, it is hypothesized that transformational and transactional leadership have positive effect to promote corporate entrepreneurship overall and with each dimension, however passive-avoidant leadership has negative association with corporate entrepreneurship and with its dimensions. By employing resource-based view, it is hypothesized that absorptive capacity mediates between two leadership styles (transformational and transactional) while it does not mediate the relationship of passive avoidant leadership and corporate entrepreneurship. Social cognitive theory (Bandura, 1986) emphasizes understanding and shaping human behaviors according to workplace environment. Resource-based view (Wernerfelt, 1984) focuses on the features of firm resources to gain competitive advantage. The application of these theories to unveil the relationship of leadership styles, absorptive capacity, and corporate entrepreneurship is also the vital contribution of this study. The analysis of data shows that transformational leadership promotes corporate entrepreneurship in the SMEs manufacturing sector of Pakistan. SMEs top management or owners should adopt transformational leadership to promote corporate entrepreneurship. Policy implications are presented below for better

understanding of how failure rate of SMEs can be reduced and sustainability of SMEs can be ensured.

5.2.1 Policy Implications

Currently, as explained previously in the background of Chapter 1, the major issue of SMEs is failure rate. SMEs failure rate can be decreased by promoting corporate entrepreneurship. Despite the support of government (technical assistance, law and order, subsidized loans, conducive environment etc.), the management of SMEs may reduce failure rate through management approach. This study recommends the emphasis on transformational leadership and absorptive capacity to promote corporate entrepreneurship to reduce SMEs failure rate. The results depict a significant effect of transformational leadership and absorptive capacity on corporate entrepreneurship. Therefore, government may enhance transformational leadership skills by focusing on training and education of the SMEs top management. The training of top management is a beneficial measure as a short-term strategy whereas the government needs to focus on the promotion of appropriate professional education in the long-term. Survival is a vital challenge for SMEs; government may tailor corporate entrepreneurship policies with special attention on appropriate professional education and training.

On the whole, absorptive capacity affects corporate entrepreneurship more significantly than transformational leadership. However, transformational leadership also significantly affects absorptive capacity. Absorptive capacity affects all the dimensions of corporate entrepreneurship more significantly than transformational leadership. The government should also facilitate SMEs sector by developing the links with local, countrywide, and worldwide information sources. It is suggested that government,

through the collaboration with SMEDA, can establish a department to provide all the useful information about the turbulent trends of national and international markets to all SMEs of Pakistan. Through education and training, SMEs capacity to absorb knowledge can be increased. Transformational leaders through this absorption of outside firm knowledge can affect corporate entrepreneurship.

Due to inadequate skills of transformational leadership in the manufacturing sector of SMEs, innovation in this sector has declined which has led to decline in exports. Government of Pakistan (2013) shows that the major export industries i.e. textile, leather, and sports have declined. Innovation in firms is the major cause of reduced exports, especially in sports industry. Firm-level innovation can be enhanced by promoting transformational leadership (Pieterse et al., 2010). Keeping in view the context, government should take initiatives to promote transformational leadership skills to encourage innovation through different seminars, workshops, and training sessions.

Cluster development approach is commonly used to develop SMEs (Kharbanda, 2001). The stream of literature has stimulated a shift towards the policies of innovation and industrial design with an emphasis on geographical factors. Local manufacturing systems, clusters, and industrial centers have become major sources to promote corporate entrepreneurship activities (Belussi, 2006; McDonald, Tsagdis, & Huang, 2006). A relevant instance is of Europe where two-thirds of the European Union countries have launched cluster development approach in their policy of innovation, whereas a number of European plans are based on the provision of incentives and finance to enhance competitive territorial benefits. In order to develop the clusters, government should focus on nurturing the leaders and imparting them knowledge about

clusters development. Thereafter, the leaders can focus on developing industrial clusters. The main purpose of clusters development is to boost up the technological progress and innovation in SMEs sector. The results of this study show that transformational leadership promotes innovation. The policies of government can enhance technological progress and innovation through emphasis on appropriate professional education, training, seminars, and workshops to develop transformational leaders.

