

# **Leadership and Entrepreneurial Success:**

## **The Relationship of Leadership Factors and Economically Successful Entrepreneurial Endeavors**

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Boca Raton

*Leadership and Entrepreneurial Success:  
The Relationship of Leadership Factors and Economically Successful Entrepreneurial Endeavors*

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## ABSTRACT

Regional economies are highly dependent upon entrepreneurial endeavor success for growth, but the success rate for entrepreneurs is low (Gugliada, 2003). This quantitative group comparison research identified specific leadership characteristics that differentiated successful entrepreneurs from those starting entrepreneurial endeavors. Analysis of the research results revealed that an accepted contemporary leadership model might support programs targeting entrepreneurial success rate enhancement. A general study population of entrepreneurs in the western New York region limited the research scope. Using the self-rater Multifactor Leadership Questionnaire (MLQ) form-5X (Avolio & Bass, 2004), data was gathered from a stratified sample that consisted of startup entrepreneurs ( $N = 76$ ) and verified successful entrepreneurs ( $N = 34$ ). Multi-level data analyses using  $F$ -tests, ANOVA, and graphic techniques extrapolated results. Specifically identified by the study were 11 leadership characteristics that differentiated startup and successful entrepreneurs as well as a major leadership factor that differentiated entrepreneurs from a normative leadership sample.

## DEDICATION

Dedication of this dissertation should mention all family, friends, and colleagues who have supported and encouraged me at each step of my life. My life continues to be a fantastic adventure because of all of the people I am fortunate enough to know.

Individual mention of all to whom I owe a debt of gratitude, however, is not feasible in this short work. The following persons stand out as having made, and they continue to make, my life adventure ever so exciting:

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Last, but certainly not least, I dedicate this study to my grandchildren Lila, Emma, Katie, David, and Gracie: My hope is that this work may serve as an example of achievement through adhering to a lifetime practice of learning. The world will soon be in your hands; continue to learn so that you may care for the earth and all who inhabit it.

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## TABLE OF CONTENTS

LIST OF TABLES.....	xi
LIST OF FIGURES .....	xii
CHAPTER 1: INTRODUCTION.....	1
Background of the Problem .....	2
Statement of the Problem.....	5
Purpose of the Study .....	6
Significance of the Study .....	8
Significance of the Study to Entrepreneurship .....	8
Significance of the Study to Leadership .....	9
Nature of the Study .....	9
Research Questions and Hypotheses .....	13
Theoretical Framework.....	15
Definition of Terms or Phrases .....	18
Assumptions.....	20
Scope.....	21
Limitations .....	21
Delimitations.....	23
Summary .....	24
CHAPTER 2: REVIEW OF THE LITERATURE .....	26
Title Searches, Articles, Research Documents, and Journals .....	27
Background Knowledge Literary Review .....	29
Historical Review.....	29

Contemporary Research and Findings .....	34
Contextual Knowledge Gaps .....	43
Major literature gaps .....	52
Recent Research Using the MLQ as a Data-Collection Instrument .....	54
Conclusion .....	55
Summary .....	57
CHAPTER 3: METHOD .....	60
Research Method and Design Appropriateness .....	61
Appropriateness of Research Method .....	62
Appropriateness of Research Design .....	65
Research Design Fit to Proposed Research .....	66
Research Questions .....	67
Population(s) and Sampling .....	68
Informed Consent and Confidentiality .....	70
Instrumentation .....	72
Data Collection .....	73
Internal and External Validity .....	76
Internal Validity .....	76
External Validity .....	77
Reliability .....	78
Data Analysis .....	79
Summary .....	81
CHAPTER 4: RESULTS .....	83

