

**LEADERSHIP STYLES, SME SIZE AND ORGANIZATIONAL
PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES IN
MOMBASA COUNTY, KENYA**

**BY
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DECLARATION

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This thesis is my original work and has not been presented for a degree award in any other University. No part of this thesis maybe produced without the prior permission of the author and/or Moi University.

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DEDICATION

I dedicate this research project to my family for their moral, financial support that they gave me at a time when balancing between work, family and studies was a big challenge. To my beloved father Rufus Karima, mother Martha Wavua, sisters Michell Mose and Lisa Wakio you are my inspiration thank for encouraging me to pursue my dreams.

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ABSTRACT

Performance is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of an organization. The main objective of this study was to evaluate the effects of leadership styles on organizational performance in small and medium enterprises in Mombasa County, Kenya. The study was guided by the following objectives; to investigate the effects of autocratic leadership style, transactional leadership style, bureaucratic leadership style and laissez-faire leadership style on organizational performance in small and medium enterprises in Mombasa County, Kenya. This study used the contingency leadership theory, transformational leadership theory, behavioural theory and chasm theory of growth. Explanatory research design was most appropriate for its ability in developing an explanation of a causal relationship between independent and dependent variables. The target population of this study was 374 entrepreneurs operating within in Mombasa County, which included Catering and accommodation, General trade, Wholesalers and retailers, Professionals, financial and Technical services. Yamane's formula was applied to generate a sample size of 193 SMEs. Primary data was collected by using structured questionnaires. The structured questionnaire had two parts. Part one covered the general information of the respondents while part two covered objective variables and dependent variables questions. The questions in part two were designed using a 5 point Likert scale ranging (1 to 5). The research instrument was pilot tested in 25 SMEs across the county. Content validity was tested by the expert judgment of the supervisors. This study used Cronbach's coefficient alpha to test the internal consistency of the data measurement instrument. The data collected was analyzed using Statistical Package for the Social Sciences (SPSS) version 21. Correlation results revealed that Autocratic Leadership Style ($r=.446$, $p=.001$), Transaction Leadership Style ($r=.692$, $p=.000$), Bureaucratic Leadership Style ($r=.320$, $p=.000$), and Laissez faire Leadership Style ($r=.566$, $p=.000$) had positive significant correlation with organizational Performance. Regression results revealed that autocratic leadership style ($\beta =.236$, $p=.051$), transaction leadership style ($\beta=.255$, $p=.011$), laissez-faire leadership style ($\beta =.267$, $p=.019$) had positive significant influence on organizational performance while bureaucratic ($\beta =.272$, $p=.001$) had a positive but insignificant relationship in organizational performance. Autocratic ($\beta=.318$, $p=.001$), Laissez faire ($\beta=.153$, $p=.043$) interaction term is positive and significant, whereas Transaction ($\beta=.115$, $p=.355$) Bureaucratic ($\beta=.025$, $p=.743$) relation terms is positive but insignificant, insignificant suggesting that SME size does not significantly moderate the positive relationship between Autocratic, Transaction, Bureaucratic leadership style and organizational Performance. R^2 was 61.5 % and ANOVA ($F 34.060$ $p=.000$) was significant. The study concluded that autocratic leadership style, transaction leadership style, bureaucratic leadership style and laissez-faire leadership style influences organizational performance. The study recommended that managers should implement autocratic leadership style, transaction leadership style, bureaucratic leadership style and laissez-faire leadership style to improve on Organizational Performance.

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LIST OF ACRONYMS

ANOVA	Analysis of Variance
EC	European Commission
CEO	Chief Executive Officer
CRM	Customer Relations Management
HR	Human Resources
HRM	Human Resource Management
ICT	Information Communication Technology
IFC	International Finance Corporation
ISO	International Standard Organization
MMR	Moderated Multiple Regression
MSE	Micro and Small Enterprise
PESTEL	Political, Economic, Social, Technological & Legal
R & D	Research and Development
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
RoK	Republic of Kenya
SME	Small and Medium Enterprises

SPSS	Statistical Package for Social Sciences
USD	United States Dollars
VRIO	Valuable, Rare, Inimitable and Organization

OPERATIONAL DEFINITION OF TERMS

Autocratic Leadership Style	Autocratic leadership, also known as authoritarian leadership, is a leadership style characterized by individual control over all decisions and little input from group members. Autocratic leaders typically make choices based on their ideas and judgments and rarely accept advice from followers (Gill, 2016).
Bureaucratic Leadership Style	Bureaucratic leadership relies on a clear chain of command, strict regulations, and conformation by its followers. There can be confusion about the difference between bureaucratic leadership and autocratic leadership, which can overlap in certain characteristics (Smith, 2018).
Laissez-Faire Leadership Style	Is a type of leadership style where leaders allow team members to make their own decisions and work independently, with minimal interference or direction from the leader (Akhungu, 2016)
Organizational Performance	Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives) (Marcus, 2017).
Transactional Leadership Style	Transactional leadership is a style of leadership in which leaders promote compliance by followers through both rewards and punishments. Through a rewards and punishments system, transactional leaders are able to keep followers motivated for the short-term (Lovorn & Chen, 2016).

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter presents the background of study, statement of problem, study objectives, study hypotheses, the significance of study, scope of study and study limitation.

1.1 Background of the Study

Organizational performance pertains to the evaluation of a company's effectiveness based on criteria such as profitability, market presence, and product excellence when compared to other businesses within the same industry (Saasongu, 2015). Consequently, performance is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of an organization (Saasongu, 2015). Performance continues to be a key issue among organizational researchers and employees are bound to perform well where they are treated well (Haque *et al.*, 2017). Javier (2012) asserted that performance is equivalent to the famous 3 Es (economy, efficiency, and effectiveness) of a certain program or activity. However, according to Daft (2014), performance is the organization's ability to attain its goals by using resources in an efficient and effective manner. Quite similar to Daft (2014), Ricardo and Wade (2015) who define performance as the ability of the organization to achieve its goals and objectives.

Assessment of organization performance is a fundamental component of management process in any type of corporation. In this context, many approaches to measure performance have been developed. Productivity and efficiency analyses and profitability measures have become important in determining a company's performance. However, although the single output to input ratios, such as returns on investment (ROI) and return on sales have been used as indices to characterize financial

performance, questions have emerged whether the conventional measures of performance such as profitability, productivity or efficiency are adequate (Jiang & Ni, 2017).

Organization Performance refers to the level of success of a firm (Sulaiman *et al*, 2015). This is a classic method of determining the generalized indicator of the economic efficiency of managerial work. The effect can be positive if the result is close to the ideal state, satisfies the objective function and corresponds to the constraint system. But it can turn out to be negative, if it is not possible to reach the goal. As stated, performance is a multidimensional concept (Simpson, Padmore & Newman, 2012). It can be referred to a level which the operation fulfils the performance objectives (primary measures) and satisfies the customer's expectations (secondary measures), (Slack, Chambers, & Johnston, 2015). Each organization starts its activity to establish certain economic indicators as targets. The efforts of management are aimed at certifying the feat of certain economic results. Accordingly, the scale of objectives distinguishes between general, intra-company and group efficiency. Some researchers argue that performance measurement is a complex issue (Hakimpoor, Tat & Arshad, 2016). The performance of organizations can be measured in terms of innovation. In any case, the main task of the management system is to ensure an active impact on the managed object in order to improve its performance. The various properties and parameters of the subject's and the management's activity often do not agree with each other, they are in dialectical flow, in connection with it there is the problem of defining a generalizing indicator that would be a measure of performance.

Organization Performance is considered as one of the basic notions in management and most of the management's tasks are formed according to the mentioned notion. Of course, organizations' success can be reflected in their performance. Ahmed and Shafiq

(2014) define performance as performing, applying, and doing each regular and committed work. This definition is related to inputs and outputs and also indicates that performance has close relationship with work and its outcomes (Chamanifard, Nikpour, & Chamanifard, 2014). Organization performance is measured to be the sum of accomplishments achieved by all businesses/departments. These accomplishments are involved with an organizational goal within a given period of time. The goal is either meant for a specific stage or on the overall extent (Lee & Huang, 2012). The idea of performance is allied to the survival and success of a firm (Ahmed & Shafiq, 2014). Performance includes effectiveness, efficiency, productivity, quality, and innovation (O'Reilly et al., 2014).

The concept of organizational performance stands out as a crucial focal point for researchers across diverse management domains (Richard et al., 2016). Despite its prevalence in academic literature, defining organizational performance proves challenging due to its multifaceted nature, resulting in a lack of a universally accepted definition. In the 1950s, organizational performance was characterized as the degree to which social entities, viewed as organizational systems, achieved their objectives (Tannenbaum, 2017) During this period, the assessment of performance was primarily directed towards tasks, individuals, and the structure of organizations. In recent years, many companies have adopted the balanced scorecard approach to manage overall managerial performance. This approach involves evaluating performance across multiple dimensions, including financial performance, customer service, social responsibility, and employee stewardship. McCloy, Campbell, and Cudeck (2014), as cited in Sheu, Fais, and Husna (2017), defined performance as behaviors or actions that align with the goals of the organization in question. They argued that performance should not be viewed solely as the culmination, outcomes, or end result of actions, but

rather as the actions themselves. Consequently, they posited that performance is inherently multidimensional, with various fundamental components specific to a given job, exhibiting distinct inter-correlations and patterns that co-vary with other variables.

Leadership refers to a series of abilities and behaviors, which not necessarily have to be taught, but discovered, promoted and developed towards certain objectives and environment. Leadership has to have reliable pattern of behavior (DuBrin, 2013). Leadership is different from management where management is about coordinating activities, monitoring the operations and resources allocation in line with achieving organizational goals (Yanney, 2014). Leadership plays a central role among SMEs and significantly influences the day-to-day acts of the SMEs and subsequently their performance (Randeree & Chaudhry, 2014). So as to prosper, the SMEs require consultants with knowledge, skills, and education apt for their operations (Atamian & VanZante, 2015). SMEs leadership suffers from limited leadership expertise and operational practices appropriate for small business management (Samujh, 2011) that will help ensure their prosperity. Teng, Bhatia & Anwar (2013) thus noted that there was the need for a better understanding of leadership among small business to lower their failure rates for sustained economic wellbeing.

Leadership in SMEs is associated with the capability of one or several individuals at the top of the organization. Due to the small structure of the SMEs, the nature of leadership employed by the management highly determines its performance. Leadership plays vital role formulation of the firm's strategy in maximization of profits and ensuring the smooth flow of operations. However, more often than not, personal goals of a leader affect the strategies out in place at the business (Kelchner, 2016). In the recent turbulent times caused by globalization, SMEs aim in ensuring they have strong leaders at the helm, together with a clearly articulated leadership development

strategy that ensures a strong pipeline of future leadership (Kassim & Sulaiman, 2013). Various factors determine the effectiveness of leadership in SMEs. To begin with, is the skills and experience of those heading up the business, as well as the individuals with people management responsibilities within an SME. The second factor is associated with the size of the business and the structures that emerge as the organization develops. While the final factor impacting leadership and management in SMEs is the external context in terms of the external market (Haron, *et al* 2015). All these ought to well evaluate so as to ensure enhanced leadership skills in the organizations.

The connection between organizational performance and leadership styles hinges on the effective execution of leadership roles in driving business success. Various leadership styles yield distinct impacts on businesses globally (Dulewicz & Higgs, 2015). These styles can either enhance productivity or influence the overall functioning of a business organization. The chosen leadership approach directly influences the workforce and has the potential to shape a corporate culture that impacts the overall organizational routine (Ehigie & Akpan, 2014). Through the application of any leadership style, management has the ability to influence and shape employee motivation, effectiveness, and overall productivity (Adenyi, 2016).

