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RELATIONSHIP BETWEEN LEADERSHIP AND FINANCIAL PERFORMANCES: TRANSITION CONDITIONS

Abstract

This research was aimed at determining the state of leadership in companies in Serbia, as well as its influence on financial performances (FP). The research was conducted using questionnaires. The data were collected by polling 256 managers from 131 companies. The result of the survey implies that, in companies in Serbia, transactional leadership is present more frequently than transformational leadership. Basic analysis has revealed that in companies in Serbia there is a statistically significant influence of leadership dimensions on FP. Then, the analyses of the influence of leadership dimensions on FP were carried out by the help of the following moderators: National Origin of Companies and Company Ownership Structure. The results indicate the existence of moderating effects in both cases, but only on some correlations between leadership dimensions and financial performances. These results can be considered relevant for the analysis and understanding of the here mentioned issues of leadership in a number of countries in Eastern Europe, which are in the process of transition.

Key words: Leadership, Financial Performances, National Origin of Companies, Company Ownership Structure, Serbia.

Introduction

There is a large volume of published literature on the impact of leadership on various aspects of business performance (Ahearne, Mathieu, & Rapp, 2005; Bass, Avolio, Jung, & Berson, 2003; Barling, Weber, & Kelloway, 1996; Meindl, Ehrlich, & Dukerich, 1985; Lieberson & O'Connor, 1972).

According to (Eubanks and Mumford, 2010), some leadership strategies are successful, while others are less so. This, self-evidently, supports the fact that leaders exert a certain

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influence on business outcomes. The theoretical study Cannella and Monroe (1997) among other leadership theories, emphasises the importance of transformational leadership theory. Indeed, there are a number of references confirming a significant correlation between CEO transformational leadership and organisational outcomes, such as (Zhu, Chew, & Spangler, 2005; Thomas, 1988). Moreover, CEO transformational leadership has a direct impact on performance in small and medium sized enterprises (Ling et al., 2008a).

It is important to describe the differences between transformational and transactional leadership in regard to their influence on organisational performance. Some studies point to the increasing influence of transformational leadership on performance. According to (Howell, Neufeld, & Avolio, 2005), transformational leadership is a positive predictor of unit performance, while transactional leadership (Contingent Reward Behaviour segment) has no effect on performance. In dynamic environmental conditions, transformational leadership has a significantly positive effect on new venture performance (Ensley, Pearce & Hmieleski, 2006), whereas transactional leadership has a significantly negative effect. According to (MacKenzie, Podsakoff, & Rich, 2001), transformational leader behaviour has a stronger direct and indirect impact on sales performance than transactional leader behaviour.

Another group of studies show that in addition to transformational leadership, organisational performance is also influenced by transactional leadership. The reference (Hofmann & Jones, 2005) confirms that leadership (both transformational and transactional) has a predictive effect on collective personality, which is in turn significantly linked to collective performance. Both transformational leadership and transactional leadership (Contingent Reward Behaviour segment) positively affect the performance of army units (Bass et al., 2003). In Russian companies, (Elenkov, 2002) transformational leadership positively predicts organizational performance. This influence is stronger than in the case of transactional leadership, but transactional leadership is also positively related to performance.

What is of particular importance for this study is the fact that financial performance also relates to leadership. According to (Koene, Vogelaar & Soeters, 2002), there is a clear relationship between local leadership and financial performance in stores, while (Waldman, Ramirez, House, & Puranam, 2001) view transactional and charismatic CEO leadership as a financial performance predictor. In the reference (Barling et al., 1996), it has been established that transformational leadership training can significantly increase financial performance levels. The research (Yukl, 2008) has demonstrated that high organizational effectiveness and high financial performance require a leader to be cooperative, flexible and adaptive to changes in the environment.

There are a number of studies which confirm the indirect influence of leadership on company performance. For example, effective leadership behaviour has a positive relation to organizational commitment, which in turn leads to an also positive influence on company performance (Steyrer, Schiffinger, & Lang, 2008). According to (Kim & Brymer, 2011), ethical leadership has a positive relation to subordinate job satisfaction. This further leads to the subordinate will to invest additional effort, and consequently improved business performance. According to (Aragón-Correa, García-Morales & Cordon-Pozo, 2007), transformational leadership has a significant impact on organizational learning, and indirectly affects company innovativeness. Innovativeness, in turn, has a positive important influence on performance. The research (Wang, Tsui, & Xin, 2011), demonstrated that CEO relationship-focused behaviour is related to employee attitudes, which through employee attitudes, indirectly relates to company performance.