Data Coding and Validation.....	85
Analytic Findings.....	89
Analysis of Leadership Factor Moderation by Gender.....	90
Analysis of Leadership Factor Moderation by Education .....	93
Analysis of Leadership Factor Moderation by Experience.....	99
Analysis of Leadership Factor Moderation by Industry .....	104
Inter-group Leadership Factor, Style, and Pattern Analysis.....	109
Hypothesis Evaluation .....	111
Chapter Summary .....	117
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS.....	118
Study Limitations.....	119
Data Interpretations.....	121
Moderating Variable Effect .....	121
Inter-group Analysis .....	127
Hypotheses Evaluation.....	129
Study Conclusions .....	133
Study Implications .....	135
Recommendations.....	138
Recommendations to Entrepreneurs .....	138
Recommendations to Leadership Educators.....	139
Recommendations to Leadership Scholars .....	139
Recommended Future Research .....	140
Summary of the Study .....	141

REFERENCES .....	144
APPENDIX A: LEADERSHIP STYLE AND FACTOR DESCRIPTIONS .....	168
APPENDIX B: MUTIFACTOR LEADERSHIP QUESTIONNAIRE .....	170
APPENDIX C: PERMISSION TO USE THE MLQ.....	173
APPENDIX D: DEMOGRAPHIC ADDENDUM TO RESEARCH SURVEY .	175
APPENDIX E: INFORMED CONSENT: PERMISSION TO USE	
PREMISES/NAME/ SUBJECTS .....	177
APPENDIX F: INFORMED CONSENT: PARTICIPANTS 18 YEARS OF AGE AND OLDER.....	180
APPENDIX G: SURVEY RESPONSE: AS COLLECTED DEMOGRAPHIC BREAKOUT.....	183
APPENDIX H: SURVEY RESPONSE: RECODED DEMOGRAPHIC BREAKOUT.....	185
APPENDIX I: SAMPLE LEADERSHIP FACTOR AND STYLE: MEASUREMENT MEAN VALUES.....	187
APPENDIX J: ANALYSIS RESULTS BY DEMOGRAPHIC CATEGORY ...	189
APPENDIX K: MLQ ITEM RESPONSES: SIGNIFICANT DIFFERENCE BETWEEN GROUPS.....	191
APPENDIX L: LEADERSHIP FACTOR PATTERNS.....	193
APPENDIX M: CORRESPONDENCE OF LEADERSHIP BEHAVIORS, ROLES, AND COMPETENCIES .....	195

## LIST OF TABLES

Table 1 <i>Summary of Literature Searched by Categories 2002-2007</i>	28
Table 2 <i>(IA) Related MLQ Items: Gender Segmentation</i>	91
Table 3 <i>(IC) Related MLQ Items: Gender Segmentation</i>	93
Table 4 <i>(IM) Related MLQ Items: Education Segmentation</i>	95
Table 5 <i>(IS) Related MLQ Items: Education Segmentation</i>	96
Table 6 <i>(IC) Related MLQ Items: Education Segmentation</i>	98
Table 7 <i>(IM) Related MLQ Items: Experience Segmentation</i>	100
Table 8 <i>(MBEA) Related MLQ Items: Experience Segmentation</i>	102
Table 9 <i>(MBEP) Related MLQ Items: Experience Segmentation</i>	104
Table 10 <i>(IS) Related MLQ Items: Industry Segmentation</i>	105
Table 11 <i>(CR) Related MLQ Items: Industry Segmentation</i>	107
Table 12 <i>(MBEP) Related MLQ Items: Industry Segmentation</i>	108
Table 13 <i>Leadership Factors as a Function of Entrepreneur Group</i>	110
Table 14 <i>Leadership Style Comparison: F-test Results</i>	109
Table 15 <i>Hypothesis 1 Test Results</i>	112
Table 16 <i>Hypothesis 2 Test Results</i>	112
Table 17 <i>Hypothesis 3 Test Results</i>	113
Table 18 <i>Hypothesis 4 Test Results</i>	115
Table 19 <i>Hypothesis 5 Test Results</i>	116
Table 20 <i>Hypothesis 6 Test Results</i>	116