The above discussion illustrates that leadership styles have significant relationship with corporate entrepreneurship and its dimensions including innovation, new business venturing, self-renewal, proactivity, and risk-taking. It is recommended that government take these factors into consideration while developing policies for SMEs. Moreover, the government of Pakistan should consider differences in leadership skills and styles while designing the policies. The results show that transformational leadership affects corporate entrepreneurship and all its dimensions directly and indirectly through absorptive capacity. Absorptive capacity directly affects corporate entrepreneurship. Therefore, government should focus on a one-fit-all policy to promote appropriate professional education, trainings, seminars, and workshops. However, policies to promote leadership skills and capacity to absorb knowledge should be different. For example, to promote transformational leadership skills, government may focus on appropriate professional education, training, seminars, and workshops. A department can be established with the collaboration of SMEDA to enhance absorptive capacity through facilitating and developing a network with local, countrywide and worldwide information sources. The following section presents some managerial implications for SMEs.

5.2.2 Managerial Implications

It is important to note that government can help SMEs to promote corporate entrepreneurship by appropriate professional education and training required for transformational leaders as mentioned previously. Nevertheless, SMEs survival cannot be ensured until and unless they promote corporate entrepreneurship through management approach. The results of this study depict some of the implications for the top management of SMEs which can assist them in enhancing corporate entrepreneurship. It is found that transformational leadership promotes corporate entrepreneurship in SMEs of Pakistan more than other leadership styles. For improving transformational leadership skills in the management, appropriate education and training of key personnel of SMEs are essential for transformational leadership. The issue can be resolved through hiring trained and qualified individuals as well. After hiring new personnel, SMEs can also arrange training sessions with special attention to enhance their transformational leadership skills. SMEs should also focus on trainings and workshops on the regular basis to maintain the practices of transformational leadership within firms.

SMEs can collaborate with specific training institutions to enhance the managerial skills of key management personnel. Likewise, the firms have collaborations with the relevant educational institutions. For example, textile firms have collaboration with National Textile University, Faisalabad and Textile Institute of Pakistan (TIP). Some special institutions have been established for leather industry to provide related training and education. With the collaboration of those institutions or universities, required leadership skills can be achieved. Such type of measures can be taken for all the major industries.

Transformational leadership enhances corporate entrepreneurship both directly and indirectly through absorptive capacity. The direct effect of absorptive capacity on corporate entrepreneurship is more than the direct effect of transformational leadership on corporate entrepreneurship and its dimensions. The firms can improve absorptive capacity through transformational leadership. The direct effect of absorptive capacity is more on innovation and risk-taking which further implies that firms with a capacity to make innovations and take risks should focus more on absorptive capacity than transformational leadership. The role of transformational leadership cannot be ignored because this leadership style promotes employees' capacity to absorb knowledge and promotes corporate entrepreneurship. Transformational leadership can affect proactivity, self-renewal, and new business venture. Likewise, transformational leadership has more direct influence on new business venturing. Firms with an inclination to enhance new business venturing should focus on improving absorptive capacity through transformational leadership.

This study concludes that currently only transformational leadership affects absorptive capacity, corporate entrepreneurship and its dimensions. Along with organizing trainings for management, SMEs should also focus on certain points. First, SMEs should focus on human capital to reduce absenteeism and turnovers. Second, SMEs should also emphasize on the health, safety, and environment (HSE) of employees. SMEs should also focus on motivation of employees to cooperate and engage themselves positively for the growth and performance of SMEs.

Furthermore, SMEs should take effective measures to run their operations smoothly as they may lack sufficient funds, may have to operate in remote rural areas, and may have

to follow the bindings of conventional operating systems. Effective human resource practices are also required for the survival and growth of SMEs. The human resource practices consist of training and development (open and in-house), appraisal, recruitment and selection, rewards, motivation, conducive environment to work, and empowerment (Cassell, Nadin, Gray, & Clegg, 2002; Hayton, 2003; 2011). These practices assist employees to pursue organizational objectives (Andrew & Sofian, 2012; Appiah Fening, Pesakovic, & Amaria, 2008; Billett & Smith, 2003; Gruman & Saks, 2011; Kishore, Majumdar, & Kiran, 2012; Mayson & Barrett, 2006; Saks, 2006; Sels et al., 2006). These HR practices not merely make-up the hierarchy forms of the firms but also captivate educated and trained employees. Likewise, it can also enhance existing employees' level by improving their creativity and leadership skills.

Human resource practices are vital in the company's leadership abilities to promote corporate entrepreneurship. SMEs of several countries like Korea and United Kingdom (UK) have benefited from effective leadership by applying such practices. These practices act as a medium to channel the leadership capabilities for promoting corporate entrepreneurship in SMEs. For instance, the government of UK considers the improvement of human resource management (HRM) practices essential for promoting innovation in SMEs (Appiah Fening et al., 2008; Bacon & Hoque, 2005). For example, Khan et al. (2013) found that SMEs applying HR practices performed better than others. They assert that SMEs which apply HR practices such as motivation, training, and empowerment perform better than others. The SMEs which try to develop their aptitude to associate in technological progress and innovation should consider investing in the practices of HR such as incentives, participation of employees, and investment in orientation and socialization activities. These activities motivate the employees to contribute voluntarily for the growth of organization. The employees adopt a

cooperative attitude and behavior. This aforesaid phenomenon assists to develop the entrepreneurial culture in which the firms' capacity to absorb the knowledge also increases. These are applicable in Pakistan.