Some references, such as (Tosi et al., 2004; Ahearne et al., 2005; Waldman, Javidan & Varella, 2004), suggest the influence of leadership on performance. There is also a group of references which minimise the influence of leadership in this area. For instance, in the reference (Meindl et al., 1985), it is stated that leadership can serve to gain an understanding of the relationships and relations within organisational systems, but has no significant influence on organisational performance. According to (Pfeffer, 1977), the very conditions and circumstances in the environment can lead to higher/lower business outcomes, and the leader as such has little to take merit/blame for. Similarly, in (Lieberman & O'Connor, 1972) it is claimed that performance levels depend on leadership influence, but also on environmental conditions. Practically, the leader and his/her results are restricted by environmental influences.

Most European countries in transition (Russia, Hungary, Romania, Bulgaria, and the countries formed after the breakup of Yugoslavia, including Serbia), characterized by high unemployment rate and a still insufficient readiness for competition, are very interesting area of research from the point of application of the results of Western researchers especially in the area of leadership. These countries still have relatively low standard of living while the salaries are much lower than those in the highly developed countries of Western Europe and the United States. There is a high degree of uncertainty related to job security and therefore for the majority of employees in Serbia, keeping their job is a greater motive for achieving high performance, rather than rewarding and promotion prospects. In the last two decades, many foreign investors have been interested in opening facilities in transition countries due to their relatively cheap, but educated workforce. For the management of these facilities and for the scientific community as well, it is important to examine the possibility of application

of the results of Western researchers in the field of leadership in organizations in transition countries.

Besides the similarities between Serbian and Eastern European countries in terms of transition conditions, there is a similarity in the national culture. Serbia is not a part of the GLOBE project (House, Hanges, Javidan, Dorfman, & Gupta, 2004), which is focused on exploring cross-cultural aspects of leadership. However, the most likely is that the results in Serbia would be the closest to the results of the Eastern European cluster, consisting of eight countries: Albania, Georgia, Greece, Hungary, Kazakhstan, Poland, Russia and Slovenia (Bacacsi, Takacs, Kracsonyi, & Imrek, 2002). For these reasons, any research in the area of leadership in Serbia can be taken as a good basis for an analogue analysis and understanding of leadership in other Eastern European countries.

In addition to the general fact that there are still many unclear areas and room for further research into the field of leadership, the situation in European transition countries (Russia, Hungary, Romania, Bulgaria, Slovenia, Croatia, Serbia) suffers from yet another problem: there are only several researches dealing with this problem area. This paper seeks to fill in this gap and determine the state of leadership and its influence on business performance in companies in transition countries. Such research has additional significance in the light of transitional conditions, the existence of state and private owned companies, and the recent increase in the number of foreign companies operating in these countries.

Theory and hypotheses

Transformational and Transactional Leadership

Burns (1978) described leadership as a developing interrelationship process in which leaders influence followers, whereby the leaders themselves 'suffer' from such an influence resulting in a change of behaviour as they face acceptance or opposition. Moreover, Burns (1978) was in fact the first to make a clear distinction between transactional and transformational leadership. According to him, transactional leadership is based on leaders who motivate followers through a system of reward and punishment, while transformational leadership is based on motivating followers to achieve collective goals. Transactional leadership motivates followers by appealing to their own interests. Transactional leaders seek to provide appropriate rewards to their subordinates when they perform their work on the required level (Burns, 1978). Transactional leadership behaviours are mainly focused on following and maintaining the desired level of organisational operations and tasks.

However, according to (Bryman, 1992; MacKenzie et al., 2001), transactional leadership has failed to show significant results in terms of achieving higher business performance. Consequently, the theory of transformational leadership has gained importance (Bass, 1985; Burns, 1978; Conger & Kanungo, 1987; House, 1977). Contrary to transactional leadership, transformational leaders focus their attention on the relationships with their followers (Cannella & Monroe, 1997). Under the conditions of transformational leadership behaviour, subordinates feel confidence in their leader, feel good in his presence and respect and admire their leader (Conger & Kanungo, 1987; House et al., 1991). Almost all authors in the field of transformational leadership agree that the key characteristic of transformational leaders is the ability to motivate followers to exceed their own expectations (Bass, 1985; Burns, 1978; House, 1977; House & Shamir, 1993).

According to (Bass, 1985), there are two main dimensions of transactional leadership: contingent reward behaviour (positive supervisory feedback) and management-by-exception (negative supervisory feedback). Some authors (Podsakoff, Todor, Grover, & Huber, 1984) refer to the second dimension as contingent punishment behaviour, because this form refers to corrections, criticism and other forms of punishment.