Achieving economic growth and development is a shared objective in both developing and developed nations. This goal relies on the effective utilization of existing resources and the implementation of strategies to achieve full employment. Consequently, fostering, establishing, and nurturing small and medium enterprises (SMEs) plays a vital role in generating employment opportunities and optimizing the utilization of both local human resources and available materials (Cunningham & Lagan, 2018). SMEs bring about innovative growth and poverty reduction, thus contributing to economic

dynamism in capitalistic economies (Nkuah, Tanyeh, & Gaeten, 2018). With increased poverty, countries of the world have come to appreciate the significant role of SMEs in social-economic development. In developing countries, micro and small enterprises have been a source of employment for decades despite the copious challenges experienced by entrepreneurs, ranging from financing, production, marketing, and human resource development (Mwania, 2018). Over the last ten years, several developing nations have placed significant emphasis on enhancing their economic growth by crafting policies supportive of micro-enterprises. Small and Medium Enterprises (SMEs) can be defined as business entities that generate income and typically employ a workforce ranging from 1 to 50 individuals (Omwono, Oyugi, & Wanza, 2018).

Mbuva, Rambo and Oketch (2018) posit that despite the critical role played by the SMEs towards economic growth, lack of clear management philosophy, inadequate staff competencies, lack of structural fit and human resource practices have derailed the performance of small businesses. The 2019 Viffa Consult report on the competitiveness of Kenya's SME sector asserted that out of the 840, 000 jobs created in 2018, 83.6% of the employment prospects grew from SMEs. The report noted that despite visible resilience within the SMEs, the sector has faced a myriad of challenges that have resulted in a decrease growth. Njoroge and Bett (2019) noted that SMEs in Kenya have performed considerably low in the recent past, which is a significant concern for government policymakers, business practitioners and the private sector, hence the need for further examination of their operating environment. In recognition of the important role played by the SME sector, the Government of Kenya has, over the years, come up with policies and programs to help strengthen this sector. The Micro and Small Enterprises (MSE) Act (2012) a framework for the Micro and Small Enterprises (MSE)

sector has been devised, suggesting the establishment of entities to facilitate the sector's expansion. Additionally, Kenya's Vision 2030 envisions advancing a minimum of five SME industrial parks in key urban centers (Republic of Kenya, 2019).

1.1.1 Global Performance of Small and Medium Sized Enterprises

In USA and Canada, a small firm employs less than 100 people while a medium firm employs up to 500 employees. According to World Bank, an SME is a registered business where small businesses employ between 10-50 people, has some total assets of between 100,000 to 3 million USD and some total annual sales of between 100,000 to 3 million USD while a medium enterprise employ between 50-300 people, has some total assets of between 3 million USD to 15 million USD and some total annual sales of between 3 million to 15 million USD (IFC, 2012). In Japan, an SME is defined according to the type of industry, paid-up capital and number of paid employees. SMEs in manufacturing industry have a stated capital of up to 300 million yens and employing up to 300 people (SMEA, 2013).

Leadership styles are business dependent with realizing their effectiveness and performance of the industry. Some would require transformational, transactional or autocratic or directive and the laissez-faire leadership style. Transformational leadership is often described as a style of leadership that allows a leader to provide change and align the change in and accordance to the desired goals. Transformational leadership influences the performance and esteem of the workers in an organization. They further posit that the leader practicing the transformational leadership has the unique ability to notice change, set effective goals and provide the guidance towards the management of the transition. Transformational leaders are proactive in nature. Transformational leaders in most cases will maximize the composition team or individual beyond the expectation (Gilman, 2016).

Various definitions of Small and Medium Enterprises (SMEs) exist, and these definitions may differ across different regions globally. The characterization of SMEs is often contextualized within the specific economic environments in which they function. For instance, in China, annual sales revenue of businesses is used to define the size of SMEs whereby small enterprises are defined as those with an annual sales revenue that is less than 5 million RMB (Chinese currency), whereas medium enterprises are those that generate an annual sales revenue that is above 5 million RMB but not less than 30 million RMB. Kenya has adopted the World Bank's definition of SMEs. The World Bank classifies all businesses with 11-50 employees as small and those with 51-100 employees as medium. This definition differs slightly with that of the European Union which categorizes companies with fewer than 50 employees as small and those with fewer than 250 employees as medium (Isiaho, 2014).

1.1.2 Regional Performance of Small and Medium Sized Enterprises

One of the main concerns of most policy makers in Nigeria is how to improve the economy through the aid of SMEs in order to sustain the country's economic development. Thus, a major focus to policy makers is to establish an appropriate strategy in order to support and improve SMEs. To deal with global challenges that hinder sustainable development, world leaders developed the Millennium Development Goals, MDGs in 2000, which were expected to be achieved by 2015 (Etuk, Etuk, & Baghebo, 2014). One of the MDGs was to 'eradicate severe poverty and hunger'. It became important for countries to establish strong socio-economic structures that would ensure that the goal is attained. Countries including Nigeria have since then been working to improve the standards of living of its citizens to achieve the goal according to Etuk *et al.* (2014). The role of SMEs in Nigeria can be enormous since the country's

economy is dominated by SMEs in manufacturing, construction, commerce and industry, trading, services, and agricultural industries.

The SME sector according to a study carried out in Western Uganda by Ayozie, Jacob, Umukoro and Ayozie (2013) revealed that it forms a vital fraction of the country's economy. There is evidence to support the same especially by looking at areas such as farming, iron smelting and cottage industries. SMEs started many years ago in the country and are developed using numerous state policies and programs. According to Ayozie *et al.* (2013), the performance of most firms, both the large corporations and SMEs is highly attributed to the strategies that the companies have adopted in their operations. For this reason, most SMEs lack the needed resource capacity to implement in their operations. Thus, they fail to enjoy the benefits linked to the implementation of strategic management practices in terms of improved performance within the organization.

SMEs are critical in the economic growth of the developing and developed countries and provide job opportunities to many people. In Nigeria, SMEs contribute 60 per cent of GDP and 70 per cent of the overall employment (SMEs Development Agency of Nigeria, 2012). SMEs are extremely vulnerable and the rate of failure is also high such that no country can ignore it. Maduka (2018) observed that 60 per cent of SMEs crumple during their first three years of operations. In the United States, 80 per cent fail in their first five years. In the Nigerian case according to Abidemi (2018), approximately 70 per cent of Nigerian SMEs fail in the first five years of existence.

1.1.3 Local Performance of Small and Medium Sized Enterprises

It is crucial to suggest strategic management practices that can ensure the continued existence and survival of firms (Ndambuki, 2015). Concerning the distribution of SMEs

in Kenya, a majority of them are situated in Nairobi County, the capital of Kenya, and they operate across various industries. Mburu (2013), delving into the factors contributing to trade deficits among SMEs in Nairobi, revealed that a significant portion of these enterprises is still in the early stages of development.

The small and medium scale enterprise plays a major role in the growth and development of the Kenyan economy in line of creating employment, poverty reduction, and investment distribution as stipulated in the Kenyan Economic Report (2013). The SME's sector is fast growing employing 42% of the working population and accounting for 75% of all modern accomplishments in Kenya as at 2011. As per the 2011 Kenyan economic survey, of the 503,000 jobs generated in 2010, 80.6 percent, amounting to 440,400 jobs, were attributed to small and medium enterprises, while the formal sector accounted for only 12.4 percent, equating to 62,600 jobs (RoK, 2011).

Kenya's Vision 2030 (RoK, 2014), the primary strategic roadmap for the nation, anticipates the emergence of dynamic and resilient small and medium-scale enterprises in both the formal and informal sectors as key drivers of growth and development in the country. According to the blue print, Kenya's competitive advantage lies in agro-industrial exports and one of the key strategies is to strengthen the manufacturing sector, specifically strengthening SME's to become the key industries of tomorrow. This goal can be accomplished by improving their productivity and innovation. The Vision 2030 Kenya's strategic plan document (RoK, 2014) therefore recommends the need to boost science, technology and innovation in the SME's sector by increasing investment in research and development.

There are less systematic studies to support various strategies and policies to assist SMEs, mainly due the lack of existing data. Studies into SMP and their adoption have

become central in SMEs owing to their vital role in improving the economy. There is, however, a major dispute on whether SMEs should create strategic plans as some scholars hold that formal SMP are mostly unsuitable for small businesses that lack adequate cash flow (Analoui & Karami, 2013). In Kenya, according to Kenya Economic Survey (2016), SMEs contribute to job creation and wealth creation resulting in economic improvement. However, the role of strategic decision making on performance cannot be ignored because SMEs have proven to be a major asset in the economy of SMEs in Mombasa County and Kenya at large.

Mombasa County is located at the coast of Kenya, and it includes Mombasa town, the second largest city, and the major seaport of Kenya and the East African region. Mombasa County is comprised of six zones, namely, Mvita, Likoni, Changanwe, Jomvu, Nyali and Kisauni (KNBS, 2016). As per information extracted from the Business Activity Code Summary of the Local Authority Integrated Financial Operation Management Systems in 2018, the City County of Mombasa documented the registration of 54,245 Small and Medium Enterprises within the county. SMEs in Mombasa have a unique location that enables them to access supplies cheaply compared to those in other counties. This is due to the increased transportation costs that are associated with SMEs that are in other that contributes the cost of goods and services provided by these SMEs. The SMEs' operating within Mombasa CBD cut across all lines of business including retail, transport, hospitality, catering, entertainment, pharmaceuticals & health services, technology, real estate, clearing and forwarding among others.

1.2 Statement of the Problem

In the recent past much concern has been given to the nature of leadership, with particular emphasis being paid to identifying the core traits and attributes of efficient

leadership in SMEs. This is attributed to the fact that the SMEs play a critical role in the Kenyan Economy. Based on the Economic Survey (2012), the sector contributed over 50 percent of new jobs created in the year 2005. However, in spite of their numerous benefits, past statistics indicate that not all started SMEs become successful as three out of five businesses fail within the first few months of inception (Kenya National Bureau of Statistics, 2014). Bronwyn (2015) also supports this view that most SMEs go out of business at very early stages. Due to a number of challenges experienced by SMEs, they hardly grow beyond start-up stage.

The business failure rate continues to rise due to numerous interferences to performance. Such hindrances include poor service delivery, inadequate cash flow, laws and regulations, leadership gap, lack of ICT, general economic conditions, inadequate customer service, poor locations and vital factors such as corruption, poor infrastructure, failure to implement appropriate strategies, poverty, and low demand for goods and services. The performance of SMEs across the world and Kenya has not been impressive. The association between business strategy and performance has been a topic of attention in the strategic management field. Irrespective of this development, there has not been much thought given to the relative evaluation of the association.

Githuka (2017) discovered a positive correlation between leadership and employee commitment within the organization. Waris (2016) observed that leaders' traits play a determining role in shaping employee commitment in the workplace. Conversely, Dunn (2012) conducted an empirical investigation into the influence of leadership on employees' commitment to their respective firms. Asra & Kuchinke (2016) found a significant association between transformational leadership and the outcomes of employee performance. In a separate study, Wachanga (2017) pointed out a substantial

relationship between transformational and democratic leadership styles and the performance outcomes of employees.

