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TRANSACTIONAL AND TRANSFORMATIONAL LEADERSHIP: DEVELOPMENT THROUGH CHANGES

Abstract: *The success and rewarding are mostly expressed in business performance at the end of the year. Transactional and transformational leadership as a new paradigm of quality effects on creation of roles and processes in the organization. From the leaders are expected to use leadership as a process of ensuring the long-term goals of the organization, especially in turbulent competitive environment. Therefore, this paper points out the impact of leadership competencies through transactional and transformational leadership, characteristics and processes that show different levels of participation of transformation and transactional leadership of organizations.*

Keywords: *leader, followers, changes, transactional and transform leadership, organization*

1. Introduction

Theory and practice show that transactional leadership is a necessary, evolutionary path toward transformational leadership from the relatively stable to a period of business in a turbulent environment, which is characterized by many unknowns. For transformational leadership is characteristic interaction of different social actors, initiative, efficiency and effectiveness, readiness for change and variety of strategic choices in accordance with the requirements of the environment and the perception of new vision and business goals. It is an evolutionary path that coexists with the changes in the environment and transformational leadership inevitably occur as a complex process based on the individual vision, courage and willingness to learn, openness to followers and values that include better and more efficiently, based on the radical changes in the organization and the environment.

Cox identified two basic types of leadership: *transactional* and *transformational*. [17] Differences between transactional and transformational leadership was first formulated by Downton, but the idea is worked out by James

MacGregor Burns in 1979. Burns made a distinction between ordinary (transactional) leaders, who have ensured the followers loyalty through rewards, and extraordinary (transformational) leaders, which focused on the essential needs of followers. The idea was further developed by Bernard Bass who was considering, unlike Burns's, that transformational and transactional leaders are part of the same continuum of leadership that can not be considered separately. [18]

2. Transactional leadership

The concept of transactional leadership was first mentioned by Max Weber in his socio-economic considerations of the organization. Twenty-seven years after his death and publishing a reprint of his book, academic and professional audience accepts his definition of leadership. [1] Max Weber first described transactional leadership style and his basic facts are accepted by Bernard Bass in 1981. Great influence on him had made James McGregor Burns-a [2], whose study of leadership was the cornerstone for further development of leadership as a new area.

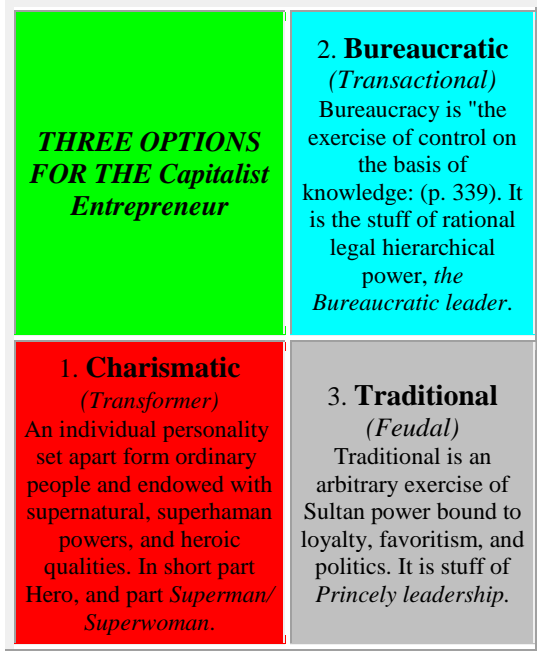


Figure 1: Max Weber's (1947) Model of Transaction and Transformation Leadership Authority

Max Weber has defined three types of leadership and leaders:

- *Bureaucratic - transactional leaders*, who earn leadership through normative rules and regulations, strict discipline and systematic control. Obedience of followers is based on rational values and rules, and also on established agreements. Follower is limited to the obligations and controls which are set for him. Wages are fixed and ranked in a hierarchy. Coercive measures are clearly defined and their use is subject to certain conditions that are already established. The technical side of follower has big importance and forms the basis for the selection of administrative staff. There is no right of appeal. Capitalism, according to Weber, encourages the development of bureaucracy, even bureaucracy exist in socialist systems. [1, 339]
- *Traditional leaders* believe in the legitimacy of governance on traditional way. Personal loyalty and faithfulness of followers dominant in this kind of leadership. The leadership of the organization is characterized by arbitrariness and irrationality instead of

rationality and economic activity. [1, 335] Examples include: a feudal kingdom in China, Egypt, Africa, the Roman Empire and others.