## LIST OF FIGURES

<i>Figure 1.</i> Quantitative Descriptive Study Flow Diagram.	62
<i>Figure 2.</i> Data Distributions of Leadership Style Measurements	88
<i>Figure 3.</i> Sample Leadership Factor Measurements vs. Normative Sample	88
<i>Figure 4.</i> Gender Affect on IA: Group Comparison	90
<i>Figure 5.</i> Gender Affect on IC: Group Comparison	92
<i>Figure 6.</i> Education Affect on IM: Group Comparison	94
<i>Figure 7.</i> Education Affect on IS: Group Comparison	96
<i>Figure 8.</i> Education Affect on IC: Group Comparison	97
<i>Figure 9.</i> Experience Affect on IM: Group Comparison	99
<i>Figure 10.</i> Experience Affect on MBEA: Group Comparison	101
<i>Figure 11.</i> Experience Affect on MBEP: Group Comparison	103
<i>Figure 12.</i> Industry Affect on IS: Group Comparison	105
<i>Figure 13.</i> Industry Affect on CR: Group Comparison	106
<i>Figure 14.</i> Industry Affect on MBEP: Group Comparison	108
<i>Figure 16.</i> Education Level vs. Transactional Leadership Style	114

## CHAPTER 1: INTRODUCTION

Recognizing the importance of small and new-start business in regional economic development, numerous communities have focused on entrepreneurial activity as a strategy to offset economic deterioration brought about by globalization (Allen, 2006). Stern (2005) pointed out that “Entrepreneurship is a central ingredient in economic growth” (p. 16). Using entrepreneurial communities, incubators, and a wide range of entrepreneurial development organizations, regions strive to spawn and grow entrepreneurship and small business (Markley & Macke, 2003). Meanwhile, employer activity for 2004 in the United States showed the number of firm start-ups was less than the number of firm closures and bankruptcies (U.S. Bureau of the Census, 2005). Recognition of the benefits of entrepreneurial activity in regional economic growth can occur only if new-start companies survive and grow. Fernald, Solomon, and Tarabishy (2005) stated that, “Entrepreneurs are confronted with the issue of developing leadership qualities in order to grow their businesses” (p. 1).

Chapter 1 presents a review of leadership and its role in the success of entrepreneurship. The chapter contains a description of the rise in importance of entrepreneurship as an economic development tool and points out the consequential increase in academic interest in entrepreneurship. By reviewing the issues surrounding the problem of low success rates and poor growth rates of entrepreneurial endeavors, chapter 1 presents questions that support the need for this study. Presented herein are the nature of the study, the research questions and hypotheses that the study design targeted answering, and the conceptual framework, core literature, and assumptions used to

construct the study. The chapter concludes with a discussion of this study's scope, limitations, and delimitations.

### Background of the Problem

Timmons, Spinelli, and Zacharakis (2005) stated, "Why waste time thinking too small on ventures for which there is no appetite in the financial marketplace?" (p. 5). The most important player in building the U.S. economy is the entrepreneur (SBA, 2004). Small business births and deaths are controlling factors in regional economies (Bruce, Deskins, Hill, & Rork, 2007; Morris, 2002; SBA, 2004). Start-up companies have always been an important part of the business community. The start-up companies are, however, associated with high risk of closure or failure to grow. In a study that suggested entrepreneurial CEOs needed new leadership competencies when their company's focus shifts to long-term stability, Swiercz and Lydon (2002) stated that, "There are many known reasons why hot start-ups fail—new technologies, new markets, new distribution channels, inexperienced management teams, etc.—but an unquestionably critical factor is the leadership ability of the entrepreneurial CEO" (p. 380). Emphasizing leadership challenges faced by entrepreneurs, contemporary leadership research found that long-term stability is not a likely organizational scenario in the business environment of the 21st century (Ireland & Hitt, 2005). Key to entrepreneurial success is leadership characteristics of entrepreneurs.