Financial Performance

Some references examine certain financial performance sets. For example, the papers (Tan & Litschert, 1994; Wang, Tsui, Zhang, & Ma, 2003), and the recent study (Wang, Tsui, & Xin, 2011) describe research into the following financial performance aspects: profitability, sales growth, asset growth, market share, and competitive status in the firm's industry. In the reference (Nikolić, Savić, Čočkaló, Spasojević – Brkić, & Ivin, 2011), an investigated was carried out into the influence of public relations in Serbian companies on the following financial performance aspects: salary share in business revenue, productivity, efficiency, profitability, liquidity, profit margin (profit share in business revenue), and potential financial risks (exchange rate fluctuations, high interest rates and the like).

Research hypotheses

Based on the aforementioned theoretical studies, we propose the following hypotheses:

H1: Transformational and transactional leadership dimensions exert a statistically significant influence on financial performance in companies in Serbia.

H2: A company's national origin has a moderating effect on the correlation between leadership dimensions and financial performance, in companies in Serbia.

H3: Company ownership structure has a moderating effect on the correlation between leadership dimensions and financial performance, in companies in Serbia.

Method

Survey Instruments (Measurements)

Transformational leadership behaviour. The research (Podsakoff, MacKenzie, Moorman, & Fetter, 1990) used Transformational Leadership Behaviour Inventory (TLI), developed by Podsakoff et al. This questionnaire was used in the reference (MacKenzie et al., 2001). The questionnaire contains six dimensions dealing with transformational leadership behavior: articulating a vision, providing an appropriate model, fostering the acceptance of group goals, having high performance expectations, providing individualized support and providing intellectual stimulation. The first three dimensions have high intercorrelations, so as a result they are merged into a single construct called the core transformational leader behavior (Podsakoff et al., 1990; MacKenzie et al., 2001). In this way, four dimensions of transformational leadership are defined (which are investigated in this paper), which are: Core transformational leader behavior (three - item), High performance expectations (three - item), Supportive leader behavior (four - item) and Intellectual stimulation (four - item).

Transactional leadership behaviour. In this paper, transactional leadership behaviour measurement was carried out through two dimensions: contingent reward behaviour and contingent punishment behaviour. In the reference (Podsakoff et al., 1984; MacKenzie et al., 2001) a four - item Contingent Reward Behaviour Scale was used to measure contingent reward behaviour and a three - item Contingent Punishment Behaviour Scale (Podsakoff et al., 1984; MacKenzie et al., 2001) to measure contingent punishment behaviour. In this paper, the respondents carried out their evaluation of all leadership related items (transformational and transactional leadership behaviour) on seven-point Likert scales ranking from 1 (strongly disagree) to 7 (strongly agree). This model was used according to the reference (MacKenzie et al., 2001).

Financial performance. In selecting the financial performance aspects to be correlated to leadership in this study we were guided by the references (Tan & Litschert, 1994; Wang et al., 2003; Wang et al., 2011). These articles examined the following aspects of financial performance: profitability, sales growth, asset growth, market share, and competitive status

in the firm's industry. The group of the said five financial performance aspects was extended by two more: productivity and salaries. Based on previous analysis we formed a seven-item financial performance set to be examined in this paper: FP1 - Productivity, FP2 - Profitability, FP3 - Market share, FP4 - Sales growth, FP5 - Competitive status, FP6 - Asset growth and FP7 - Employee salaries. All financial performance items were assessed by the respondents on five-point Likert scales. This was modelled on the references (Tan & Litschert, 1994; Wang et al., 2003; Wang et al., 2011).

Participants and Data Collection

The research was carried out in Serbian companies. The survey was conducted by respondents (middle managers) completing a questionnaire. The questionnaire is composed of items for measuring the dimensions of the transformational leadership behavior, items for measuring the dimensions of the transactional leadership behavior and items for measuring financial performance. In addition, in the questionnaire there were questions related to general information on the respondents, including questions about the National origin of companies and Company ownership structure. The questionnaire completing was carried out at the respondents' workplace. The examiner would present the distributed questionnaires to the middle managers, gave some general instructions and wait for them to complete the questionnaire. A total of $N = 256$ middle managers from 131 companies in Serbia completed the questionnaire. The correspondent distribution is presented in *Table 1*.

	Distribution of participants	Frequency	Percent
	Total (N)	256	100
National origin of companies	Serbian companies	173	67.6
	Foreign companies	83	32.4
Ownership structure	State - owned companies	118	46.1
	Private companies	138	53.9

Table 1. Distribution of survey respondents

Results

Descriptive Statistics

The descriptive statistics for the leadership dimensions and financial performance are shown in Table 2. Cronbach's alpha values are relatively high and range in the interval from $\alpha = 0.83$ to $\alpha = 0.93$.