- *Charismatic leader* is characterized by dedication, illumination, and heroism. Followers, on the basis of personal trust in the leader and his intention, consciously accept to belief in his charisma, vision and mission. He is for them like a warrior, prophet or a visionary. Because of consideration that charisma is God's gift, leader being treated in such a way. Weber watched charismatic leaders as: heroes in the war, leaders of the hunt, the wise men or shamans, and also as founders of religions like Christ in Christianity or Muhammad in Islam. Thus, one type of charisma is a hereditary monarchy, the second patriarchal authority, the third charismatic religious authority, and the fourth military heroes.

Weber argued that no one of three leaders types occur an ideal form. [1, 329-333] Also argued that there can be a combination of bureaucratic and charismatic leadership. There are a few strongholds in his conception of Leadership:

- Weber's model of leadership is dynamic and allows the transfer of leadership from one form to another. There is no ideal type of leadership
- The model is cyclical, that is an unstable form of charismatic, bureaucratic form can become a hybrid of the monarchy at the top.
- Model has situational character, because Weber explained the economic and social conditions that support the selection of a particular type of leadership.
- Weber stands for the transformation of charisma into a democratic approach to leadership, which respect the voice of followers. The new charismatic authority is based on legitimacy and public recognition. Weber's opinion is that anti-authoritarian direction of the transformation of charisma present the way towards greater rationality. [1, 390]

Bernard Bass, using Burns basis of a transactional leader, start with characteristics of behavior and situation as basic level of exchanges between leaders and followers, so that all participants get something they want. He identified two types of leadership: transactional and transformational.

Transactional leadership is based on classical principles of exchange with followers who are part

of interactions and therefore are rewarded for meeting pre-defined standards and performance. Transactional leadership is focused on maintaining the status quo, so transactional leadership present traditional approach of leadership. [3] First Bass's research of transactional and transformational leadership is related to the year of 1954 and 1960, when the practical examples found correlation between successful leadership and perceptual flexibility. He also came to the conclusion that transactional leaders can be successful in a short period of time, but that they must focus on the changes, if you want to continue to retain a leadership position.[4, 5] Transactional leadership style commonly used in conditions where the focus of leaders focused on the basic process control, organization and short-term planning. Examples for transactional leaders are American and French politicians McCarthy and de Gaulle. Transactional leadership is utilized in the economy after the Second World War until the 70's, because the business climate, particularly in the United States, provided high level of stability that most organizations did not felt the need for change, and consequently for the leadership, as the power that leads to changes. [6] Transactional leadership involves motivating and directing followers, appealing to their own interests. The power of the leader comes from formal authority and responsibility in the organization. The main task of the followers to respect the instructions of leaders. The leader provides rewards and punishments in the organization of its legitimacy. Transactional leadership is, in essence, oriented on monitoring organization, processes and outcomes in the market. [7] The interpersonal relationships between leaders and followers have a four dimensional approach:

- 1) The possibility of reward, as a result of well-performed tasks and achieved goals that followers are expected to successfully completed the process. Goals must be specific, measurable, possible, realistic and timely manner (SMART).
- 2) Actively engaging leaders in managing, which followed the work of his followers, gives consideration to any deviation from established standards and procedures by taking corrective measures in case of errors.
- 3) Passive engagement leader involves the leaders in the process only when standards are not met, or performance are not achieved.

4) Laissez-Faire dimension, which is a form of leadership that provides the possibility of freedom in the choice of goals and behavior of organizational participants. It is not real leadership style, because of impact of social actors, whose activities were not coordinated, limited or formalized. The leader avoids responsibility for decision-making and because of that he often creates inefficient and unprofitable organizational relationships. [8] Assumptions of transactional leadership are:

- employees are motivated leader through rewards and punishments,
- followers receive a directive from the leader, which must be respected through production process,
- there is no self-motivation, but the follower are controlled by leader during the manufacturing process.