Bass (1990) found that much literature existed concerning the importance of leadership competencies and of leadership influence on organizational operation. The literature leaves little doubt that leadership is vital to organizational survival in the rapidly changing business environment of today. Works by Augier (2006) and Useem,

Cook, and Sutton (2005) pointed to leadership competencies as being learnable. Tubbs and Schulz (2006) stated that, “Leadership scholars as well as business practitioners need to focus on those competencies that can be learned and the most effective methods for learning them” (p. 32). Key to developing programs designed to teach leadership competencies, however, is research that identifies those competencies elemental to specific targeted applications such as entrepreneurship.

Regional, national, and global economic landscapes are rapidly changing. Stern (2005) pointed out that while academic researchers agreed that entrepreneurship played a crucial role in economic growth, economists had not determined why the role of the entrepreneurship process was fundamental to capitalist economies. Regional economic growth is attributable largely to entrepreneurial activity. The National Commission on Entrepreneurship (2005) reported that, “Because of their embrace of innovation, entrepreneurs help lift all parts of the American economy” (p. 1).

Due to the general economic influence demonstrated by entrepreneurial activity, leaders in many geographic regions are focusing their energy and resources on efforts to spawn entrepreneurship in the hope of gaining needed economic growth (Haggerty, 2005). “Today, there are more than 1,000 business incubators in North America, up from only 12 in 1980” (Business Incubation FAQ, 2005, ¶ 3). Haggerty found that despite efforts to grow entrepreneurial activity, many regions were not achieving the desired economic results. According to Haggerty, an estimated 50% of all new businesses will fail or close within 4 years of start-up (¶ 1). Using data from 1989 to 1992, Headd (2003) found business closure rates similar to future failure rates estimated by Haggerty. Little,

if any, gross improvement in entrepreneurial success-rates is apparent using current entrepreneurial support approaches.

Economic growth and survival in numerous communities are dependent not only upon their ability to spawn entrepreneurial activity but upon the ability to expend their vital resources to develop high-probability-of-success ventures, businesses that will continue to operate and that will grow their dependent economies. Morris (2002) stated that, “[t]here are many communities that have very high concentrations of small businesses, but that do not have highly entrepreneurial economies and are experiencing little or no economic growth” (p. v). Dobrev and Barnett (2005) stated that, “[t]he creation of new organizations is among the most important forces of social and economic development” (p. 433); however, Morris (2002) found that failure or lack of growth of the new organizations reduced or nullified the economic benefit.

The socio-economic benefit of research that provides knowledge to enhance entrepreneurial survival and growth is clear. According to Ireland, Reutzell, and Webb (2005), it was the recognition of the importance of entrepreneurial endeavors that promoted an increase in academic interest in entrepreneurship research (p. 556). Recognizing the value of academic discourse, Schramm (2005) emphasized entrepreneurship’s importance to the business and economic communities and called for “improved research to meet the needs of informed discourse and decision-making” (p. 4). Needed is research that tests linkage of specific leadership factors with entrepreneurial success. The present research may add to the body of knowledge in the discipline of leadership and will aid in designing programs to improve survival and growth of entrepreneurial endeavors.

## Statement of the Problem

The general problem behind the lack of economic growth in America's communities comes from short-changing entrepreneurial development (Dabson, 2005). Bruce et al. (2007) found that while average business birth rates between 1989 and 2001 increased, business closure rates for the same period increased at a greater rate. There is little consensus on actual entrepreneurial failure-rates. Nearly 50% of all new firms terminate within 4 years of start-up (Lydon, 2002; Sun, 2004; U.S. Bureau of the Census, 2005). Gugliada (2003) proposed that between 70% and 80% of new businesses failed within the first year and only 50% of those who survive the first year remained in business longer than 5 years. Many efforts to grow regional economies by promoting entrepreneurship fail (Haggerty, 2005). Entrepreneurial development programs are not preparing prospective entrepreneurs to generate successful businesses (Feng, 2006). D'Intino, Golsdby, Houghton, and Neck (2007) recognized leadership as a key ingredient in entrepreneurial success.