Research shows that most SMEs lose between 5%-15% of sales revenue as a result of the lack of attention to SME's size (McMahon, 2019). This suggests that formal size of SMEs systems are important tools contributing to the growth and development of SMEs. In addition, buyers in domestic and international markets are demanding that their suppliers operate size of SMEs systems as a means of consequent strong pledge to quality, productivity, cost competitiveness, and customer satisfaction. With the weakening of trade-barriers, the opening of markets to multinational competitors and the spread of international quality standards such as ISO 9000 to developing countries, SMEs are expected to achieve competitive advantage through the provision of quality products and services (Agus, 2019).

Margarida, Maria, & Madalena (2016) found out that technological capabilities are a key predictor of firm performance in Iran. Agwu (2018) notes that strategic management practices have a positive association with the performance of SMEs in Nigeria. Gathungu & Baariu (2018) indicated that being innovative, proactive, and macroeconomic factors positively influence firm performance. Nyikuri, Nduta & Mutua (2019) posited that innovation, new business models, marketing abilities, and a conducive business environment support positive performance within the firms. Wekesa and Wainaina (2016) explored the impact of firm attributes on the performance of non-timber SMEs. Their findings suggested that factors such as managerial skills, industry experience, and social skills played a constructive role in influencing positive outcomes in firm performance.

Despite the presence of numerous studies in the field, there remains a scarcity of locally conducted research, particularly focused on the SME sector. It is against this backdrop that the study was initiated to investigate the influence of leadership styles on the performance of small and medium enterprises in Mombasa County, Kenya.

1.3 Research Objectives

1.3.1 General Objective

The main objective of this study was to evaluate the effect of SME size on leadership styles and the performance of small and medium enterprises in Mombasa County, Kenya.

1.3.2 Specific Objectives

The study was guided by the following objectives:

- i. To investigate the effects of autocratic leadership style on performance of small and medium enterprises sized in Mombasa County, Kenya.
- ii. To determine the effects of transactional leadership style on performance of small and medium enterprises sized in Mombasa County, Kenya.
- iii. To investigate the effects of bureaucratic leadership style on performance of small and medium enterprises sized in Mombasa County, Kenya.
- iv. To determine the effects of laissez-faire leadership style on performance of small and medium enterprises sized in Mombasa County, Kenya.
- v. To determine the moderating effect of SME's size on leadership style on performance of small and medium sized enterprises in Mombasa County, Kenya.

1.4 Research Hypothesis

The researcher sought to measure the objectives of the study and came up with the following hypotheses:

Ho₁: Autocratic leadership style has no significant effect on performance of small and medium sized enterprises in Mombasa County, Kenya.

Ho₂: Transactional leadership style has no significant effect on performance of small and medium sized enterprises in Mombasa County, Kenya.

Ho₃: Bureaucratic leadership style has no significant effect on performance of small and medium sized enterprises in Mombasa County, Kenya.

Ho₄: Laissez-faire leadership style has no significant effect on performance of small and medium sized enterprises in Mombasa County, Kenya

Ho₅: SME's size has no significant effect on performance of small and medium sized enterprises in Mombasa County, Kenya

1.5 Significance of the Study

1.5.1 Owners of SMEs

Small business proprietors in Mombasa County could find value in this study as it has the potential to enhance their comprehension of the significance of small and medium enterprises' performance. The study contributors may provide insights into aspects related to SME management in Mombasa County, such as methods for assessing productivity and performance, effective personnel leadership, and strategic succession planning. Additionally, this information might empower them to formulate optimal policies for the advancement of their businesses.

1.5.2 Legislators and Policy Makers

The study may be important for legislators and policy makers as it may offer information related to SMEs in Mombasa County and how laws can be generally improved to sufficiently cater for the SME sector.

1.5.3 County Government of Mombasa

Moreover, the county government of Mombasa may be able to formulate the best and appropriate policies to increase the performance of the SMEs, as this may also mean an improvement in the economy of the county.

1.5.4 Researchers and Scholars

The study may also be of help to scholars as it may add knowledge to the field of strategic management. The research could create opportunities for additional studies aimed at enhancing the understanding of how leadership styles impact the performance of small and medium enterprises in Mombasa County, Kenya.

1.6 Scope of the Study

This study investigated the effects of leadership styles on the performance of small and medium enterprises in Mombasa County, Kenya. The study also focused on autocratic leadership style, transactional leadership style, bureaucratic leadership style and laissez-faire leadership style as its variables. The study adopted an explanatory research design and collected data from the owners of the small and medium enterprises within Mombasa County using structured questionnaires between December 2022 and May 2023. The independent variables correlated with the dependent variable to establish any significant relationships. The study used explanatory research design to address the research problem. This study was carried out within the environs of Mombasa County because the target population for the study was 374 SMEs who had the appropriate

structures to implement strategic decision-making practices. The main data collection instrument was the structured questionnaires which were administered to the owners of the SMEs in Mombasa County

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter looked into detail the effects of leadership styles on the organizational performance of small and medium enterprises in Mombasa County, Kenya. The specific objectives mentioned are; autocratic leadership style, transactional leadership style, bureaucratic leadership style and laissez-faire leadership style respectively. Theoretical and conceptual framework of the research project was also discussed in this section.

2.1 The Concept of Organizational Performance

High mortality rate of firms characterizes the SMEs sector in Kenya according to (RoK, 2016); various past studies done have shown out of every five SMEs, three of them don't survive the first few years according to Bowen *et al*, (2016); while more than 60% fail every year according to KNBS, (2016); and most do not get to their third year (Ngugi, 2017). Many MSEs are generally imitators with low margin and with very little differentiation and many are driven by necessity or need to survive (The Guardian, 2014). The economic review report by Deloitte, (2017) showed very slow growth because of poor performance of the economic key factors. According to the Kenya Economic Outlook (2017), the sectors that recorded the largest deceleration were the financial and insurance. The SMEs in Kenya are a crucial pillar that creates jobs and in the economy growth as was reported in 2014, where SMEs created 80% of the jobs (KNBS, 2016).

According to the MSME Act of 2012, micro enterprises usually have less than 10 people employed and have a yearly turnover of half million Kenyan shillings. Most SMEs in Kenya are either self-employed or are found in small scale industries commonly known as Jua Kali which is both a formal and an informal sector mostly

employing staff up to 49 persons. It is estimated that Kenya has about 7.5 million enterprises' under SMESs although a comprehensive data does not exist, in the year 2008; these SMEs contributed 44% of the GDP. About 98% of the businesses and 30% of jobs created and 3% of the GDP in Kenya are contributed by the informal sector with 2% being from the formal sector. The Kenyan government appreciates the informal sector role and it is endeavoring to integrate them so as to formalize them since the ease of business registration has a bearing on entrepreneurial starters in the formal sector, leading to creation of jobs and revenue this will propel the country into an industrialized middle-class economy and grow the GDP to about 10% by 2030.

Organizational performance depends on leaders' mastery to create a cooperative working climate and on their ability to lead a team. Effective results require emotional engagement and empathy from participants in terms of activities performed within a team in order to provide solutions to issues that need to be resolved as professionally as possible. Every organization wishes to develop continuously, and it is important to note that organizational performance is correlated with the individual performance of the members of the team working at the organization level. Achieving success requires three aspects, (Horga, 2012): economic efficiency: any organization wishes to achieve its goals with few resources; satisfaction of customers: getting superior results with few resources, but in a way that exceeds consumer's expectations and satisfaction of employees: the effectiveness of the leadership process depends on the leader's ability to enthusiastically lead the working team by meeting the personal needs of each member of the team.

The literature review asserts that "leadership serves as a bridge connecting individual performance to organizational effectiveness" (Horga, 2012). In this context, significant emphasis is placed on the leadership style employed by leaders, as the attainment of

goals affecting the entire team hinges on how it is executed. Effective leaders must cultivate a conducive internal environment to streamline the accomplishment of organizational objectives. Additionally, the customer's role in this framework should not be overlooked; a contented customer is one whose expectations have been fulfilled.

Horga (2012) highlights the increasingly evident relationship between leadership and organizational performance, emphasizing the multifaceted ways in which leaders influence the overall effectiveness of an organization. According to Horga, leaders play a critical role by ensuring dedicated efforts to achieve proposed objectives, coordinating employee actions based on personal experience rather than rigid procedures, and inspiring enthusiasm to attain desired results. The impact on organizational performance extends beyond task-oriented aspects to encompass cultivating a positive work environment, nurturing constructive relationships, and fostering a positive work culture. Horga underscores the significance of a work atmosphere infused with positive emotions, where the encouragement of compassion and gratitude contributes to the seamless functioning of the team. Additionally, positive leadership communication, as advocated by Horga, serves as a key driver in motivating the team, facilitating constructive feedback, and emphasizing the collective contribution of the entire team to organizational performance.

Nowadays, companies are challenged to meet by performance the values, interests and expectations of the society at large. Peterson, Gijsbers, and Wilks (2003) framed organizational performance in the 2000s around the concept of a firm's adept deployment of available resources to achieve objectives while simultaneously maintaining relevance to its stakeholders.

2.2 The Concept of Leadership Styles

In SMEs, leadership is related with the abilities of one or more persons at the top of the firm. Because SMEs have a tiny structure, the type of leadership used by management has a large impact on their performance. Leadership is critical in the creation of the firm's strategy in order to maximize revenues and ensure the smooth flow of operations. However, more often than not, a leader's personal aspirations influence the company plans in place (Benzema, 2016). In these challenging times brought on by globalization, SMEs strive to have strong leaders at the head, as well as a well-established leadership development strategy that assures a robust pipeline of future leadership (Vinicio & Totti, 2013). The efficacy of leadership in SMEs is determined by a variety of factors. To begin, consider the abilities and expertise of those in charge of the company, as well as those with people management responsibilities inside a SME. The second aspect is related to the size of the company and the structures that emerge as the company grows. Examining the external market conditions constitutes the ultimate factor impacting leadership and management within SMEs, as highlighted by Greenwood et al. (2015). A comprehensive assessment of all these elements is essential to ensure enhanced outcomes.

2.2.1 The Concept of Autocratic Leadership Style

Autocratic leadership style which emerges as later named as classical management is the acute strict precept wherein the leader maintains a draw close-servant relationship with individuals of the group. The autocratic chief is project cantered and his/her reputation is to get a pleasing project finished speedy. Autocratic leader makes all of the changes and assigns obligations to contributors of the employer. In organizational surroundings those leaders are commonly powerful CEOs who keep more than one titles (chairman, CEO, president), collect excessive repayment, and frequently manage

huge shareholdings to dominate companies (Muller, 2009). Those leaders are usually blessed with a charismatic and self-confident individual. Autocratic leaders use their function to pursue competitive and visionary desires and their energy through organization way of lifestyles, press and media to praise their non-public initial fulfillment (Men, 2013). The principal benefit of autocratic management fashion is that it receives subjects carried out quickly. Moreover, it guarantees that the chief gets listened to and we should organization individuals recognize while their behavior is unacceptable. But autocratic leadership fashion has many dangers and it's far considered as an unfavorable management conduct (Sorenson, 2010). Essentially any commercial enterprise is based totally at the capacity of an unmarried individual is residing dangerously.

