

The Impact of Leadership and Organizational Culture on Entrepreneurial Orientation

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Abstract

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This research as a practical, quantitative, and descriptive survey was conducted with the aim of studying the impact of leadership styles and organizational culture on employees' entrepreneurial orientation. The statistical population included 110 employees of Saveh educational organization. By using the method of random sampling, 68 people were selected as the sample. Data analysis was conducted using structural equations modeling method (SEM) and with the help of smart PLS software. The results showed that managers' leadership style and organizational culture had a positive and significant impact on employees' entrepreneurial orientation and the mediating variable of organizational culture had a significant impact on the relationship between leadership style and entrepreneurial orientation.

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Introduction

Despite accepting the importance of innovation and entrepreneurship by organizations, there have been little success in these fields because of the lack of appropriate infrastructure (Zheng et al, 2009).

Entrepreneurship is a phenomenon that occurs in different environments and commitments and leads to the economic growth through the innovations that people have created in response to the economic situation (Aparicio et al, 2016). Entrepreneurship includes discovery, evaluation and exploitation of opportunities in order to introduce products and services,

organizational methods, markets, processes and new materials, through organized efforts (Shane & Venkataraman, 2000). Various entrepreneurial activities occur due to the created conditions. Accordingly, organizations should pay considerable importance to the environment that encourages entrepreneurial orientation and flourishes the individuals' talents. Organizations must provide appropriate conditions for the staff easily and continuously, individually or as a group, to involve in the entrepreneurial activities such as risk-taking, innovation, pioneering and aggressive approach (Talebiet al , 2015).

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To survive and thrive, an organization should perpetuate the flow of creativity, innovation and entrepreneurship. In this respect organization culture plays an important role. (Dong et al , 2011). It can act as a source of sustainable competitive advantage because competitors (Davenport & Prusak, 2009) do not easily imitate culture. Without an effective organizational culture, it is impossible to expect any creative activities (Valencia et al., 2010), knowledge sharing and learning across the organization, as well as any improvement in employee performance.

Robbins (2005) defined culture as a system of concepts and ideas that determines behavior among organization members and between organization and external environment. Julia (2011) believed that organizational culture is a set of processes that includes demographic changes, continuous education, the explosion of knowledge and learning of moral values. Denison states that organizational culture is a set of basic values, beliefs, and morals, which are the basis for an organizational management system. He also introduces four dimensions of organizational culture: work engagement (empowerment, team building and development capabilities); compatibility or adaptability (changes, customer orientation and organizational learning); mission or task (strategic orientations, goals and objectives, vision) and sustainability (harmony, consensus, values).

Further, some studies have shown that leadership styles are among the key factors

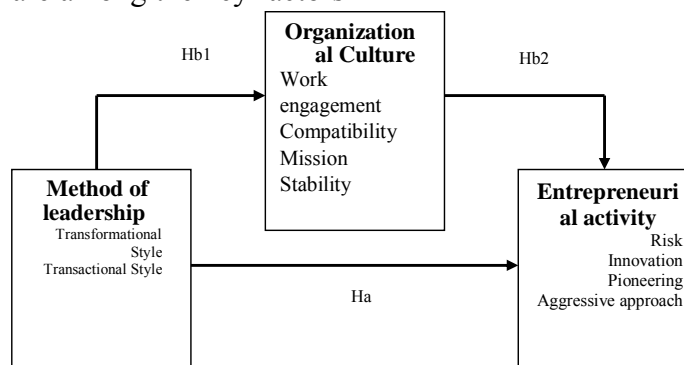


Fig 1. Research conceptual model

influencing culture and entrepreneurial orientation in organizations. Leadership is a combination of traits, skills, and behavior of managers used to engage with the staff. One of the types of leadership is transformational which a process is where leaders and their followers raise one another to higher levels of morality and motivation (Kark et al, 2003). Another type of leadership style is transactional leadership, in which leaders promote compliance by followers through both rewards and punishments (Robbins, 2005). Transactional leadership is also focused on bilateral exchange process, considering the current needs of their followers (Cacioppe, 1997).

In a study by Dunne, et al. (2016), on the leadership and innovation, it is concluded that transformational leadership style led to increased innovation across organizations. Urbano and Alvarez (2014) in their research concluded that cognitive-cultural dimensions, normative and regulatory aspects are effective on entrepreneurial activity. Burgess (2013), in his research concluded that the organizational structure, systems, leadership, and communication, including innovation and risk impact the ability to engage in entrepreneurial activities within the organization.

Considering all above mentioned the this study sets forward the following hypotheses:

Hypothesis 1: Leadership style has a positive impact on entrepreneurial orientation

Hypothesis 2: Leadership style has a positive impact on organizational culture

Hypothesis 3: Organizational culture has a positive impact on entrepreneurial orientation

Hypothesis 4: Leadership style has an indirect impact through the mediating effect of organizational culture on entrepreneurial orientation.