The specific problem this study addressed was the lack of knowledge of leadership competencies required for entrepreneurial success pointed out by Gitomer (2005). Works such as Timmons and Spinelli (2004) and Warren (2005) suggested the existence of a direct relationship between successful entrepreneurial endeavors and the leadership abilities of entrepreneurs. Left open was the problem of identifying specific leadership-factor shortcomings in prospective entrepreneurs. Using Multifactor Leadership Questionnaire (MLQ) data, this quantitative descriptive group comparison study explored the differences between leadership factors of a group of proven successful entrepreneurs and a group of prospective entrepreneurs from the general population of

entrepreneurs in the western New York region. The study provided a better understanding of leadership styles that positively correlate to entrepreneurial success.

#### Purpose of the Study

The purpose of this quantitative descriptive group comparison study was to investigate and describe relationships between quantitatively measured leadership factors of prospective entrepreneurs and corresponding factors in successful entrepreneurs. The study also investigated the effects that gender, education, experience, and industry had on the comparison groups. The descriptive research design provided assessment of differences in patterns of leadership factors that occurred between the samples that represent the population groups.

A group of clients, with less than 1 year of experience, of a small business development center operated by a major university in western New York provided quantitative leadership data representative of prospective entrepreneurs in the region. Members of the Center for Entrepreneurial Leadership (CEL) operated by another major university in western New York provided quantitative leadership data representative of verified successful entrepreneurs whose endeavors generate at least \$300,000 annual revenue and who have at least 3 years of continuous operation (A. Luehrsen, personal communication, July 25, 2007).

Collection of data representing leadership style, the independent variable, used the MLQ Form-5X instrument. The MLQ provided data that allowed quantitative assessment of the full-range of factors associated with a 9-factor leadership model (Avolio & Bass, 2004). Appendix A describes the leadership factors measurements extrapolated from MLQ

Form-5X instrument responses. Appendix B provides a sample from the MLQ survey form. Appendix C contains authorization to use the MLQ for this study.

In this study, the dependent variable was a function of group membership. One group of entrepreneurs were in the startup phase of their endeavors, the level of success being unknown. In the other group, the entrepreneurs were successful in developing and operating endeavors that contributed to the regional economy. A questionnaire completed in conjunction with the MLQ (see Appendix D) collected moderating variable data: gender, education, experience, and industry.

Inter-group analysis determined leadership trait differences that existed between the dependent variables. *F*-test and *F*-test based Analysis of Variance (ANOVA), quantitatively compared, correlated, and statistically tested independent variable data between population groups. *F*-tests or *F*-test based ANOVA evaluated the statistical differences in variance between categorically separate, independently sampled, data and statistically compared means of data distributions. In the case of two distributions, the *F*-test evaluation of mean equivalency yields the same result as an unpaired t-test.

Data analysis utilized MLQ data. The MLQ Form-5X was validated against large normative samples and normal data distribution characteristics are supported (Avolio & Bass, 2004). Quantitative graphic presentation techniques such as bar charts provided descriptive data about independent variable pattern changes. Graphic presentation of ANOVA results allowed visualization of complex multivariate interactions, and served to describe potential differences in inter and intra-group leadership traits that resulted from moderating variable affects.

### Significance of the Study

A means for communities to assess the probability of success and growth potential of proposed new ventures is needed. Equally important is a need to provide support that ensures success and growth of new ventures once they are undertaken. Bates (2005) found that skill, experience, and a support infrastructure were building blocks for entrepreneurial success. Bates stated, “To be successful, programs to help disadvantaged entrepreneurs should look to provide these critical pillars” (p. 70).