Several development agencies also emphasize on developing human and leadership skills for the improvement of SMEs. For instance, United Nations Industrial Development Organization (UNIDO) collaborates with local training institutions and provides trainings to improve SMEs clusters. It promotes skills to develop contacts through knowledge and outsourcing. UNIDO also facilitates the training of specific clusters' requirement of skills. This study recommends that SMEs should collaborate with government and development agencies for the development of transformational leadership skills.

5.2.3 Contribution of this Study to Academic Literature

In Chapter 2, the review of literature reveals that several previous studies have discussed the role of leadership in the context of corporate entrepreneurship. However, the extant literature has not discussed how the various leadership styles affect the various dimensions of corporate entrepreneurship. Many studies (e.g. Bakar and Mahmood, 2014; Öncer, 2013; Ryan and Tipu, 2013; Khan et al., 2009) contest the role and relationship of leadership with corporate entrepreneurship in Asia. These studies have ignored the in-depth analysis of leadership styles and the dimensions of corporate entrepreneurship.

Against this backdrop, the present study has conducted an in-depth analysis of various styles of leadership and their nexus with the individual dimensions of corporate

entrepreneurship. This study makes a significant contribution as it analyzed the impact of various leadership styles (transformational, transactional, passive-avoidant) upon overall corporate entrepreneurship and with its individual dimensions. This in-depth analysis is very much essential for the policy making and paving the way for future researches. The future researchers can investigate how and why the various styles of leadership may impact on corporate entrepreneurship and its individual dimensions. Similarly, future studies can evaluate why the impact of a particular leadership style can be higher on one dimension as compared to the others. Such studies can provide important inputs for devising micro policies.

Another major contribution of this study is in terms of theory. The present study has contributed through revising the previous frameworks on leadership and corporate entrepreneurship, and putting them together in a new framework for conducting in-depth analysis. This new framework provides a trajectory to analyze the one-to-one relationship of various leadership styles and dimensions of corporate entrepreneurship. The model introduced in this study is original and novel and has not been presented previously. In addition, this framework also has a theoretical linkage with the established theories of social cognitive theory and resource-based view.

Likewise, review of literature also reveals that most of the previous studies have not considered the role of absorptive capacity in the nexus of leadership and corporate entrepreneurship. The importance of this nexus cannot be ignored because most times leadership may not directly affect the corporate entrepreneurship (Poppendick, 2009; Wang, Tsai, & Tsai, 2014). This nexus can increase the capabilities of human resource and their potential to absorb knowledge and its effect on corporate entrepreneurship.

Therefore, this study also brings absorptive capacity into the context of leadership styles (transformational, transactional, passive-avoidant) and corporate entrepreneurship.

5.3 Limitations of Study and Future Recommendations

This study has some limitations. First, it is conducted in the limited manufacturing sectors (textile, leather/footwear, sports, food and beverages, metal, and wood and furniture) in Pakistan. Therefore, the results of the study and the importance of leadership styles can be further investigated in other sectors. Secondly, this is a cross-sectional study which has its limitations as compared to a longitudinal study. Thirdly, this study hypothesized only three leadership styles to analyze the promotion of corporate entrepreneurship in SMEs manufacturing sector; other leadership styles and factors (e.g., financial strength, market reputation, and physical assets) have been ignored. Finally, this study also does not consider the financial barriers which SMEs generally face. It is possible that SMEs have transformational leaders but they do not perform well due to adverse financial circumstances.

This study recommends that future studies should also include data from other manufacturing sectors especially surgical equipment, chemical, carpet, and electronic industries. This study also suggests that the scope can be narrowed to individual industries to develop industry-based policy. Moreover, other variables such as firms' goodwill, physical assets, and financial strength can be added to analyze whether transformational leadership continues to influence corporate entrepreneurship. Though this study has found positive direct and indirect (through absorptive capacity) link between transformational leadership and innovation, future studies can examine the effects of each dimension of transformational leadership on innovation. Similarly, further studies can also assess the mediation of each dimension of absorptive capacity.

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