Research Methodology

The method used in this study in terms of the purpose is practical; in terms of the data collection is descriptive – survey, and in terms of the data collection is quantitative. In this regard, a questionnaire is distributed to seek the views of employees of city of Saveh. To develop the conceptual model and to test research hypotheses, structural equation modeling is used. With this method, the relationships between latent variables and the level of explained variance can be measured. Structural equation modeling in the measurement model is defined and

variables are divided into in known and unknown variables. Thus, leadership styles, organizational culture, and entrepreneurial activities are unknown variables and the data collected from the questionnaires are known variables. Cronbach's alpha test was run to test the reliability of the questionnaires. The table below presents the results.

Research Findings

Our findings indicate that the causal relationship between leadership style and entrepreneurial activity as well as the role of organization culture as a mediator in entrepreneurial orientation is significant and positive, 0.74 which confirms the first and the last hypotheses. In addition, the organizational culture has impact on leadership style, i.e. 49% of leadership styles is explained by the variance in organizational culture. Thus, hypothesis 2 is also confirmed. Finally. Organization culture has a significant positive impact on entrepreneurial activity, i.e. 63% of entrepreneurial activity is explained by the variance in organizational culture.

Table 1. Cornbrash’s alpha test results

Variables	Method of leadership		Organizational Culture				Entrepreneurial orientation			
	Transformational	Transactional	Work engagement	Compatibility	Mission	Stability	Risks	Innovation	Pioneering	Aggressive approach
Cronbach's alpha	0.84	0.79	0.89	0.92	0.90	0.88	0.79	0.84	0.86	0.89
Combined reliability	0.78	0.93	0.88	0.86	0.80	0.81	0.90	0.89	0.86	0.88
AVE	0.65	0.70	0.60	0.61	0.56	0.67	0.63	0.67	0.56	0.59

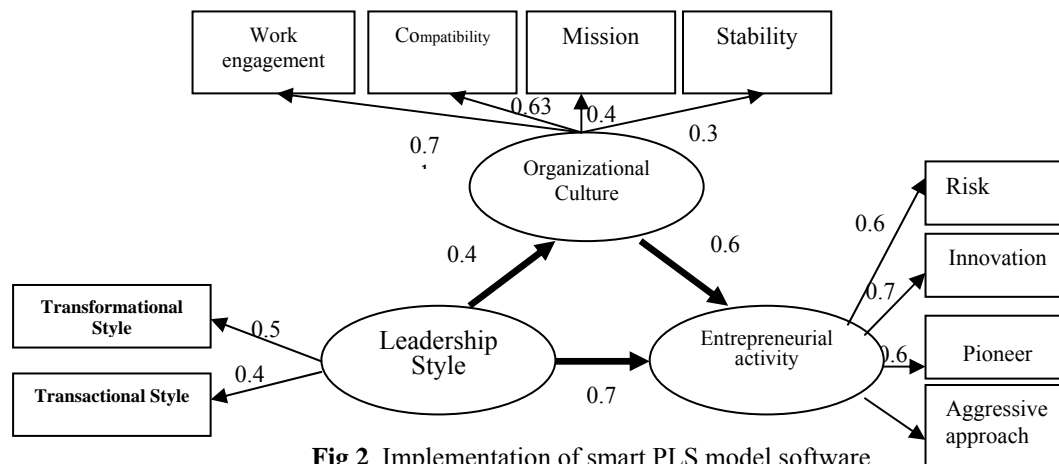


Fig 2. Implementation of smart PLS model software



The table below demonstrates hypotheses testing.

Table 2. Results of hypotheses testing

Theories	Impact factors	t-value	Result
leadership style → entrepreneurial activity	0.74	9.36	confirmed
leadership style → organizational culture	0.49	7.42	confirmed
organizational culture → entrepreneurial activity	0.63	4.69	confirmed
leadership style → organizational culture → entrepreneurial activity	$0.49 \times 0.63 = 0.30$		confirmed

Conclusion

Creative employees and entrepreneurial activities are critical for companies to compete in today's tumultuous world. Therefore, this research presents several factors that can contribute to entrepreneurial activities. Consequently, these factors can be considered by the companies to improve their performance through entrepreneurial activities. Research results of Franco and Hussey (2017), Dunne, et al (2016) and Urbano, & Alvarez (2014), stated that appropriate transformational leadership styles lead to the development of innovation and entrepreneurship, which is consistent with the findings of the present study. It also confirms the results of Burgess et al., (2013) who emphasized the importance of transformational leadership in internal working environment supporting creativity and innovation. Further, Davenport and Porusak (2009) found a significant and positive relationship between leadership style and organizational culture, which complies with the findings of this study.

This study is focused only on two types of leadership. It is recommended for future researches to study the impact of other styles of leadership on organizational development through entrepreneurship.

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