Dimensions	Short name	N	Min.	Max.	Mean	Cronbach's alpha
Core transformational leader behaviour	L1	256	1.00	7.00	4.5	.93
High performance expectations	L2	256	1.00	7.00	5.5	.83
Supportive leader behaviour	L3	256	1.00	7.00	3.8	.87
Intellectual stimulation	L4	256	1.00	7.00	4.1	.92
Contingent reward behaviour	L5	256	1.00	7.00	3.9	.88
Contingent punishment behaviour	L6	256	1.00	7.00	5.1	.88
Financial performance	FP	256	1.00	5.00	3.4	.88
Valid N (listwise)		256				

Table 2. Descriptive statistics

Correlational Analysis

Table 3 shows the basic results: the correlations of all leadership dimensions and certain financial performance aspects, followed by the correlations of leadership dimensions and financial performance in total (FP construct). These results refer to a sample of a total of $N = 256$ respondents. In Table 3, statistically significant correlations are marked in the following way: * $p < 0.05$; ** $p < 0.01$. As can be seen, out of a total of 48 correlations, there are 29 correlations with ** $p < 0.01$, 5 correlations with * $p < 0.05$ and 14 correlations with no statistical significance.

	FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
L1	.36**	.33**	.39**	.19**	.17**	.24**	.24**	.36**
L2	.39**	.34**	.33**	.20**	.23**	.28**	.19**	.36**
L3	.16*	.11	.11	.09	.03	.06	.05	.11
L4	.29**	.29**	.36**	.20**	.19**	.23**	.27**	.34**
L5	.23**	.22**	.29**	.12	.09	.17*	.25**	.25**
L6	.17*	.13	.09	.08	.15*	-.01	.11	.13*

Table 3. Correlations of leadership dimensions and financial performance (Pearson's Correlation)

Table 4 shows the results of the examination of the moderating effect of National origin of companies on leadership influence on financial performance. In Serbian companies, out of a total of 48 correlations, there are 26 correlations with $**p < 0.01$, 6 correlations with $*p < 0.05$ and 16 correlations with no statistical significance. In foreign companies, out of a total of 48 correlations, there is no one correlation with $**p < 0.01$, 5 correlations with $*p < 0.05$ and 43 correlations with no statistical significance.

National origin		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
Serbian	L1	.37**	.33**	.43**	.18*	.17*	.22**	.23**	.35**
	L2	.41**	.35**	.34**	.20**	.25**	.26**	.17*	.36**
	L3	.15*	.12	.14	.09	-.01	.04	.03	.10
	L4	.32**	.33**	.39**	.23**	.22**	.24**	.27**	.37**
	L5	.27**	.27**	.34**	.13	.09	.15*	.28**	.28**
	L6	.15*	.07	.04	.05	.13	-.07	.03	.07
Foreign (other)		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
	L1	.27	.28	.22	.18	.13	.37*	.25	.32*
	L2	.25	.26	.26	.14	.16	.38*	.22	.31*
	L3	.13	.00	-.08	.09	.24	.22	.03	.12
	L4	.13	.14	.22	.09	.05	.23	.23	.21
	L5	.12	.01	.02	.12	.11	.23	.12	.14
L6	.13	.25	.23	.11	.19	.21	.34*	.28	

Table 4. The moderating effect of National origin of companies on leadership influence on financial performance (Pearson's Correlation)

The Chow test is used to determine whether the independent variables (leadership dimensions) have different impacts on dependent variables (performance measures) in different subgroups of the population (Chow, 1960; Dougherty, 2007). To test the moderating effect of National origin of companies, the Chow test analysis was used. Table 5 presents the regression coefficients of independent variables L_i and the dependent variables FP_i , as well as the value of F-statistic greater than the critical value of $F = 2,252$, according to the Chow test. In foreign companies, there is only one statistically more stronger correlation than in Serbian companies. All the other correlations are either statistically more stronger in Serbian companies (8 correlations), or statistically equally strong (39 correlations).