2.2.2 The Concept of Transactional Leadership Style

Transactional management entails a change system that outcomes in follower compliance with leader request however no longer possibly to generate interest and resolution to challenge purpose. The chief makes a specialty of having internal actors perform the responsibilities required for the business to achieve its favored goals (Boehnke *et al*, 2014). The objective of the transactional chief is to make certain that the direction to purpose attainment is without a doubt understood by means of way of the internal actors, to remove capability barrier in the system, and to inspire the actors to acquire the predetermined desires. Transactional leaders show every tremendous and corrective behaviors. Nice behavior includes contingent reward, and corrective size imbibes management by the use of way of exception. Contingent reward involves the rationalization of the prints required to benefit rewards and the use of incentives and contingent reward to exert have an impact on. It takes into account the expectations of followers and acknowledges popularity when goals are achieved. The interpretation of dreams and objectives, along with the acknowledgment received upon goal completion,

should lead to the anticipated levels of performance for individuals and groups (Bass, 2013).

2.2.3 The Concept of Bureaucratic Leadership Style

Bureaucracy is built on the principle of dividing tasks among individuals, with each person assigned specific responsibilities. It is anticipated that each individual will carry out their designated tasks according to the specified requirements (Peet, 2012). Bureaucracy operates on the premise that every individual within the organization has a clearly defined role, distinct from others. In this context, each person is expected to fulfill well-defined responsibilities, with minimal overlap between roles (Brown & May, 2012). The bureaucratic framework necessitates a certain level of rigidity, where rules and roles are imposed on individuals by those in higher positions, dictating to those in subordinate roles (Adenyi, 2016). While some characteristics of bureaucracy may conflict with established principles of leadership, proponents argue that diversifying leadership styles can mitigate the impact on leadership abilities, moving away from reliance on a singular approach (Adenyi, 2016).

Amagoh (2013), the critical consideration should not be whether individuals should assume leadership roles, but rather the type of leadership exhibited by administrators. The emphasis lies not on the leadership style itself being problematic, but rather on its adaptability to effectively lead followers (Klagge, 2014). However, a fundamental principle of leadership is the capacity for creativity and innovation. Leaders must foster creativity and encourage innovation within their organizations. Simultaneously, fostering creativity often requires a high degree of autonomy among employees. Paradoxically, some of the primary drawbacks associated with bureaucracy include its adverse effects on innovation and autonomy (Sandvik & Selart, 2018).

2.2.4 The Concept of Laissez-Faire Leadership Style

Laissez-faire leadership is quite straightforward. Leaders adopting this style demonstrate a mindset of confidence and dependence on their employees. They avoid micromanaging or excessive involvement, refraining from providing extensive instructions or guidance. Instead, laissez-faire leaders empower their employees to utilize their creativity, resources, and experience to achieve their objectives. This kind of leadership is very hands-off managers trust their employees and are confident in their abilities. They give guidance and take responsibility where needed, but this leadership style means that subordinates and team members have the real lead. Not all leaders and employees like this leadership style. Different leaders are likely to choose different management styles that they feel will work best for their organization (Carter, 2018). There are certain types of employees who work best under laissez-faire leaders. These people usually are more creative, and appreciate being left to let their creativity run things. They usually have been around the organization or industry for a long time, so they really understand what they are doing and don't need a lot of direction to do things well. Self-motivation is a key characteristic of someone who thrives under laissez-faire leadership they don't need to be watched constantly or reminded to get going. They will usually have a proven record of achievements that help make them trustworthy, and regularly demonstrate excellence that allows their leader to give them more free-rein of their work (Carter, 2018).

2.2.5 The Concept of SME's Size

Leadership plays a central role among SMEs and significantly influences the day to day operations of the SMEs and subsequently their performance (Randeree & Chaudhry, 2015). So as to prosper, the SMEs require practitioners with knowledge, skills, and education appropriate for their tasks (Atamian & VanZante, 2017). SMEs leadership

suffers from limited leadership expertise and operational practices suitable for small business management that will help ensure their prosperity. Teng, Bhatia & Anwar (2014) therefore noted that there was the need for a better understanding of leadership among small business to lower their failure rates for continued economic wellbeing. In Kenya, the Small and Medium Enterprise sector, commonly known as Jua kali, is an integral part of the economy. The sector not only contributes majorly in creation of employment but also contributes over 18% to the nation's total GDP (Strategic Plan, 2012-2016). These statistics imply that despite considerable barriers to entry into a market, the importance of the sector cannot be under estimated. Debt management forms an integral part of these SMEs and if not well coordinated, might lead to insolvency. The performance of a business is influenced by the leaders' actions regarding their willingness to make payments and the mechanisms established by the company for collecting outstanding accounts. It is worth noting that there is a limited comprehension of the fundamental aspects of the leadership roles within firms, especially in the context of debt management.

2.3 Theoretical Framework

This study examined contingency leadership theory, transformational leadership theory and behavioural theory to understand the effects of leadership styles on performance of small and medium sized enterprises.

2.3.1 Contingency Leadership Theory

The contingency theory of leadership was firstly introduced in 1994 by an Austrian psychologist, Fred Edward Fiedler. The theory holds that what pre determines the effectiveness of the particular leader will be based on the factors at that particular organization. Particularly, each organization has unique features to itself and therefore favorable factors are most likely to result to efficient leadership. The theory thus holds

that is no single best way of dealing with firms since each organization faces unique sets of internal and external constraints (Raduan *et al*, 2009).

The theory makes assumptions that the efficiency of the operations of a particular organization will be dependent on the organization's ability to diagnose and understand situational factors like environment, and adopt organizational processes and structure that will enhance its performance. Some of the factors that have been considered to help organizations achieve leverage in their environment include organizational culture and leadership styles (Ogbonna & Harris, 2010). However, the major limitation of the theory is its static nature in that it views an organization as being able to gain fit within the environment every time thus being able to remain in equilibrium (Donaldson, 2013). The theory's preposition to the study is that, the ability of the manager or owner in managing the debts of the SME, will be determined greatly by the internal factors in that particular SME. Thus, the internal limits such as the organization culture and structure should be highly evaluated during the managing of the SMEs. This will enable the leaders to exercise their leadership traits and conducive internal environments. This theory supports the idea that different situations require different leadership styles. Leaders are required to assess the present circumstances, taking into account elements such as the proficiency and dedication of their followers, the intricacy of the task, and the overall dynamics of the environment. Subsequent to this evaluation, leaders should adapt their leadership approach to align with the requirements of the situation and the individuals under their guidance.

2.3.2 Transformational Leadership Theory

Transformational leadership theory was founded by Edward Burn McGregor in 1978 on his study on political leadership. This study is based on Burns work of 1978 and the work of Effelsberg, Solga and Gurt (2014) on transformational leadership. He

described leadership as a collection of three behaviors, ability of leaders to inspire followers (known as charismatic leadership) work with followers separately to meet their personal needs also known as individualized consideration and support innovativeness and effortful problem solving known as intellectual stimulation. Transformational leadership represent successful strategic leadership who have to appeal to both the self- interest of the people they work with and to these social interests.

This study is based on leadership styles which distinguishes itself from the rest of the previous and contemporary theories, on the basis of its alignment to a greater good as it entails involvement of the followers in processes or activities related to personal factor towards the organization and a course that will yield certain superior performance to the stakeholder's social dividend (Kemal & Surji, 2015). Transformational leadership is combination of charismatic, personalized influence (providing the vision, encourage high standards, invigorating the followers) and instrumental, competence-oriented abilities (Andersen, 2015). Hence, this study considers transformational leadership as a pillar for the complex changes in volatile uncertain business environment to realize performance of either an organization or business entities.

Transformational leadership theory analyses effective behaviors among leaders and the effect of such behaviors on follower performance (Ciulla, 2014). Transformational leaders influence their followers using exemplary behaviors, inspiration, and selfless attitude. Transformational leaders also exhibit effective leadership, through their behaviors, and stimulate followers' commitment to goals. Transformational leadership represents a leadership strategy aimed at increasing the employees' motivation to achieve goals (Priest & Gass, 2017). Other studies have explored the link between

transformational leadership behaviors and their impact on performance (Laymon, 1985 as cited by McCaffery, 2018).

The concept of transformational leadership brings together the many strands of creative vision and action, from the cognitive to the organization, changes of capabilities and integration of dynamic capabilities theory in organizations. A transformational leader is a person who stimulates and inspires (transform) followers to achieve extraordinary outcomes. Transformational leaders are change agents who move organizations from frameworks defined by outdated vision to view of new strategies in organization vision and mission. They become role models to the followers and this in turn enhances performance (Effelsberg *et al.*, 2014).

Transformational leadership is usually open to innovation, conceptualizes abrupt changes in the business environment, which imply radical changes in the organization. Transformational leaders consider themselves as change agents and they motivate followers. Unlike transactional leaders, who exercise their power by rewarding the employees and giving them money and status. Transformational leaders on the other hand, inspire their followers and lead them towards a dream or vision (Creswell, 2014) for enhanced performance. This theory supports the idea that effective leaders can inspire and motivate their followers by articulating a compelling vision of the future, challenging assumptions, and fostering a culture of creativity and individualized consideration. These leaders lead by example, demonstrating high ethical standards and charisma, earning the respect and loyalty of their team members. By empowering and nurturing their followers, and displaying strong emotional intelligence, transformational leaders can drive positive organizational change and growth, leading to improved employee satisfaction, motivation, and overall performance within the organization.

2.3.3 Behavioural Theory

The behavioral leadership outlook assumes that leadership is dominant to achieving organizational goals and objective. The theory focuses on the leader's conduct and not on leader's individual traits/characteristics. This style was first started by both the University of Michigan and Ohio State University (Kirkbride, 2012). They conducted various studies to identify the leadership behaviors that are important in the effectiveness of an organization. From their findings it was discovered that there are two main actions of leader behavior's which are employee-centered and production-centered (Yukl, 2012).

In the employee-centered behavior the leader is very concerned and is sensitive to employee's feelings. The leader therefore tries to make things pleasant for them to ensure that they are happy. The second behavior of the production centered leader emphasis is on the completion of the organization task (Avolio, 2014). The results from the study showed that leaders need to be high in both behaviors. The behavioral theories help explain the leader's behaviors in which they need to facilitate change within the organization effectively. The leader needs to have the behavior of being concerned with staffs so as to ensure the employees do not reject the change implemented since the leader consulted them. This study relates to the study since the leader understands the need to be both people centered and also production centered. The county leader needs to have both characteristics to ensure change to take place.

Through being people centered, the leader is able to appeal to the supporters through encourage and support their followers to engage in the decision-making process and coming up with solution together as opposed to the production centered where the leader is autocratic and sees as achieving set objectives as more key than appealing to supporters. This theory supports the idea that effective leadership can be learned and

developed through the study and application of observable behaviors and their consequences. It emphasizes the importance of task-oriented and relationship-oriented behaviors in leadership, as well as the use of contingent rewards and consequences to shape desired behaviors. Behavioral Theory acknowledges diverse leadership styles, advocating for leaders to modify their strategies depending on the circumstances and the capabilities of their team. Through prioritizing skill enhancement, observation, and drawing insights from practical experiences, leaders can enhance their efficiency and cultivate a favorable and inspired work atmosphere.