Transactional leaders are focused on short-term goals, standards, procedures, rules and control. Creativity, vision and generating of new ideas are not represented. The efficiency (cost reduction) is the key variable of leadership competencies. The left side of the brain (rational behavior), completely dominated, so the right brain (emotional intelligence) is totally excluded from leadership behavior. Followers are motivated only by rewards and punishments, and the utility over money dominates the leader-followers.

Transactional leadership focuses on the basic functions of management, control, organization and short-term planning.

Transactional leadership is based on the assumption that employees are motivated by the best system of rewards and punishments. Transactional leaders are focused on standards, policies and procedures, as we have already said. They have a very narrow focus and do not encourage the creativity and new ideas. This style of leadership works best when organizational problems are simple and clearly defined. [9] Inflexibility of leadership is a characteristic of this model, so any attempt to change this leadership style is difficult and almost unsuccessful, because the leadership style is part of human person, his personal characteristics and that is something unchangeable. [10]

3. Transformational Leadership

As a term, transformational leadership first was mentioned in 1973rd, in the J. V. Downton's sociological study,. [11] Transformational leadership style is directly related to charismatic leadership approach, since Max Weber's time. Robert House in 1976th , start approuching the traditional literature on charisma and charismatic leader, and concluded that through the selected literature from social psychology can be explained on a relevant way the concept of charisma. House has considered a range of topics related to charisma, including the charismatic effects, characteristics of charismatic leaders, their behavior, and situational factors that influence on appearance and effectiveness of charismatic leaders. Based on these analyzes he was developed speculatively theoretical explanation of charisma starting from psychological forms, including a less sociological and political considerations. [12]

Musser was observed a charismatic leader as holder of double function: he seeks to wake up feelings to followers for ideological commitment to the goals and devotion to his own personality. Which of these two objectives will be dominant depends on the motives and needs of the leader. [13] Conger and Kanungo give five attributes (characteristics) of charismatic leaders:

- vision and articulation,
- responsibility for Environment,
- understanding followers needs,
- personal risk taking and
- unconventional behavior. [14]

James MacGregor Burns has made a fundamental distinction between transactional and transformational leadership. [2, 15] Transformational leaders seek to change existing patterns, values, beliefs and goals, and create new ones that encourage the greater commitment. Intense commitment to the concept of transformational leadership is the result of at least two tendencies. First, many large companies such as IBN, GM, Ford and others, started a comprehensive program of transformation and change that had to be achieved in a relatively short period of time, because in early 80-ies of last century business world has become more dynamic, competitive and volatile. Many, by then a successful company, were faced with the crisis

and the need to radically change their former way of leadership. Second, the recent theoretical base of leadership, which is based on an analysis of personal leader characteristics and behavior in different situations, not taking into consideration certain, quite unusually, quality of leader. These new qualities demanded a new theory or a new concept of leadership. It is the concept of transformational leadership. The Figure No. 2 shows the key characteristics of transformational leader. [16]



Figure 2: The key attributes of transformational leader [16]

Over the years, Bass's MLQ (Multifactor Leadership Questionnaire), known as FRLT (full-range leadership theory) was redefined. New investigations of Burns-Bass's basic postulates of transformational leadership theory were developed first by Conger and Kanungo, fand than by Kouzes and Posner. [19] Some researchers have tried to extend this concept of the model by proposing introduction of so-called "servant leaders" and "transcendent leaders", that enable followers to develop new knowledge (rational and transcendental). [20, 21] Nevertheless, based on available information from the industry, Bass's MLQ model / FRLT remained empirically most valid test of theories of leadership in practice. [22] According to Burns transformational leader recognizes the needs or demand of potential followers and articulating their motives for trying to meet their requirements, while also engaging followers as complete person. The result of such relationship was mutual stimulation, which ultimately can be explained on convert follower into a leader and leader into moral agents. Bass identified four components of transformational leadership:

Charisma, which is identified with the followers' perceptions of the leader as an idealized, confident, charismatic leader who captivates with confidence and attitudes. Followers of such leaders are admired as a model

that generates pride, loyalty, trust and faith that in crisis situations give rise to a personal example to achieve a set of high goals. [23]

- Inspiration is related to the behavior of leaders and efforts to inspire and motivate their followers in order to fulfill ambitious goals raise confidence in their own abilities. The leader develops an attractive vision for the future, using symbols and emotional arguments to persuade the followers to accept the vision with the full commitment, faith and optimism. Leaders, according to the Bass-articulate an interesting vision of the future, setting high standards for followers, while providing them encouragement that such a vision can be accomplished.