		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
L1	RS	195.569	240.061	235.688	271.197	299.953	274.964	257.721	140.813
	RS1	144.101	184.064	184.266	198.246	240.229	221.209	203.631	110.69
	RS2	48.074	54.846	49.565	71.469	58.996	51.508	52.044	29.44
	F	2.225284	0.607032	1.000785	0.692331	0.306552	1.038153	1.008296	0.61413
L2	RS	190.147	238.235	249.499	270.344	292.41	270.279	263.424	140.246
	RS1	137.991	181.393	199.648	196.791	232.664	217.094	208.826	109.975
	RS2	48.582	55.511	48.591	72.373	58.589	51.27	52.887	29.631
	F	2.413661	0.707907	0.639545	0.552377	0.500534	0.899115	0.82375	0.577626
L3	RS	218.8	265.471	276.018	278.874	308.843	291.057	273.166	159.314
	RS1	162.811	203.11	221.506	203.559	247.566	232.022	214.284	125.252
	RS2	50.87	59.512	51.672	73.244	56.567	56.905	55.517	32.394
	F	3.01849	1.366885	1.309915	0.942714	1.951317	0.928885	1.571492	1.333164
L4	RS	204.949	245.313	243.302	269.86	296.991	276.516	253.489	142.235
	RS1	148.923	184.272	192.154	194.698	234.907	219.132	198	109.298
	RS2	50.887	58.313	49.489	73.154	59.923	56.699	52.627	31.468
	F	3.240649	1.416938	0.865053	0.944581	0.923536	0.312909	1.438839	1.314906
L5	RS	212.913	255.816	256.689	277.461	306.75	284.067	257.287	151.285
	RS1	154.616	190.575	199.305	201.837	245.688	226.847	197.763	116.486
	RS2	51.053	59.508	52.024	72.754	59.361	56.594	54.741	32.231
	F	4.437927	2.88847	2.68716	1.31694	0.702595	0.27828	2.386727	2.17573
L6	RS	218.169	264.696	277.311	279.852	302.092	292.169	270.384	158.682
	RS1	162.628	205.232	225.42	204.706	243.359	231.232	214.374	125.887
	RS2	50.815	55.737	49.252	72.839	57.9	57.065	49.201	30.312
	F	2.78986	1.799455	1.210586	1.047333	0.348398	1.692255	3.25499	2.002945

Table 5. Results of the Chow test for moderator National origin of companies

Table 6 shows the results of the examination of the moderating effects of Company ownership structure on leadership influence on financial performance. In state owned companies, out of a total of 48 correlations, there are 29 correlations with $**p < 0.01$, 7 correlations with $*p < 0.05$ and 12 correlations with no statistical significance. In private companies, out of a total of 48 correlations, there are 7 correlations with $**p < 0.01$, 10 correlations with $*p < 0.05$ and 31 correlations with no statistical significance.

Ownership structure		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
State – owned	L1	.52**	.46**	.55**	.43**	.35**	.39**	.41**	.58**
	L2	.40**	.36**	.36**	.31**	.32**	.33**	.25*	.44**
	L3	.05	.06	.09	.10	.09	.11	.03	.10
	L4	.39**	.43**	.51**	.36**	.34**	.39**	.37**	.52**
	L5	.26**	.29**	.36**	.20*	.28**	.21*	.22*	.34**
	L6	.27**	.20*	.20*	.15	.19	.06	.17	.23*
Private		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
	L1	.22*	.21*	.26**	-.00	.03	.12	.10	.17
	L2	.36**	.31**	.30**	.12	.18	.23*	.14	.30**
	L3	.26**	.17	.14	.11	-.01	.03	.07	.14
	L4	.20*	.17	.22*	.07	.08	.11	.18*	.19*
	L5	.21*	.16	.22*	.07	-.05	.14	.27**	.19*
L6	.09	.06	-.00	.02	.12	-.07	.06	.05	

Table 6. The moderating effect of Company ownership structure on leadership influence on financial performance and new product development (Pearson’s Correlation)

In order to test the moderating effect of company ownership structure, the Chow test analysis was used. Table 7 presents the regression coefficients of independent variables L_i and the dependent variables FP_i , as well as the value of F-statistic greater than the critical value of $F = 2,252$, according to the Chow test. In privately owned companies, there are two statistically stronger correlations than in state owned companies. All other correlations are either statistically stronger in state owned companies (21 correlations), or statistically equally strong (25 correlations).

		FP1	FP2	FP3	FP4	FP5	FP6	FP7	FP
L1	RS	195.569	240.061	235.688	271.197	299.953	274.964	257.721	140.813
	RS1	64.294	94.76	86.946	94.283	110.28	92.415	100.318	44.803
	RS2	124.859	140.134	141.871	162.521	182.11	177.781	150.033	88.852
	F	4.27387	2.77164	3.78372	7.06188	3.25913	2.223453	3.70927	6.74803
L2	RS	190.147	238.235	249.499	270.344	292.41	270.279	263.424	140.246
	RS1	73.872	103.899	108.676	104.421	112.345	97.238	112.393	54.427
	RS2	114.03	132.182	138.414	160.267	176.65	171.031	148.303	83.08
	F	1.505412	1.149622	1.228435	2.69244	1.488918	0.944052	1.318501	2.50979
L3	RS	218.8	265.471	276.018	278.874	308.843	291.057	273.166	159.314
	RS1	87.995	119.373	124.208	114.176	124.489	107.821	119.939	66.512
	RS2	122.002	142.314	148.959	160.61	182.285	180.441	150.718	89.741
	F	5.28188	1.821963	1.315042	1.874506	0.849792	1.221701	1.168024	2.46834
L4	RS	204.949	245.313	243.302	269.86	296.991	276.516	253.489	142.235
	RS1	74.357	97.788	92.348	100.126	110.613	92.884	103.399	48.779
	RS2	125.58	142.08	144.563	161.823	181.228	178.448	146.623	88.23
	F	3.15855	2.8602	3.39902	3.80527	2.223471	2.40732	1.747214	4.80608
L5	RS	212.913	255.816	256.689	277.461	306.75	284.067	257.287	151.285
	RS1	82.133	109.453	108.67	110.801	116.001	104.504	114.178	59.376
	RS2	125.389	142.478	144.181	161.795	181.841	177.016	140.506	88.305
	F	3.27322	1.943032	1.912541	2.248712	3.76847	1.139962	1.287784	3.0749
L6	RS	218.169	264.696	277.311	279.852	302.092	292.169	270.384	158.682
	RS1	81.811	115.097	120.336	112.726	121.123	108.834	116.591	63.674
	RS2	130.134	145.881	151.842	162.469	179.644	179.745	150.91	91.284
	F	3.70013	1.795048	2.37623	2.132241	0.555081	1.567474	1.357969	3.02807