2.3.4 Chasm Theory of Growth

Chaston, (2010) suggested that under the life cycle concept of an enterprise, a new chasm has to be crossed before the next stage of growth can be commenced. Chasms are of five types: launch capacity, expansion, organizational formalization, succession, and long-term growth. Crossing each chasm will require leaders to acquire new skills and prioritize managerial task inside the organization. Further, some leaders may take more time to move from one chasm to another, while for some, it may be a fast progression. Lack of financial support and adopting impractical approaches to new technology can impede the ability to overcome the chasm. Crossing the chasm requires leaders to generate demand, boost sales, and expand their capacity to succeed. One needs to match the demand with appropriate supply. Failure to implement a formal institute structure with professional manpower will pose challenges to cross chasm. A well-established business will require a competent successor. The entrepreneur may decide to appoint an internal person or bring a new chief executive from the outside of the company. An ineffective replacement for the founder may cause the business to fail to cross chasm 5. However, if well addressed, the firm will be enjoying growth at the top (Levie, & Lichtenstein, 2010). This theory supports the idea that during the

Organizational Formalization Chasm, Transactional Leadership proves beneficial in addressing challenges related to establishing formal processes, structures, and systems as an organization grows. Transactional leaders emphasize clear expectations, rewards for performance, and accountability, ensuring employees understand their roles and follow established procedures. By providing incentives and corrective feedback, Transactional Leadership streamlines processes, reduces ambiguity, and fosters a structured work environment, promoting efficiency and control as the organization scales up. However, effective leadership often involves a blend of styles tailored to the organization's needs as it progresses through its life cycle.

2.4 Review of Study Variables

Literature reviews are intended to provide readers an overview of sources used when studying a specific issue and to show how the research fits into the greater area of study (Creswell, 2016). This section covered; autocratic leadership style, transactional leadership style, bureaucratic leadership style and laissez-faire leadership style on the performance of small and medium enterprises in Mombasa County, Kenya.

2.4.1 Autocratic Leadership Style and Organizational Performance of SMEs

O'Reilly, Lapiz, and Self (2010) define autocratic managers as those leaders who hoard power, authority and decision-making activities. Micromanagers are autocrats with a compelling need to control every activity within their jurisdiction. The antithesis of the autocrat is the delegating manager who prefers a style of hands-off management and tends to delegate authority, duty, and accountability to others. Autocratic leadership is effective when there is a need for quick decision-making. It is most used in small or upcoming businesses where decision-making is always fast. Autocratic leaders do not experience stress in caused by relying on outsiders to complete the assigned tasks and totally dependent on their own in executing the daily duties and responsibilities. The

autocratic leadership style does not need many levels of leadership in the organization (Kippenberger, 2014). Autocratic leaders can manage several responsibilities. On the other hand, Democratic managers have a tendency to engage in participative decision-making. According to Martinez-León and Martínez-García (2011), participation can help foster subordinates' growth and development and may result in higher performance levels and job satisfaction.

Alonderiene and Majauskaite (2016) contend that leadership serves as the foundation of an organization and should not be underestimated in its significance. Indeed, leadership has been recognized as a pivotal topic in the realm of organizational activities. It stands out as a notable concept that leverages dynamic effects on individual and organizational outcomes. In this context, the success of management execution is heavily reliant on leadership abilities (Kihara, 2016). Numerous scholars have explored this phenomenon, yet there lacks a universally accepted definition of leadership, a dominant paradigm for its study, and consensus on the most effective strategies for its development and exercise. Some authors posit that leadership style is perceived as a blend of traits, characteristics, skills, and behaviors employed by leaders when engaging with their subordinates (Maamari & Saheb, 2012). Conversely, certain human resources experts and scholars consider leadership to be a reciprocal process of social influence, wherein leaders and subordinates mutually affect each other to accomplish organizational goals.

Bhatti, Maitlo, and Shaik (2012) conducted a study on how autocratic and democratic leadership styles impacts on job satisfaction, they sampled out teachers from both private and public schools in one of the cities in the US. Their findings suggested that as much as a democratic leader makes the final decision, such a leader often invites other team members to make contributions in the decision-making process. The study

showed that such participation increases job satisfaction as well as create a humble environment for skill development. The associated such benefits to the fact that employees who form the team feel in control of their destiny and are thus motivated to exert more effort in their duties for reasons other than financial reward. The study further pointed out the likelihood of slowing down the pace of doing things due to consultation. The study concluded that this leadership style is more plausible whenever quality has precedence over speed.

Shah's (2016) exploration of impromptu leadership influenced by collaborative inquiry, an autocratic leader is defined as someone who is acutely aware of their position and possesses minimal trust or confidence in subordinates. This leader perceives compensation solely as a reward for work, considering it the sole motivator. Consequently, all decisions regarding organizational operations rest with them, and no input or proposals from subordinates are entertained. Autocratic leaders expect subordinates to strictly follow their instructions, and they are appointed to their leadership roles without necessarily having prior leadership experience (Alonderiene & Majauskaite, 2016). The ideology behind autocratic leadership has the potential to detrimentally impact an institution, as it relies on coercing employees to achieve tasks and objectives in a superficial manner, often based on personal objectives (Gachingiri, 2015).

Marques (2015), leaders characterized by high competence and ambitious organizational goals often exert significant pressure on employees to enhance overall productivity, aligning with their visions. This approach is frequently facilitated by constraints such as tight budgets, personal limitations, and budgetary constraints. Managers employing stringent measures may encounter resistance, strikes, and elevated turnover rates, as employees often oppose dictatorial leadership. Autocratic

leaders articulate a vision that serves as motivation for employees to strive toward goal achievement (Obaga, 2016). This vision can range from achieving monthly sales targets to broader objectives, such as expanding operations to international locations within a specified timeframe (Voyer & McIntosh, 2013). Additionally, this style of leadership elucidates both the advantages and challenges associated with attaining organizational objectives, motivating staff to actively contribute to the realization of future success.

Leadership style plays a crucial role in the business landscape, with company owners often crafting a specific leadership approach to guide their organizations and oversee employees. An autocratic leadership style places decision-making authority in the hands of a single individual within a business. Small enterprises frequently adopt an autocratic leadership style, particularly when the business owner assumes responsibility for all decisions (Gachingiri, 2015). Autocratic leadership is characterized by a more authoritative management approach (Singhry, 2018). Business owners employ this style to ensure uniformity and alignment among all employees, fostering an environment with limited flexibility. The use of autocratic management aims to maintain consistency in the production of goods or services. Consequently, leaders employing this style tend to formulate intricate yet strategic goals and objectives for the organization. These goals are designed to align with the core values, mission, and long-term aspirations of the organization (Amagoh, 2013).

Policies, procedures, and guidelines naturally align with the approach of an autocratic leader, as noted by Obaga (2016). These regulations serve to reinforce the leader's management style, given that all decision-making authority rests with the autocratic leader. This concentration of decision-making power enables them to chart a course towards realizing their vision swiftly. The vision and mission of their organization serve as motivating forces across various business industries (Dulewicz & Higgs, 2015).

Consequently, leaders bear the responsibility of ensuring the timely implementation of all rules and regulations associated with the attainment of organizational goals (Gachingiri, 2015)

The linchpin of any strategy implementation lies in the organization's employees, as emphasized by Gachiri (2015). Employees serve as the foundational force driving the operations and performance of the business. While the organization's management formulates the strategy, it is ultimately the responsibility of the employees to carry it out. Prior to crafting a strategy, it is essential to engage in consultations both externally and, significantly, internally within the organization (Chapman, Johnson, & Kilner, 2014). Internal consultations play a crucial role in shedding light on the organization's strengths. In this context, the strength of the organization refers to its ability to fully execute the strategy, considering the talents inherent within the organization. The analysis extends to identifying the weaknesses among those tasked with executing the strategy, as well as forecasting potential success rates for the proposed strategy (Dexter, 2014).

Ineffective strategy design has immediate and enduring repercussions for the organization, as highlighted by Adenyi (2016). The impact of this is contingent on the leadership style employed, extending consequences to both those directly affiliated with the organization and those indirectly connected. Hence, a cautious approach is necessary when formulating and implementing directives or policies to prevent potential penalties that may adversely affect the organization or the community surrounding it, be it in the immediate or distant future (Adenyi, 2016).

2.4.2 Transactional Leadership Style and Organizational Performance of SMEs

Allio (2012), transactional leaders clarify the responsibilities of their team, articulate the leaders' expectations, delineate the tasks that need to be accomplished, and highlight the rewards aligned with the followers' self-interests for compliance. Transactional leaders typically operate within the confines of the existing system, prioritizing process over substance as a means of control, and are effective in stable and predictable environments (Brown & May, 2012). Key elements of the transactional leadership model encompass contingent reward, management-by-exception, and laissez-faire (Brown & May, 2012).

Leaders who gravitate toward transactional leadership often concentrate on lower-order constructs, such as broad performance goals and objectives, as they may lack the experience to focus on the higher levels of organizational vision, as noted by Amagoh (2013). When in such situations, these leaders seek strategic approaches to motivate subordinates toward the organizational vision. Typically, their emphasis is on specific goals and performance outcomes, such as enhancing team productivity and fostering effective working relationships within groups (Dulewicz & Higgs, 2015).

Transactional leaders place expectations on their followers, requiring attributes such as commitment to goals, the anticipation of goal attainment, an expectation of rewards, and a need for role clarity. To optimize subordinate performance, these leaders leverage rewards and punishments as tools (Gachingiri, 2015). In instances of performance breakdown, transactional leaders play a significant role in addressing the lack of objectives and opportunities for remuneration on the part of followers. Their responses often involve goal setting, instruction, training, work assignment, and the application of rewards or punishments. Tahsildari, Hashmi, and Normeza (2014) has demonstrated

that transformational leadership significantly and positively influences innovative work behaviour and organizational innovation.

The empirical investigation conducted by Dulewicz and Higgs (2015) reveals that the initial phase of transactional leadership involves negotiating the contract, where the company provides the employee with a salary and other benefits. Transactional leadership shares similarities with bureaucratic leadership, embodying a sense of power and control through direct orders. It explicitly communicates the requirements and expectations from subordinates, clarifying that awards await those who earnestly follow the directives. Dexter (2014) suggests that while punishments may not always be explicitly mentioned, they are implicitly understood. During the early stages of transactional leadership, subordinates engage in the negotiation of the contract, outlining a fixed salary and the benefits that will be provided. Rewards are bestowed upon subordinates for their applied effort, with some organizations utilizing incentives to motivate greater productivity among their subordinates. Transactional leadership serves as a means of enhancing the performance of subordinates by offering rewards (Gachingiri, 2015).

Within transactional leadership, two key components come into play: contingent reward and management by exception, as highlighted by Ehigie and Akpan (2014). Contingent reward involves the provision of rewards for effort and acknowledgment of exemplary performance. On the other hand, management by exception operates by maintaining the status quo, intervening when subordinates fail to meet acceptable performance levels, and implementing corrective measures to enhance performance. The transactional leadership style was initially outlined by Max Weber in 1947 and later expanded upon by Bernard Bass in 1981. This style is frequently employed by

managers, emphasizing fundamental management processes of control, organization, and short-term planning (Amagoh, 2013).

Transactional leadership remains also called as 'true leadership style as it focuses on short-term goals instead of long-term goals. Transactional leadership has more of a 'telling style'. Transactional leadership is because reward or punishment is dependent on the performance (Ehigie & Akpan, 2014). Even though researchers have highlighted its limitations, transactional leadership remains used by many employers. According to Kihara (2016) more and more companies are adopting transactional leadership to increase the performance of its employees. This approach is prevalent in the real workplace. Transactional leadership, when the leader assigns work to its subordinates, then it is the responsibility of the subordinate to see that the assigned task is finished on time. His work also shows that if the assigned task remains not completed on time or if something then punishment remain given for their failure. Nevertheless, if they accomplish the task in time then the subordinates remain given a reward for successfully completing the task. Subordinates are also given an award and praised for exceeding expectations. A subordinate whose performance is below expectation remain punished and some action maintains taken to increase his or her performance (Michael, 2013).