- Individual support, refers to efforts made by the leader by providing emotional and social support to individuals for achieving his own vision. The leader through counseling and teaching, developing their individual needs, abilities and aspirations, listening carefully to followers, allows them to encourage themselves for future efforts needed to achieve the final goal of leadership.

- Intellectual stimulation represents the efforts of leaders to develop and stimulate creativeness and innovation preference, new perspective and way of working that provide the leadership vision. [23]

Transformational leadership achieved superior performance, when the leader spreads increase the interests of its employees, when creates awareness and acceptance of the goals and mission and when their employees start to put the interests of the group above their own interests. Transformational leader can achieve these results if only he is charismatic to his followers and inspire them so, or if it meets their emotional needs and intellectual requirements. [24]

The best transformational leaders are those who know how to balance with short-term results and long-term vision. Kotter believes that the short-term changes take place from 6-12 months. The results of the vision can be drawn on the four dimensions matrix. The low score and low vision are the problem for any organization. Good short-term results with low vision may be good for the many organizations in short time. Compelling vision, which produce few results have to be abandoned. Only a good short-term result may be effective to achieve the vision of sustainable

success, which is shown in Figure No. 3 [25, 26]

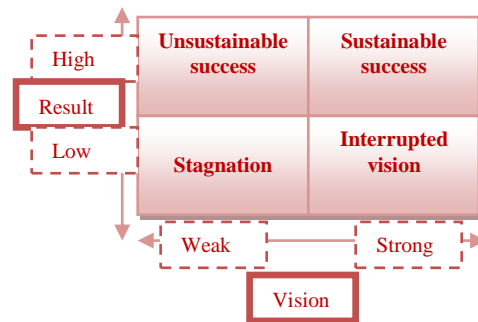


Figure 3: Vision, a result of the success of sustainable transformational leader [6]

The greatest danger for the transformational leader is fear of little time to manage the long-term changes. Because of that they focus only on quarterly and annual results. However, those who are 50 years old and younger, have the opportunity to provide transformation and long-time leadership of organizations. Successful transformation of the organization is the ultimate test of leadership, and therefore requires two skills: *building coalitions* and *creating a vision*. This is particularly important for a transitional period in which we live. [27, 28, 29]

Transformational leaders must lead the organization step by step to a complete reorganization of the market adjustment. Complete transformation takes eight following steps: [27, 28, 29]

- Establish a sense of urgency,
- Formulate a strong coalition of leading,
- Creating a vision
- Communicating the vision,
- Support the other to accept the vision,
- Plan to create short-term changes,
- Consolidate improvements and execute quality improvement of product performance,
- The institutionalization of the new approach.

The reason that transformational leadership assumes the establishment of strong guiding coalition is existing of complex processes that are based on the individual's vision existing of his courage, willingness to learn, openness to followers and values which are supported by them. A strong coalition includes the establishment of

mutual trust and common goals which should be achieved. Leadership, which has to take part in these changes, is determined by the transition framework, taking into modern information technologies that are key for effective restructuring, economic recovery and advancement. [30, 31, 32] The key attributes (characteristics) of transformational leaders are given in Figure No. 4: creativity, team orientation, each other respect, teaching, responsibility and recognition. [33]