#### *Significance of the Study to Entrepreneurship*

This study may have significant societal impact by providing positive influence to economic growth and stability in depressed regions by defining specific leadership development requirements to improve entrepreneurial success and growth. Development of entrepreneurship support programs, identification of leadership competency shortcomings, or tailoring training to build leadership skills needed by aspiring entrepreneurs may result from this study. Such programs may improve the success and growth rates of entrepreneurial endeavors in economically depressed regions, allowing them to regain economic health. The study may also allow development of entrepreneurial educational curricula that can spawn successful new company start-ups. In referring to entrepreneurial programs, Kirby (2004) wrote that, “[o]ften such programmes [sic] equate entrepreneurship with new venture creation or/and small business management and educate ‘about’ entrepreneurship and enterprise rather than educating ‘for’ entrepreneurship” (p. 513). The employment resulting from increased entrepreneurial activity and success-rates may bring economic stability to areas suffering from loss of meaningful jobs due to economic globalization.

### *Significance of the Study to Leadership*

Fernald et al. (2005) pointed out that entrepreneurial leadership was a relatively new field of study. Research supporting improved success-rate in start-up ventures by addressing the role of leadership and leadership skills significantly contributes to the body of knowledge in the scholarly discipline of leadership. Examination of leadership among entrepreneurs requires exploring the full-range of leadership factors in the context of entrepreneurial success. Such an examination may provide an entrepreneurial leadership framework, thus providing access to a logical extension of leadership knowledge. Bass, Avolio, Jung, and Berson (2003) identified a growing body of evidence that future performance is predictable by leadership measurement. Bass et al. believed that future research on the topic of leadership was important. This study may contribute to the scholarly literature in the area of leadership measurement as a performance predictor. Adcroft, Willis, and Dhaliwi (2004) concluded that:

The case for the entrepreneurial skills of creativity, leadership, and innovation is made in the globalization literature, by the management gurus like Gary Hamael and in the imposition of private sector management on the recalcitrant public sector. However, unless and until the tension between recognition and promotion is reconciled, the suspicion will remain that it is little more than a case of academic supply creating an insatiable and unrealistic public and private sector demand. (p. 529)

### Nature of the Study

This quantitative descriptive group comparison of leadership characteristics between stratified entrepreneurial groups may increase the body of knowledge

surrounding leadership characteristics of successful entrepreneurs. Entrepreneurial Support Organization (ESO) programs that could improve entrepreneurial success rates may result from information provided this study. Study results concerning specific leadership factors associated with entrepreneurial success may expand the body of knowledge in the academic field of leadership.

According to Fernald et al. (2005), “Entrepreneurs are confronted with the issue of developing leadership qualities in order to grow their businesses and to transform them to a level of professionalism” (p. 1). This quantitative research explored leadership characteristics of entrepreneurs seeking those qualities referred to by Fernald et al. Quantitative analysis that compared groups of entrepreneurs with and without proven success in entrepreneurial endeavors provided insights to expand the body of knowledge surrounding entrepreneurship. Recognition of statistical differences in specific leadership factors as they relate to entrepreneurial success resulted from this study. Graphical comparison of the spectrum of leadership factors between the two groups allowed the research results to provide a description of combinations of specific leadership factors that were statistically germane to entrepreneurial success.

Cooper and Schindler (2003) stated that, “[t]hroughout the functional areas of management, more and more problems are being addressed by considering multiple independent and/or multiple dependent variables” (p. 466). Statistical analyses such as ANOVA, when used in conjunction with graphic analysis, are suited to bring out the structure of relationships. The use of such techniques may have culminated in descriptions of leadership characteristics that lead to entrepreneurial success. Rocco, Bliss, Gallagher, and Perez-Prado (2003) contended that quantitative research methods

tended to oversimplify causal relationships. The use of quantitative multivariate analysis in conjunction with a descriptive research design may mitigate the oversimplification raised by Rocco et al. and may have best served the purpose of this study. Chapter 3 presents a comprehensive discussion of the research method and design.