Farid, Tasawar, Shahid and Abdul (2014) researcher sought to find the effect of transformational leadership on employee motivation in telecommunication sector in Punjab. The study hypothesis indicted that there is significant relationship between transformational leadership and employee motivation. By applying the regression analysis of independent and dependent variable it was revealed that there is positive and significant relationship between employee motivation and transformational leadership.

The transactional leadership style focuses on the development of followers and their needs, with managers in this style emphasizing the cultivation of employees' value systems, motivation levels, and ethical principles, along with the enhancement of their skills (Kihara, 2016). Within the human resource field, the transactional leadership style acts as a bridge between leaders and followers, fostering a clear understanding of followers' interests, values, and motivational levels. As a result, followers can achieve their goals within the organizational setting (Amagoh, 2013). In this approach, the action-to-action and outcome ideologies are fully leveraged, as organizational leaders actively participate alongside employees, ensuring the achievement of shared goals and objectives. Additionally, transactional leaders possess the ability to comprehend needs, articulate organizational visions, enforce regulations, and delegate responsibilities effectively to their followers. Furthermore, transformational leaders excel in creating a conducive and meaningful work environment that promotes creativity and development (Gachingiri, 2015).

Transactional leadership primarily revolves around the benefits and rewards that individuals receive in the workplace (Ehigie & Akpan, 2014). It operates as a two-way form of leadership, where employees receive rewards for accomplished efforts, and employers derive satisfaction from the rewards granted (Ehigie & Akpan, 2014). This reciprocal process results in organizational benefits, steering organizational objectives to the forefront (Gachiri, 2015).

Organizations are dynamic entities where the relationship between management and employees significantly impacts decision-making and policy implementation (Peet, 2012). Effective interaction between organizational leadership and workers enhances inclusivity in management levels, allowing for contributions from both sides in policy development. This inclusive approach ensures that policies incorporate the perspectives

and thoughts of every individual in the organization, resulting in comprehensive and well-informed decisions (Taormina, 2012).

The implementation of policies and management directives becomes smoother as every individual is familiar with them, leading to positive outcomes. This collaborative engagement contributes value to the organizational chain and empowers workers directly involved in shaping and implementing policies (Xue, Bradley, & Liang, 2013). Such involvement boosts motivation among workers, fostering a positive organizational output.

2.4.3 Bureaucratic Leadership Style and Organizational Performance of SMEs

Bureaucratic leadership style is characterized by a hierarchical structure based on fixed official duties within a chain of authority, emphasizing a systematic approach to managing the organization and making decisions (Gottlieb, 2012). This leadership style is prevalent in public sector organizations, where each employee is assigned a specific duty and is expected to follow instructions for the collective good of the organization (Alonderiene & Majauskaite, 2016). Orders originate from top-level officials and flow through various channels to subordinate officials in the organization. Communication within the organization follows a hierarchical structure, with information passing from subordinate members to superordinate members in an ordered sequence, ultimately reaching top management (Amagoh, 2013).

Bureaucracy relies on the division of labour, where each individual has a defined role that is distinct from others, avoiding overlapping responsibilities (Brown & May, 2012). It necessitates a level of strictness in enforcing rules and roles, with senior positions imposing guidelines on junior positions (Adenyi, 2016).

Despite certain characteristics of bureaucracy conflicting with leadership principles, some argue that the impact on leadership abilities can be mitigated through diversification of leadership styles rather than relying on a singular approach (Adenyi, 2016). Amagoh (2013) emphasizes that the focus should be on the kind of leadership administrators practice, highlighting the importance of an accommodating leadership style. Creativity and innovation are fundamental principles of effective leadership, requiring leaders to foster a high level of autonomy among employees. However, bureaucracy is associated with negative attributes that hinder innovation and autonomy (Sandvik & Selart, 2018). The strict regulations within bureaucratic organizations can limit employees' ability to innovate, and despite ambitious leadership, administrative hurdles may persist (Alonderiene & Majauskaite, 2016).

In bureaucratic leadership, a hierarchical structure governs the flow of information and instructions, typically involving a progression of individuals in their seniority ranks (Alonderiene & Majauskaite, 2016). Hierarchy in organizations delineates various levels of authority and responsibility, with clear subordination and superordination roles in the chain of command (Awan & Mahmood, 2015).

The hierarchical position in bureaucratic leadership is based on an individual's position, with roles and expectations determined by their organizational status. Subordinates are expected to show loyalty to superiors, and instructions flow unilaterally from superiors to juniors, with little room for questioning or deviation. Bureaucratic leaders enforce stability by resisting changes or challenges to the established order (Ehigie & Akpan, 2014).

Central to any organization is the formulation of rules to govern its operations. Formalization is the process of developing regulations and guidelines that define

working relationships and conduct within the organization (Dulewicz & Higgs, 2015). It involves creating clear rules, defining employee roles, and aligning actions with organizational objectives (Brown & May, 2012). Formalization establishes explicit rules with specified consequences for non-compliance, inhibiting innovation and limiting employees' potential and ability to explore beyond their designated roles (Strielkowski & Chigisheva, 2016).

2.4.4 Laissez-Faire Leadership Style and Performance of SMEs

This leadership style involves an inert leader who doesn't concern himself/herself in the motivation of subordinates to get them to achieve certain goals (Giri & Santra, 2015). The Laissez-Faire style of leadership encourages the subordinate centered attribute where they are left to make decisions (Yukl, 2015). Leaders using this leadership style fail to offer any positive or negative direction to their employees (Rothfelder & Harrington, 2017). Pieterse, Van Knippenberg *et al*, (2016) notes that these leaders renounce their leadership which ends up giving employees more decision-making power than any other leadership style. This in turn leads to employees amplifying their power and influence in an organization or company.

Laissez-faire leadership is characterized by leaders being hands-off, allowing group members to take charge of decision-making (Cherry, 2019). In this style, leaders lack a strong belief in their supervisory abilities and do not provide clear guidance on how the group should function. Instead, they refrain from actively assisting the group in decision-making, placing a significant burden on subordinates (Bass & Bernard, 2016). This leadership style cannot be functional in the banking sector or non-governmental organizations which allows both the leader and juniors to contribute to the decision-making process and complete tasks to ensure the organization's performance. This is described as the style of leadership where leaders refuse to make

decisions. However, laissez-faire leaders were argued not to invest in the progress of workers because they believe that workers can take care of themselves (Puni *et al.*, 2014) which results in misery and inefficiency.

Mahajan, Bishop and Scott (2017) assessment of the leaders shun any organizational duties such as goal setting, achievement and other important matters. They assume that anything that comes the employee way they will be able to solve it and there is no need for their input. Some advantages for this style of leadership are that it permits participants to grow working relationship and gives staffs a chance to make decision while there are other disadvantages such as incorrect decision making (Uddin, Noor & Shamaly, 2016). The absence of any leadership results to goals not being achieved and promotes cultures of ineffective leadership. This method of leadership is ineffective in managing change since no change will be successful without inputs of the leaders who in turn offer direction for organizations (Edwards & Gills, 2015).

Laissez-faire leadership, also known as declarative leadership, is a form of method of leadership in which leaders are hands-off and allow members of the community to decide on the outcomes. Accordingly, (Faulkner, 2017), such a head teacher permits utmost freedom to matters. Employees are free to formulate their own policies and techniques that guide them. Contingency theorists posit that; laissez-faire leaders are leaders who are less concerned with what is happening in the firm. They are the leaders who leave the subordinates with the sole role to make their own decisions (Northouse, 2015). Freud, (2017), notes in this style, the school leader considers that every person is born with some level of accountability and thus should not be directed on what to do. According Chemers, (2014), the leader is only a sign so there is no power order and the primary responsibility of such a leader is barely providing resources needed by the group. (Chemers, 2014), argues that Laissez-faire leaders can be successful in situations

where members of the community are highly qualified, vested and willing to operate on their own. Once a leader is sure that his team is confident enough, able and highly motivated, he/she can step back and let the subordinates get on with their work without interference. The style is suitable for people who had produced good results in the past. (Kitavi, 2014), argues some advantages of laissez-faire leadership being that resolutions are simply accepted and juniors provide their own stimulus. Also (Kitavi, 2014), points out drawbacks as follows. There is a high rate of unhealthy rivalry among the members of the group, since there is no monitoring, clutter and conflicts may happen due to unguided liberty.

Inju (2015) exploring the positive impacts of laissez-faire leadership through theoretical analysis, the objective was to challenge the prevailing bias against this leadership style. The prevalent notion tends to label laissez-faire leadership as non-strategic, predisposing it to negative perceptions. The primary characterization of laissez-faire leadership has often been labelled as zero leadership, leading to suggestions that it correlates with adverse effects on employee performance and attitudes. The study contends that to accurately assess the outcomes of laissez-faire leadership, attention should be directed towards the behavioural aspect of this leadership style, specifically the non-participatory nature of a leader or leadership. Through theoretical exposition and conceptual frameworks, the paper aimed to prompt a reconsideration of laissez-faire leadership in a more nuanced manner. The findings underscored the importance of examining the behavioural dimension of laissez-faire leadership, highlighting that the lack of active involvement from a leader can reveal potential positive outcomes, especially when considering the dynamics of time.

Utilized in the appropriate context, the laissez-faire leadership style offers numerous advantages. By promoting freedom, this leadership approach cultivates independence,

productivity, and confidence among team members, empowering them to take ownership of their responsibilities (Shawn, 2017). It provides the team with opportunities for hands-on learning and growth, fostering a sense of empowerment as individuals can work in their preferred manner, make autonomous decisions, and address challenges proactively. The inherent flexibility of this leadership style creates a low-pressure atmosphere that stimulates innovation, encourages creativity, and facilitates collaboration.

Furthermore, laissez-faire leadership instills accountability within the team. Members take responsibility for their tasks, and the leader becomes answerable for both the team's successes and failures. This shared accountability ensures that everyone remains invested in their work. Ultimately, these advantages contribute to enhanced effectiveness, increased job satisfaction, and forward momentum, thereby promoting higher retention rates among team members (Didier & Viera, 2017).

2.5 Research Gaps

Table 2.1: Research Gaps

Author & Year	Focus of the Study	Findings	Research Gaps
Wachanga (2017)	Autocratic leadership style and performance of small and medium enterprises.	The findings from this study indicated that autocratic leadership on organizational performance was rated highest followed by autocratic leadership whereas Laissez-faire leadership style was not significantly correlated to organizational performance.	The study was about leadership styles on organizational performance whereas styles alone may not determine organizational performance.
Maduka (2018)	Transactional leadership style and performance of small and medium enterprises.	The target population of the study consisted of 770 small and medium enterprises in Mombasa County. The study concluded that idealized influence, inspirational motivation, transactional, and individualized consideration positively and significantly influence the performance of SMEs.	The study was about transactional leadership on organizational performance of small and medium enterprises. The methodology used did not include moderating variable. Secondly, the study focused on small businesses.
Githuka (2017)	Bureaucratic leadership style and performance of small and medium enterprises.	A cross sectional descriptive survey was used and data collected from 96 small and medium enterprises using a semi structured questionnaire. The findings indicated that business owners demographics had a statistically significant influence on leadership styles of SMEs.	The study was on leadership styles and performance of small and medium enterprises.
(Gachingiri, 2015)	Laissez-faire leadership style and performance of small and medium enterprises.	A cross-sectional descriptive survey was conducted to a sample of 95 SMEs. Findings indicated a statistically significant relationship	The researchers conducted a case study of one SMEs. They did not study leadership element of

between aggregated organizational resources SMEs to determine performance along with and performance of small and medium privatization of small businesses enterprises.