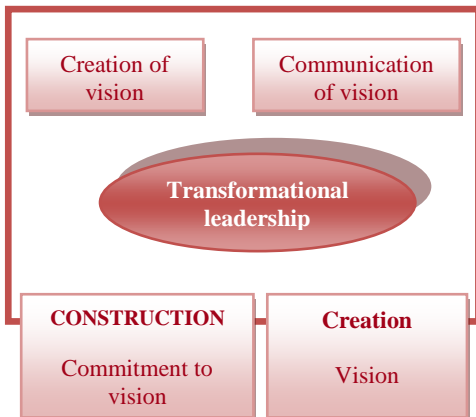


Figure 4: Elements of transformational leadership

Transformational leaders have the power to create set of corporate values and culture. Transformational leader is an essential factor of development and corporate competence in relation to other social groups and actors. Transformational leaders are not created in ad-hoc situations, but must be educated, so there is theory that leaders are born, or that are destined for the top positions in the economy, politics, military, education, culture other fields. Peter Drucker argues that "the basic qualities of leadership can not create or promote, teach and learn." [34] On the other hand there are authors who argue that leaders "creates through learning ", [35, 36, 37], but not born. In their opinion leadership is not a matter of biological destiny, but only the choice stuff. So we can conclude that leaders are born or "create" through learning.

4. Transactional versus transformational leadership

Bass had reached, the most, transformational leadership and what leader has to do to effectively

perform their responsibilities. However, it should be noted that Bass's interpretation differs in key elements of the other researchs in this field. [3]

In the original formulation of Burns's, who is one of the first theorists of leadership, transformational and transactional leadership are two different styles of leadership. The leader can be transactional or transformational, but can not simultaneously have the characteristics of both. [2.38]

In Bass's theory of leadership, transformational and transactional leadership are two different dimensions of leadership, so that leaders can simultaneously be both transactional and transformational, which is caused by leadership behavior. Today, most researchers agree with Bass's theory of leadership. [3.39]

In the last two decades transactional and transformational leadership have been the subject of research, and many papers were written. This issue is still present, both in academic and in business circles in the world. [22.40]

Transactional leadership	Transformational Leadership
Leadership status quo	Leadership of changes
Followers achieve organizational goals through the process of rewarding or punishing	Motivating followers in process of achieving the tasks through establishing a common vision, ideals and moral values
Organizational culture is not changed	Change of organizational culture
Followers are motivated by appeals to their own interests that make in organization	Followers are motivated by group interests that coexist with the individual interests of group members

Table 1: Difference between transactional and transformational leaders

In Table No. 1 is shown the number of differences between transactional and transformational leadership styles. Transactional leadership, as seen from the table, can not develop the maximum of leadership potential. Transformational leadership style providing a full range of leadership functions by creating

conditions for intermittent changes, adjustment of the turbulent environment and design a new organizational structure of the company

Intermittent changes causing positive and negative effects on followers, a sense of fear and hope, optimism and anxiety, pressure and incentives, the requirement to discard old business models and adopt new directions, threatening self-esteem and feelings of creation new values. All this is result of movement from transactional into transformational leadership. [41]

Leaders through leading changes need to act boldly and with confidence for their necessity. They need to "develop a vision of what could be, to mobilize followers to accept them and work on a new vision, to institutionalize the changes that must last for a longer period of time." [41] All changes is not transformational and do not lead to solutions that are better than the previous.

In the early theories of transactional and transformational leadership represented the essence of leadership characteristics and situations in which a leader can successfully lead a group. [42, 43, 44]

The dilemma, transactional or transformational leadership, is often present, but we must note, there is no universal, versatile style of leadership, which is applicable in any situation, as noted Hersey and Blanchard. [45]

Transactional and transformational leadership is characterized by the following characteristics:

- Do unto others as to thyself,
- Consistency,
- Contacts with the followers in production, not in his office,
- Do not make decisions in an emotional state,
- Have time to talk to supporters and heed their advice,
- Their own self-control,
- Clear communication and awareness of followers,
- Taking responsibility for his actions and the actions of followers and
- Be a leader with vision. [46]

Empirical research has shown that leaders, transactional and transformational, which accept followers with empathy, not as a subject to achieve the defined objectives, have a great support in organizations. [47] Good interpersonal relationships between leaders and followers increase the efficiency and effectiveness, [48] and

the overall morale in the company. [47]

Followers are motivated to accept the credibility of the leader, if they believe that he is in line with leadership behavior. [49]

For transactional and transformational leadership, is common, that leaders need to send strong messages to the followers. That is important for certain jobs, in order to achieve good quality, and reduce the possibility of formal administration. [50] Leadership formalism prevents the process of education, and communication with the followers.