Table 7. Results of the Chow test for moderator Company ownership structure

Discussion

Within descriptive statistics (Table 2), it is important to give consideration to the mean values of individual dimensions (observing the available evaluation items range: min - max). Since the total average grade for the four transformational leadership dimensions is 4.4966, and the total average grade for the two transactional leadership dimensions is 4.5464, it can be concluded that in Serbian companies under investigation, transactional leadership has a slightly larger share than transformational leadership. The highest average grade of all leadership dimensions is evidenced for the L2 - High Performance Expectations dimension.

Similarly, the L6 - Contingent Punishment Behaviour dimension also has a high grade. The lowest average grade is evidenced for the L3 - Supportive Leader Behaviour dimension, followed by L5 - Contingent Reward Behaviour. This suggests that management in Serbia is task and result oriented, with the emphasis on punishment, while rewards and leadership support are less frequent. Transformational leaders show little interest in employee emotions, while transactional leaders rarely reward subordinates. The dimension of FP - Financial Performance has almost average value.

Table 3 shows the basic results of the correlational analysis in this study. The high percentage of statistically significant correlations (71%) clearly indicates the statistically significant effect of leadership dimensions on financial performance, in Serbian companies. Thus, hypothesis H1 is confirmed. The leadership dimensions with the strongest correlations are L1 - Core Transformational Leader Behaviour and L2 - High Performance Expectations. On this basis, it can be concluded that the most significant impact on the business performances (financial ratios) has visionary and strategic components in the work of top managers, as well as its focus on achieving high performance. On the other hand, the strongest correlations between leadership dimensions and the individual financial performance aspects are evidenced for FP1 - Productivity and FP3 - Market Share and leadership dimensions L1 - Core Transformational Leader Behavior and L2 - High Performance Expectations. Significant correlations are also evidenced for FP - Financial Performance in total (dimension). Observed individually, the three strongest correlations, listed in order starting from the strongest, are as follows: 1. L1 - Core Transformational Leader Behaviour and FP3 - Market Share, 2. L2 - High Performance Expectations and FP1 - Productivity, 3. L2 - High Performance Expectations and FP - Financial Performance in Total (dimension). Analysis of the correlations suggests a simple and logical conclusion: the strategy and vision of leaders significantly influence the market share, while striving for results and performance directly affects productivity. These correlations are the strongest at the correlation analysis.

As it can be seen from Table 3, the correlations between L3 - Supportive Leader Behaviour leadership dimension to all the performance aspects under consideration are very weak. This can be explained by the low value of this dimension (it has already been stated that this is the dimension with the lowest grade of all leadership dimensions in companies in Serbia). The improvement of this dimension is likely to increase its correlation to financial performance. The analyses presented below will further support this claim.

Examined within the context of the transformational and transactional leadership division, transformational leadership can be said to be correlated to financial performance with the exception of the L3 - Supportive Leader Behaviour segment. Transactional leadership

dimension L5 - Contingent Reward Behaviour is correlated to financial performance. The findings were somewhat different in (Howell, Neufeld, & Avolio, 2005), where transformational leadership is viewed as a positive predictor of unit performance, while transactional leadership (the Contingent Reward Behaviour segment) has no effect on performance. However, according to this reference, in some cases there can be positive relation between performance and Contingent Reward Behaviour (for example, the physical distance between a leader and his/her followers). It seems that, due to the poor financial situation and low standard of living of employees, rewards, at the moment, nevertheless yield better performance results in Serbian companies. However, this study has similar findings to those in the references (Elenkov, 2002; Bass et al., 2003). Namely, according to (Elenkov, 2002), transformational leadership positively predicts organizational performance in Russian companies. This influence is stronger than that of transactional leadership, but transactional leadership is also positively related to performance. Moreover, according to (Bass et al., 2003), both transformational leadership and transactional leadership (the Contingent Reward Behaviour segment) positively affect the performance of military units. In companies in Serbia, there is a similar influence of transactional leadership in the reward segment. This can be explained by the fact that to a soldier any reward (leave of absence, permission to go out, etc.) means a great deal, just as it does to employees with a low standard of living (companies in Serbia).