2.6 Summary of Literature

This chapter examined the literature pertaining to the empirical examination of the influence of leadership styles on the performance of small and medium-sized businesses in Mombasa County, Kenya. From the reviewed literature, leadership styles are the key point in Organizational Performance of SMEs. However, little has been done in East Africa more especially Kenya where the failure rate of Small and Medium Sized Enterprises is 70% within the first three years of existence. This therefore created a gap that needs to be addressed in Kenya and more specifically in Mombasa County. This chapter explored the effects of the four objectives from a global perspective down to the research scope region by evaluating the relevant literature. The objectives used are autocratic leadership style, transactional leadership style, bureaucratic leadership style, and laissez-faire leadership style on the performance of SMEs in Mombasa County, Kenya. This study explored the relationship between several characteristics and the performance of small and medium-sized businesses in Mombasa County. The findings indicate that organizational structure and strategic management can influence the positive use of leadership styles (Lehner, 2014). This chapter also covered the conceptual framework, links between variables, and research gaps. The research approach that was employed for the study is outlined in chapter three.

2.7 Conceptual Framework

Miles and Huberman (2014) define a conceptual framework as a visual or written representation that delineates the vital elements earmarked for exploration, whether presented visually or in a narrative form. It outlines the fundamental components, concepts, or variables and depicts the hypothesized connections among them. The overall goal of this research is to examine the effects of leadership styles on

performance of small and medium enterprises in Mombasa County, Kenya. The independent and dependent variables in this research were as follows;

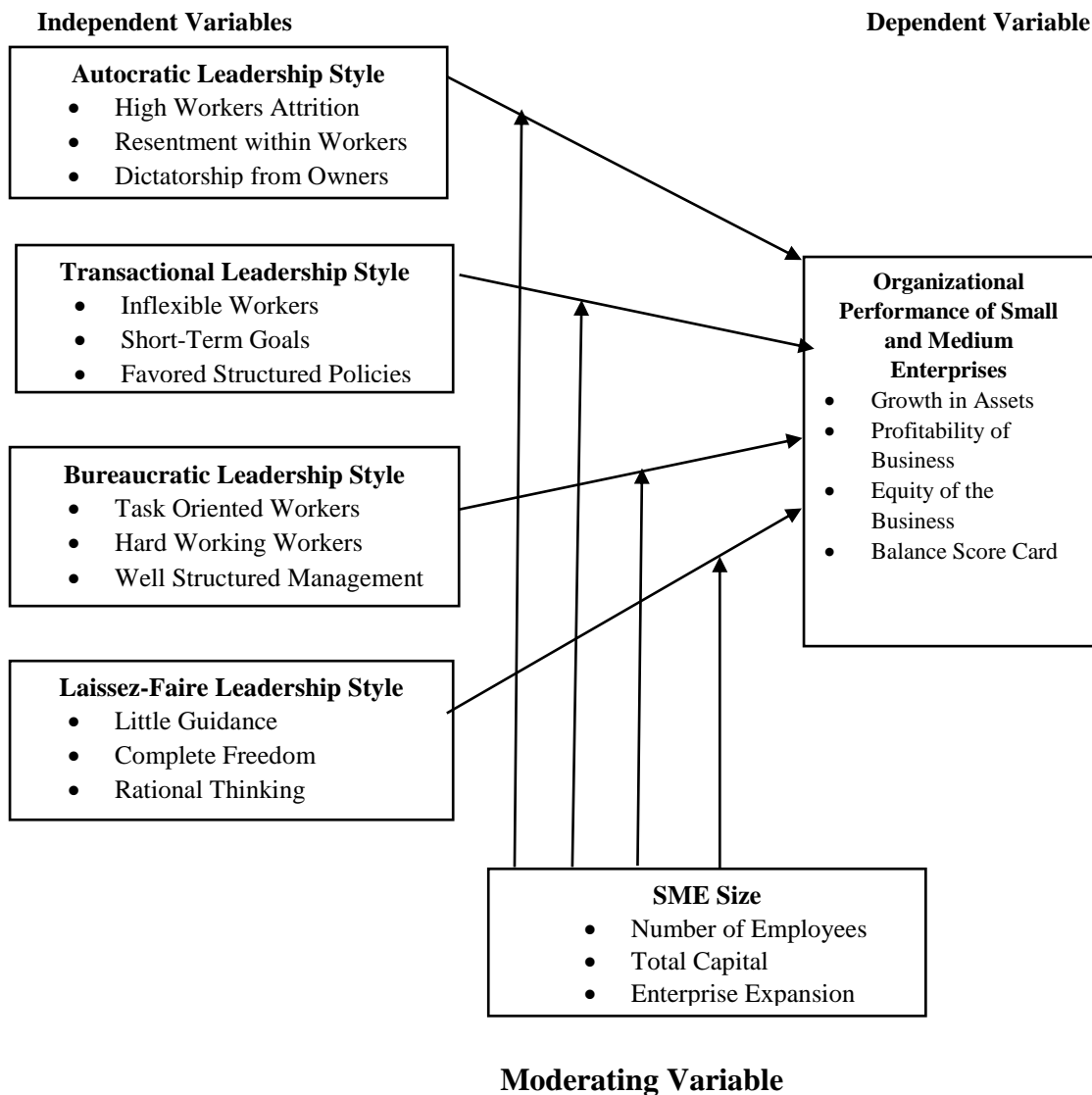


Figure 2.1: Conceptual Framework

Source: (Researcher, 2023)

Based on the literature reviewed, a conceptual framework showing how autocratic leadership style, transactional leadership style, bureaucratic leadership style and laissez-faire leadership style which are the independent variables relates to performance of SMEs which is the dependent variable and the moderating variable which is SME size are displayed in figure 2.1 above.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the various research strategies that are used in the study. This section was divided into research design which focused on the general design of the study, a description of the study population, sample size and sampling techniques that are applied in addition to research instruments. This section also explored the data collection procedures and ethical considerations.

3.2 Research Design

A research design is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy in procedure. It is conceptual structure within which research is conducted. It demands the blueprint for collection, measurement and analysis of data (Kumar, 2019). Explanatory research design is a method developed to examine a phenomenon that had not been studied before or had not been well explained previously in a proper way. Its main intent is to provide details about where to find a small amount of information. With this method, the researcher gets a general idea and uses research as a tool to guide them quicker to the issues that we might address in the future. Its goal is to find the why and what for an object of study (Fowler, 2017).

3.3 Study Area

From the reviewed literature, leadership styles are the key point in Organizational Performance of SMEs. However, little has been done in East Africa more especially Kenya where the failure rate is 70% within the first three years. This therefore created a gap that needed to be addressed in Kenya and more specifically in Mombasa County.

The study area was in Mombasa County and included small and medium enterprises.

3.4 Target Population

According to Bresler & Stake (2017), a population is the total collection of elements about which we wish to make inferences. For the purpose of this research, the target population was 374 SMEs based in Mombasa County. A list of all registered small and medium enterprises within Mombasa County was obtained from the County Government of Mombasa, as at December 2021.

Table 3.1: Target Population

Category	Target Population
Catering and Accommodation	125
General Trade, Wholesalers and Retailers	141
Professionals, Financials and Technical Services	108
Total	374

Source: (Mombasa County, 2023)

3.5 Sample Size and Sampling Procedure

This section described the sample size and sampling procedures to be used in this study.

3.5.1 Sample Size

A sample is a part of the target population, carefully selected to represent the total population. Kothari & Gaurav (2014) describe sample size as the number of elements to be included in the study sample. Wiersma & Jurs (2012) suggest that an ideal sample should be large enough so that the validity and reliability of the data is achieved. The study nominated 193 SMEs from the business persons operating them within Mombasa County and was calculated based on Yamane (1967) formula at 95% confidence level (0.05 level of significance) as shown below;

$$n = \frac{N}{1 + N(e)^2}$$

Where n = Sample Size

N = Population (374)

e = Level of Precision (0.05)

$$\frac{374}{1 + 374(0.05)^2} = 193$$

3.5.2 Sampling Procedures

Stratified random sampling methods was used for the selection of the study respondents. This is a sampling technique that is not biased, and it involves grouping of heterogeneous groups of the population into homogenous subsets and then choosing the sample from the individual allowing for representativeness. Using this technique, the sampling is done such that the existing sub-groups are less or more represented in the chosen sample (Wiek & Lang, 2016). For each of the strata, simple random sampling will be used. Table 3.2ss below shows the sampling size.

3.5.3 Unit of Analysis and Unit of Observation

The unit of analysis was small and medium enterprises in Mombasa County while the unit of observation were the owners/managers of the SMEs in Mombasa County.

Table 3.2: Sample Size

Category	Target Population	Sample Size
Catering and Accommodation	125	62
General Trade, Wholesalers and Retailers	141	75
Professionals, Financials and Technical Services	108	56
Total	374	193

Source: (Mombasa County, 2023)

3.6 Data Collection Instruments and Procedures

This study generated primary data to achieve its objectives.

3.6.1 Data Collection Instruments

Structured questionnaires were used to collect primary data from the respondents in the selected SMEs. The questions in the questionnaires were developed based on the objectives of the study. The structured questionnaires had two parts. Saunders, et al. (2009), advocate for the use of Likert-type scales as they provide a convenient means to gauge respondents' perceptions on the subject under study. In this study, part one centered on gathering general information from the respondents, while part two focused on questions related to objective and dependent variables. The questions in part two were formulated utilizing a 5-point Likert scale, where respondents could express their agreement or disagreement on a scale ranging from (1) strongly disagree to (5) strongly agree.

3.6.2 Data Collection Procedures

A letter from NACOSTI requesting for authorization to carry out research was distributed prior to visiting the relevant SMEs for data collection. Primary data was collected using self-administered structured questionnaires. The researcher with the help of 2 trained research aides administered the questionnaires to all the 193 participants under study.

3.7 Pilot Test

The research instrument was pilot tested in 25 SMEs in Kilifi County Kenya to establish if the targeted respondents would answer questions without difficulty. Pretesting the research

instrument helps in pointing out ambiguous questions and the feedback obtained is used to clear the ambiguities.

3.7.1 Validity Test

Cooper and Schindler (2008) emphasize that validity assesses the extent to which a study effectively measures intended values and accurately reflects true differences among respondents. Within this framework, content validity stands out as a type of validity that evaluates how well the instrument addresses the investigative issues guiding the research. In this study, content validity was established through the expert judgment of the supervisors

3.7.2 Reliability Test

The degree to which data collection procedures and analysis yield consistent results is what is referred to as reliability (Mugenda, 2013). It aims at establishing if the methods used would give similar results on different cases or if different researchers would reach at the same conclusions using the same raw data. This study used Cronbach's coefficient alpha to determine the internal consistency of the data measurement instrument. Hair, Black and Tatham (2016) consider a test as reliable when its scale or question consistently measures a concept. Alpha values lie between zero and one with zero being no internal consistency and one being complete internal consistency.

3.8 Data Processing, Analysis and Presentation

The data collected was in raw arrangement and in two formats i.e. qualitative and quantitative. In descriptive statistics, charts and tables are used while in inferential statistics, multiple regression is used and no charts.

3.8.1 Data Processing

Data processing is the conversion of data into usable and desired form. This conversion or processing is carried out using predefined sequence of operations either manually or automatically. Data collected from the field was coded, cleaned, summarized and tabulated then entered into the computer for analysis using SPSS.