The leader must gain the respect of followers by defining a clear sense of direction of action, ethical principles and a strong vision for the future. Followers respect leader who has positive attributes (characteristics), who is honorable and trusted, but not a leader who abusing authority for personal promotion. Transactional leader supporting followers, but does not follow them, as opposed to transformational leaders who have a clear vision and mission, which coexists with the needs and goals of subordinates.

The basis of good leadership is honorable character and selfless sacrifice for the organization's objectives, the ultimate goals of effective and well-being of subordinates. The organization with the mission and vision should be led by leaders:

- With self-awareness (the establishment of control over yourself - beliefs and character),
- One who teaches (a continuous learning process for leaders is never fully completed)
- Enjoying in changes (leaders do not avoid change - leadership mean how to enjoy in changes)

Be Know Do

In other words, to answer three questions: [51]

Burns, define three characteristics that differentiate the transactional and transformational leadership style:

- ◆ purpose,
- ◆ moral and
- ◆ time frame or time horizon.

PURPOSE		MORAL		TIME FRAME	
Transformational	Transactional	Transformational	Transactional	Transformational	Transactional
The range of leadership toward the goal	Sustainable status quo, of goal of the boath, the leaders and followers	The moral aspect of the priority of leaders and followers	The goals of leaders and followers, moral and immoral-no explicit morlna page	Long-term (inspirational) goals	Short-term goals

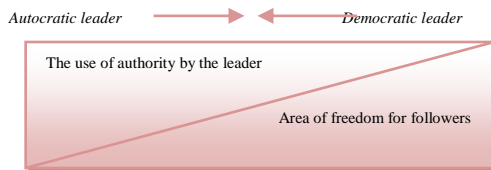
Table 2: The difference between transformational and transactional leadership style [2]

According to Burns, we should be very careful when defining styles for individual personalities. Hitler, who had made transformation of Germany in 1930, is not example for transformational leader, but "pseudo-transformational" because his goals were immoral.

Basic characteristics of transformational leadership are an inspiration, mobilization and morale. Transformational leadership has two-way because of establishment of interpersonal relationships between leaders and followers with feedback. Burns transformational leadership defines as "leadership that occurs when one or more persons engage in activities with others in such a way that leader and followers raise their mutual relations to a higher level of motivation and morality." [2]

The leader can produce social changes which can satisfy the specific needs of followers. Transformational leadership compared to transactional, achieve the major changes because the goals are more ambitious. [52]

The continuum of leadership, transformational leadership allow to followers to do specific tasks independently when they have the knowledge to make decisions on certain issues. In transactional leadership, followers are not encouraged to participate in achieving the objectives. Also, this does not contribute to the professional and personal development of employees or their independence.



Leader decides
 Leader sell decision
 Leader present ideas and take place for discussion
 Leader present ideas which are subject of discussion
 Leader present ideas
 Leader define limits
 Leader allows to followers to act within limits

Figure 5: The continuum of Leadership [53]

In Figure No. 5 is shown so-called "leadership continuum", which suggests a different situation and analyze the autocratic and democratic leadership style, or transactional and transformational leadership. Autocratic style is used when workers are without experience and do not want to take any responsibility in deciding. That is often difficult decisions that are crucial for the survival of the organization. This style has a weakness that does not encourage participation of the workers. On the other hand, the democratic style is used by leaders when their employees strive for independence and freedom in their work. This style can be used to create a new vision of the organization, the formation of equilibrium or business establishment consensus. [53]