The findings presented in Table 4 and Table 5 confirms the moderating effect of National origin of companies on some correlations between leadership dimensions and financial performance, in companies in Serbia. Thus, hypothesis H2 is partially confirmed. Generally, based on Table 4, the following can be concluded: the correlations between leadership dimensions and financial performance are much stronger in Serbian companies than in foreign ones. A possible explanation for this can be found in the fact that foreign companies in Serbia have clearly set goals and tasks, so generally speaking, it could be stated that the management system is better organised in foreign organisations than in their Serbian counterparts. Under such conditions leadership can, but does not have to, affect financial performance. In foreign companies in Serbia, a high level of performance is inherent and leadership alone is not enough to achieve high outcomes and change the desired management system.

On the other hand, there are two possible explanations for the significant influence of leadership on performance in Serbian companies. Firstly, in most cases, Serbian companies have less stable organisational systems in comparison to foreign ones, so, under such circumstances, weak leadership has a strong negative effect on performance. Secondly, it is not rare in Serbian companies to have an ambitious and capable individual who decides 'to

take matters into his own hands' and, owing to his leadership abilities as such, achieve high business performance. There are far fewer opportunities for such individual initiatives in foreign companies. This does not imply that in their countries of origin (for the purposes of this study they are referred to as foreign), leadership has no influence on performance. This only suggests that, in foreign companies in Serbia, local management mostly has no significant role in regard to strategic goals and plans, and consequently in achieved performance.

However, Table 5 shows that there are only nine pairs in which the moderator effect of National origin of the companies was confirmed. In Serbian companies, there are eight more statistically stronger correlations than in foreign companies. According to the results given in Table 5, these findings are most pronounced in FP1 - Productivity. At the same time, this result is consistent with the results of the basic correlation analysis (Table 2). Among the dimensions of leadership, where there is a significant moderator effect of the National origin of companies, the L5 - Contingent Reward Behavior segment can be extracted. This result is also consistent with the results of the basic correlation analysis (Table 2), as previously was explained. The fact that foreign companies show only one correlation of statistically higher significance than Serbian companies deserves special attention. This is the relation between Contingent Punishment Behaviour and Employee Salaries. One possible explanation may be that foreign companies in Serbia offer significant income opportunities, but expect a high level of company loyalty in exchange.

The findings presented in Table 6 and Table 7 confirms the moderating effect of Company ownership structure on some correlations between leadership dimensions and financial performance, in companies in Serbia. Thus, hypothesis H3 has been partially confirmed. Generally, based on Table 6, the following can be concluded the correlation of leadership dimensions and financial performance is stronger in state owned companies than in private ones.

A similar explanation to that offered for the moderating effect on Serbian and foreign companies may also apply to the confirmed moderating effect of Company ownership structure in the relation between leadership dimensions and financial performance. The explanation given for Serbian companies may be applied to state owned companies, while that given for foreign ones may hold true for private companies. There are similarities, with somewhat stronger correlations between leadership and the observed performance aspects in private with respect to foreign companies (based on the results given in Tables 4 and 6). Observing all companies in Serbia, the findings for these two moderators indicate that the influence of leadership on financial performance has the greatest significance for Serbian state-owned companies. Commentaries about Serbian companies (as opposed to foreign

ones) are the most pronounced here. Yet another aspect of interpreting this phenomenon deserves to be pointed to. Namely, such findings may partially be explained due to the fact that the 'custom' of appointing leaders through political power still survives in Serbian state-owned companies. Such leaders often have political strength and possibilities, so some companies have good business results as a consequence of this power, rather than as an actual reflection of their market success. At the same time, this does not diminish the importance and role of transformational leaders in state-owned enterprises. It may be better to say that a transformational leader has a vision that is presented to employees, and employees know that his "political power" (for example, to get a favorable low interest rate loan from the state development bank in order to invest in production modernization), allows easier and more certain realization of this vision. This knowledge gives employees confidence that the set goal can be realized, which, according to Locke's theory of motivation is an important motivator for achieving high performance.