A survey of entrepreneurial members of the study groups provided quantified leadership competency data across a full-range of leadership factors. This study used the Avolio and Bass (2004) MLQ full-range leadership assessment tool. The MLQ, as a research instrument, has evolved over 25 years (Avolio & Bass). Broad use and acceptance of the MLQ in transformational leadership research has provided, and continues to provide, instrument validation and support for instrument reliability. As a research instrument, the MLQ has been extensively tested and documented as having both internal and external validity (Avolio & Bass). Appendix A delineates MLQ measurements. The full-range of leadership factors extrapolated from MLQ Form-5X data was:

1. Idealized attributes (IA) is the leadership factor that influences followers through instillation of pride, and through demonstration of self-confidence.
2. Idealized behavior (IB) is the leadership factor that focuses on purpose, mission, and ethics as sources of influence.
3. Inspirational motivation (IM) is the leadership factor that motivates followers using challenge, optimism, and vision.
4. Intellectual stimulation (IS), as a leadership factor, provides an environment that stimulates innovation and creativity as a source of follower influence.

5. Individual consideration (IC) leadership uses coaching and mentoring as a means of motivating followers.
6. To motivate followers, contingent reward (CR) leadership defines expectations and gives recognition upon meeting those expectations.
7. The active management by exception (MBEA) leadership factor specifies compliance and punishes for non-compliance to meet goals.
8. Passive management by exception (MBEP) is a leadership factor wherein the leader remains uninvolved until problems become major.
9. Laissez-Faire (LF) is a leadership factor wherein leaders are disengaged and do not make decisions.

Leadership factor measurement from survey responses provided interval data in the range 0 - 4. The transformational leadership style is comprised of leadership factors 1-5. Transactional leadership is factors 6-8, and laissez-faire is factor 9. Calculated leadership style measurement was the average of factors making up the style.

The research process statistically compared leadership factors within entrepreneurial groups and between entrepreneurial groups. Within groups, statistical comparisons of leadership factor differentiated by education level, gender, experience level, and industry of endeavors provided moderating variable effects. Based in traditional statistical testing, quantitative ANOVA suited the objective of this descriptive study. ANOVA allowed greater focus upon describing data distributions and interplay between moderating variables, leadership factors, and leadership styles. Graphic comparison of leadership characteristics of prospective and proven successful entrepreneurs also described differences in leadership traits or groupings of leadership

factors. The study added to the body of leadership knowledge and generated specific insights for application to real-world programs to enhance entrepreneurial success-rates.

### Research Questions and Hypotheses

Globalization and technologic expansion are generating major shifts in regional and international economies. Recognized is that entrepreneurial activity plays a significant role in regional economic development, and communities experiencing economic downturns are forming economic support organizations to generate economic growth (Dabson, 2005). Yet, a number of communities in the United States are not attaining economic growth using Entrepreneurial Support Organizations (ESOs) (Morris, 2002). Longstanding is the belief that leadership is an important aspect of entrepreneurship (Swiercz & Lydon, 2002; Timmons & Spinelli, 2004). Identification of weaknesses in and development of programs that teach specific leadership factors to prospective entrepreneurs can enhance entrepreneurial success-rates and foster economic growth through entrepreneurship. By using *F*-test based ANOVA and graphic analysis to describe entrepreneurial leadership characteristic differentiation between a group of potential entrepreneurs and a group of proven successful entrepreneurs, this study described the relationship between leadership and entrepreneurial success.

The primary objective of this research was to answer the overarching question: What identifiable differences in leadership styles, factors and behaviors, if any, exist between entrepreneurs achieving success, in the context of regional economic development, and those who aspire to be entrepreneurs? To answer the broad research question required investigation of the following secondary questions: (a) What are the measureable differences between leadership factors and behaviors of prospective