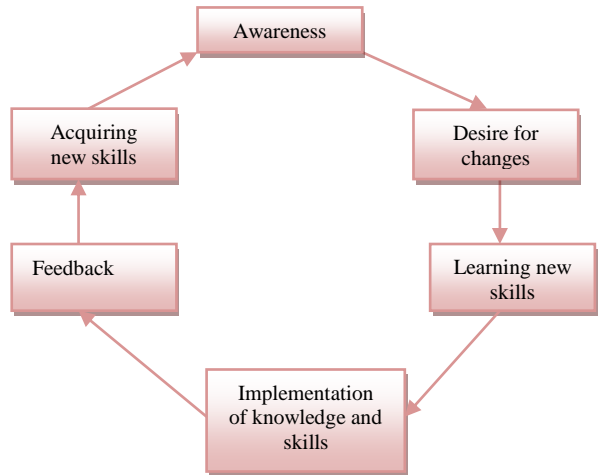


Figure 6: Model of changes of leadership content [54]

In Figure No. 6 is shown the model of "transition" elements from transactional to transformational leadership style. Transformational style is applied when exist special conditions of business enterprises. Thus, for example, transformational style is applied to

conditions of high intensity of changes and major form or scope of these changes. However, it is not really needed in a situation where exist high coverage of organizational change, but its intensity is weak, or when exist high rate of change, but low coverage. Transactional style is applied under relatively low intensity of change and its relatively low coverage. [6]

5. Conclusion

According to most theoretical definition, leadership is process of influence of individual on other members of the group. Essence of leadership is presented by followers, who make up his base. Without followers there is no leadership. Besides the followers other factors of leadership is presented by followers, who: the leader, the situation and the mutual communication between leaders and followers. [51]

It is necessary that the leader has a sincere understanding, knowledge and skills that determine him as a successful and tend to inspire followers to follow him. Different situations require divergent changes of leadership styles, because an experienced and motivated follower requires a different approach in contrast of new one. The basic starting point is the existence of a good understanding of the characteristics of followers, their needs, emotions and motivations.

Leader and followers constitute a complex mutual interaction, two-way communication that can be understood and described as two-way street where meet leader and followers. Leadership and Succession are complementary processes that are mutually inseparable. In this "two-way street" interpersonal relationship transit from transactional to transformational leader and enables a change of leadership content. The theoretical interpretation of the leadership and succession can be differentiated three basic approaches: the mutual exchange of leaders and followers, attribute access, and transformational (charismatic) approach. [55]

The first theory, which considers the relationship of persons and situations are based on the assumption that human behavior is conditioned by the inner personality of the individual, not a

situation where it is located. [56] However, in later studies, research has shown that there is a cause - effect relationship between the situation in which people are and their behavior. People behave in different ways in major traffic jams and when are sitting at home and relaxing while watching a television program. The testing was found that less than 9% of people have same behave in different situations, and that over 91% of people behave differently in different situations. [57] In these studies of personalities and situation constantly is present struggle between the internal and external human power, personal feelings and opinions towards social norms. The interior is his personality, uniqueness in relation to the other, and the outside is determined by the situations in which the personalities are. People differ in many aspects, but also show remarkable similarities in certain situations, for example, in their need for adaption in environment.

Situations in which are leader and employees in companies are different and should always decide for best course of action and style of leadership. The actual situation has a great influence on the actions of leaders, and is independent of his personal characteristics. The leader may have an impressive stability in one period of time, but little consistency in the turbulent situation. Leadership is a process in which successful companies bring outstanding business results and a radical change with the support of followers, which are articulated through new beliefs, perceptions, values and activities of the organization. Transformational leaders are key element of social changes, transforming company with words and actions, and often, its environment. The path from transactional to transformational leadership is not easy and it should be understood as the interaction that is based on one very specific and rare type of relationship between leaders and followers. Transformational leadership is based on the specific types of reactions of followers and less on the specific characteristics that leaders possess. In the focus of theoretical and practical approach, of interpretation of this behavior, are followers rather than leaders. However, transformational leaders with their characteristics are able to articulate a vision, make a description of the position of the desired group or organization, using terms for creation a vision sufficiently tangible for arousing

enthusiasm and energy of people. For successful creation of a new competitive environment the essential are creativity, imagination, reflection and courage. Any vision, which is not based on strong material funds, remains a mere fantasy.

Transformational leaders, looking at the ultimate goal, provide guidance to their followers and direct them to reach the desired state, to realise the vision.

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