On the basis of Table 7, it can be seen that there are 23 pairs where the moderator effect of the Company ownership structure was confirmed. At state owned companies, there are 21 statistically stronger correlations than at private companies. Here are valid the set conclusions. According to the results in Table 7, these findings are most pronounced at FP1 - Productivity and FP - Financial Performance in total (dimension). At the same time, as at the previous moderator, this result is consistent with the results of the basic correlation analysis (Table 2). Among the dimensions of leadership, where there is a significant effect of the moderator effect of Company ownership structure, strongly distinguish L1 - Core Transformational Leader Behavior and L4 - Intellectual stimulation. The pronounced impacts of the dimensions L1 - Core Transformational Leader Behavior on financial indicators at state owned companies, can be understood in accordance with the explanations given in the analysis of both moderators: Serbian state-owned companies have less stable strategy and vision, and any change (positive or negative) has a greater impact on the overall performance . When it comes to size L4 - Intellectual stimulation, its influence at state owned enterprises on the financial indicators can be understood as follows: in private enterprises more attention is paid to the work activities of the company, in other words, to the owner of the company (director) it is not important what degree has his employee, but what and how he can do. On the other hand, at state-owned companies the formal education is more important (primarily through the function and salary), and the employee is more stimulated for further progress. This leads to a higher concentration of knowledge in the companies, but also to increased job satisfaction of employees, and the result of all this appears in a positive impact on financial performances.

In private companies, there are only two correlations that are statistically more stronger than in state owned ones. These two correlations are between L3 - Supportive Leader Behaviour to FP1 - Productivity and L3 - Supportive Leader Behaviour to FP - Financial Performance. It is obvious that the influence of the L3 - Supportive Leader Behaviour dimension is the exception in this analysis. It is a dimension of leadership with a minimum score (Table 2). Generally speaking, the leaders support is often absent. However, at state-owned companies, employees are somewhat “lulled” and “spoiled” and the support of leaders is considered as “something normal” and “something that implies”. In contrast, employees in private companies earn the leaders support harder, so they appreciate it more. This support, either leads to better financial performance or it was created precisely as a result of satisfaction of the owner with the business performances (financial performances). However, this relation is more pronounced in the private companies. In addition, a strong correlation between Contingent Reward Behaviour and Employee Salaries should not go unobserved. This can be explained in the following way: in private companies in Serbia, rewards are mostly expressed in material terms, through salaries and other forms of monetary income.

The obtained moderations may be observed from another angle. It was stated in the introduction that some studies support the increased influence of leadership under conditions of crisis, uncertainty and change (Waldman et al., 2001; House et al., 1991). There is an analogy to the findings presented here, where higher uncertainty appears in Serbian and state-owned companies. Uncertainty appears as a result of transitional conditions, changes in the environment, competitive position and employee standard of living. Serbian and state-owned companies are those which suffer the most from such a reality.

Conclusion

Transactional leadership has a slightly higher share in companies in Serbia in comparison to transformational leadership. Transformational leadership is pronouncedly weaker in the Supportive Leader Behaviour segment, while transactional is weaker in the Contingent Reward Behaviour segment. It can be said that the leaders in the companies in Serbia show low level of supportive behavior and use penalties more than rewards. These are the consequences of a high unemployment rate and low standards of living of employees, who are forced to work under these conditions.

The basic analysis has generally demonstrated that, in companies in Serbia, there is a statistically significant influence of leadership dimensions on financial performance. There

is a link between transformational leadership and financial performance with the exception of the Supportive Leader Behaviour segment. Transactional leadership is related to financial performance, but only in the Contingent Reward Behaviour segment. Based on these findings it is clearly recommended that transformational leaders should improve Supportive Leader Behaviour, while transactional ones should improve the Contingent Reward Behaviour segment. This will lead to better business outcomes.

National origin of companies and Company ownership structure has a moderating effect on some correlations between leadership dimensions and financial performance. Based on the findings it can be concluded that hypothesis H1 is confirmed, while hypotheses H2 and H3 have been confirmed only partially. At Serbian state-owned companies the strongest effect is between the leadership influences on financial performances. These companies have less stable visions and strategic plans, so every impact of leadership, positive or negative, have stronger influence on their financial performances and, consequently this affects the overall business.

The application of the findings depends, in the first place, on the leaders in companies in Serbia. They should develop an awareness of the importance of leadership, and of their own role in business operations and numerous aspects of business, including financial performance. This can be achieved through the education of current, potential and future leaders. This study will contribute to the improvement of leadership in companies in Serbia, and consequentially numerous other aspects of business.

The results obtained in this study are significantly influenced by the transition conditions in Serbia. These conditions are characterized by: high unemployment, fear of job loss, the privatization of state enterprises, entry of foreign companies on the Serbian market, low standard of living, and cheap labor force. A similar situation exists in many countries of Eastern Europe, which are still undergoing the process of transition. Because of this, the results of research on the effect of leadership on financial performances in companies in Serbia can be considered representative for a larger number of countries in Eastern Europe. Therefore, the results presented in this paper are of theoretical, and of practical importance for researchers, top managers and potential investors.

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