3.8.2 Data Analysis and Presentation

Silvia and Skilling (2006) assert that the process of data analysis encompasses the systematic examination and evaluation of information, aiming to distill pertinent insights that can enhance the quality of decision-making. The data collected was analyzed using Statistical Package for Social Sciences (SPSS) version 21. Correlation, Regression ANOVA and model summary was generated. Data was presented in tables and figures.

3.8.3 Correlation Analysis

Correlation analysis is used to quantify the association between two continuous variables (e.g., between an independent and a dependent variable or between two independent variables). The values of the correlation coefficients vary from a value of +1.00 to a value of -1.00 which signifies extremely perfect relationships. When there is a strong correlation among independent variables, it poses a challenge in determining the individual impact of each independent variable on the dependent variable (Hair et al., 2013). In this study, the relationship between the autocratic leadership style, transactional leadership style, bureaucratic leadership style, and laissez-faire leadership style as independent variables and the organizational performance as the dependent variable was assessed using the Pearson Product Moment correlation. The Pearson's moment correlation test was conducted at a significance level of 5%.

3.9 Testing the Assumptions of Multiple Regression Model

A multiple regression analysis model was used to determine the effects of each of the independent variables (factors) with respect to dependent variable. Regression is concerned with describing and evaluating the link between a given variable and one or more other variables. More specifically, regression is an attempt to explain movements in a variable by reference to movements in one or more variables. Regression analysis was tested using t-test at 5% level of significance. Analysis of variance (ANOVA) was used to test the significance of the model. R² was used to measure the extent of goodness of fit of the regression model.

The assumptions of multiple regression model tested were; normality, linearity, homoscedasticity and autocorrelation.

Normality test is used to determine whether the data sets are normally distributed. Normality holds that the distribution of the test is bell-shaped with 0 (zero) mean, with 1 (one) standard deviation and a symmetric bell-shaped curve (Saunders *et al.*, 2015). Normality test was done using Kolmogorov-Smirnov test. If the results of the test are significant that is $p < 0.05$ then rejecting the null hypothesis means rejecting the assumption of normality for the distribution (Field, 2009). The data was found to be normally distributed. The regression model was shown as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where

α : is the intercept.

Y: is performance of SMEs

X₁: is autocratic leadership style

X₂: is transactional leadership style

X_3 : is bureaucratic leadership style

X_4 : is laissez-faire leadership style

Z : is SME size style

ϵ : Error term.

β_1 - β_4 : coefficient of the independent variable in which measures the responsiveness of Y to changes in i .

3.9.1 Linearity

This was tested by creating a scatter plot using SPSS Statistics where the researcher plotted the dependent variable against the independent variable and then visually inspect the scatter plot to check for linearity. From the scatter diagram, the residuals should be distributed evenly around the zero line (the regression line). The conclusion was that the data was linearly distributed.

3.9.2 Multi-Collinearity

This was tested by establishing the inter-correlations between the independent variables. Multi-collinearity problem occurs when the independent variables are highly correlated to each other (Hair *et al.*, 2013). Multi-collinearity was tested statistically by use of the VIF (Variance Inflation Factor). Multi-collinearity is also tested by an examination of tolerance and Variance Inflation Factor (VIF) with the thresholds of more than 0.1 and VIF of 10 (Hair *et al.*, 2013). All constructs had a VIF factor of greater than 0.1 and less than 10. Multi-collinearity was not a problem.

3.9.3 Shapiro-Wilk Test

To measure normality on primary data, the Shapiro-Wilk (S-W) normality test was conducted. According to Shapiro-Wilk (S-W) test, if the p-value is greater than 0.05, the data are described as normally distributed. The test was done to test the normality of the dependent variable application of quality management systems. The hypothesis

to test is whether the data is normally distributed is given by H_0 and H_1 , set at $\alpha = 0.05$, the rule is rejected H_0 , if p-value is less than α , else fail to reject H_0 : (Garson, 2014).

3.9.4 Heteroscedasticity Test

Heteroscedasticity was done to test whether heteroscedasticity problem existed in the regression model or not. Heteroscedasticity tends to produce p-values that are smaller than they should be. This problem can lead the researcher to conclude that a model term is statistically significant when it is actually not significant. The rule is that if the value of significance is greater than 0.05 there is no problem of heteroscedasticity but if the value of significance is less than 0.05 there is a problem of heteroscedasticity.

Table 3.3: Hypotheses Testing

Objective	Null Hypothesis	Type of Analysis	Interpretation
To investigate the effects of autocratic leadership style on performance of small and medium enterprises in Mombasa County, Kenya.	H0₁ : Autocratic leadership style has no significant effect on performance of small and medium enterprises in Mombasa County, Kenya.	Pearson Correlation Regression Analysis	If p-value < 0.05, Reject the null hypothesis.
To determine the effects of transactional leadership style on performance of small and medium enterprises in Mombasa County, Kenya.	H0₂ : Transactional leadership style has no significant effect on performance of small and medium enterprises in Mombasa County, Kenya.	Pearson Correlation Regression Analysis	If p-value < 0.05, Reject the null hypothesis.
To investigate the effects of bureaucratic leadership style on performance of small and medium enterprises in Mombasa County, Kenya.	H0₃ : Bureaucratic leadership style has no significant effect on performance of small and medium enterprises in Mombasa County, Kenya.	Pearson Correlation Regression Analysis	If p-value < 0.05, Reject the null hypothesis.
To determine the effects of laissez-faire leadership style on performance of small and medium enterprises in Mombasa County, Kenya.	H0₄ : Laissez-faire leadership style has no significant effect on performance of small and medium enterprises in Mombasa County, Kenya.	Pearson Correlation Regression Analysis	If p-value < 0.05, Reject the null hypothesis.
To investigate the effects of SME size on performance of small and medium	H0₅ : SME size has no significant effect on performance of small and	Pearson Correlation	If p-value < 0.05, Reject the null hypothesis.

enterprises in Mombasa medium enterprises in Regression
County, Kenya. Mombasa County, Kenya. Analysis

Table 3.4: Variable Description and Measurement

Variable	Items	Source
Autocratic Leadership Style	<ul style="list-style-type: none"> • High Workers Attrition • Resentment within Workers • Dictatorship from Owners 	Five-Likert Scale
Transactional Leadership Style	<ul style="list-style-type: none"> • Inflexible Workers • Short-Term Goals • Favored Structured Policies 	Five-Likert Scale
Bureaucratic Leadership Style	<ul style="list-style-type: none"> • Task Oriented Workers • Hard Working Workers • Well Structured Management 	Five-Likert Scale
Laissez-faire Leadership Style	<ul style="list-style-type: none"> • Little Guidance • Complete Freedom • Rational Thinking 	Five-Likert Scale
SME Size	<ul style="list-style-type: none"> • Number of Employees • Total Capital • Enterprise Expansion 	Five-Likert Scale
Organizational Performance of SMEs	<ul style="list-style-type: none"> • Growth in Assets • Profitability of Business • Equity of the Business • Balance Score Card 	Five-Likert Scale

3.10 Ethical Considerations

The respondents were fully informed of the nature and purpose of this research, the procedures to be used and the expected benefits to the participants and the SME subindustry. The respondents were given an opportunity to ask questions, and get any clarification they needed. The respondent's consent to participate in this research were obtained voluntarily. The information gathered from the respondents was kept confidential, and was only used for this study. Anonymity and discretion were also guaranteed as the respondents names had not been recorded. A research permit from NACOSTI and an introduction letter from Moi University was attached to the questionnaires since data collection involved members of the public.

CHAPTER FOUR
DATA ANALYSIS, INTERPRETATION AND PRESENTATION OF
FINDINGS

4.1 Introduction

The main purpose of this chapter was to present the data analysis results of the data. It was planned in sections. The first section presented the demographic profile of the SMEs. This was followed by reliability and validity, the descriptive and the correlation results. The regression results which formed the core of the study was presented in the final section. The response rate was also initially presented.

4.2 Response Rate

Table 4.1 Response Rate

Sample size	Responded	Response Rate
193	137	71%

Source: Research Data (2023)

Out of 193 questionnaires sent out for data collection by the researcher, 137 were returned. This translated to 71 percent response rate which is considered adequate. A good survey response rate is anything above 50%. (Centobelli, Cerchione, & Singh, 2019 and Nu'man *et al*, 2020).

4.2.1 Demographic Characteristics of Respondents.

Table 4.2: Demographic characteristics of Respondents

Variable		n	Percentage
Nature of Business	General, retail	78	56.9
	financial	26	19.0
	commercial	33	24.1
Age of SME	Less 10yrs	69	50.4
	10-15yrs	37	27.0
	Over 15yrs	31	22.6
Number of employees	10 to 49	98	71.5
	50 to 99	39	28.5

Source: Research Data (2023)

The studied SMEs comprised of three categories; general trade, financial and commercial. From the results in table 4.2, it has found that more than half of SMEs are general trade (56.9%, n=78) or commercial (24.1%, n=33). In terms of years of age of the SMEs has been in operation, most of the SMEs are between 10 to 15 years (27.0%, n=37) of operation. in terms of size, most of the SMES are small having between 10 to 49 employees (71.5%, n=39). The next section assessment of the validity of the instrument using factor analysis.

4.3 Reliability and Validity Test.

4.3.1 Reliability Test

The reliability of the instrument was assessed using the popular Cronbach's alpha method. Cronbach's alpha coefficients, values greater than 0.7 indicate sufficient reliability. The results in Table 4.6 shows that the Cronbach's alpha coefficients are all greater than the required minimum of 0.7. This demonstrate that the adequate reliability. Therefore, the instrument used to assess leadership style in SMEs is regular. This

further suggests that, when the instrument is administered to the same individuals or groups under similar conditions produce the same results.

Table 4.3: Reliability Test Results

Variable	No. of Items	Alpha
Autocratic	5	.775
Transaction	5	.851
Bureaucratic	5	.844
Laissez-faire	5	.877
Organizational Performance	5	.829

Source: Research Data (2023)

In this section, the factor analysis results have shown that the instrument has construct validity and the Cronbach's test of reliability have shown that the instrument is consistent and therefore the instrument does not suffer from validity and reliability issues. In research, validity and reliability checks are the first steps towards a quality research and therefore strengthen the conclusions and recommendations. The next section discusses the descriptive results prior to correlation and hypothesis testing.

4.3.2 Validity Test

Factor analysis is one of the techniques researchers use to assess' validity research instrument and the detail of the procedure are discussed in the previous chapter in this research, factor analysis was run by on a total of 25 survey items so as to identify the components that are in the items. Eigen value-greater-than-1 approach was used because the actual structure that the items survey support is produced.

Table 4.4: KMO and Bartlett's Test; Test of Sampling Adequacy

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.885
Bartlett's Test of Sphericity	Approx. Chi-Square	2827.945

Df	300
Sig.	.000

Source: Research Data (2023)

In factor analysis, a number of outputs are obtained to help conclude on suitability of conducting the factor analysis and the actual factor analysis results. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett's test statistics forms one of the outputs researchers use to assesses the appropriateness of subjecting data to factor analysis. From the results, the KMO value is more than 0.7 (KMO = .885) and the Bartlett statistic is significant (chi square=2827.945, df=300, p=.000). These results together are in support of a data structure that is appropriate for factor analysis.

The other key factor analysis output is total variance explained results which shows the proportion of variance in the original data set explained by the extracted components. It also shows the number of extracted components. From the Total variance explained results in (Table 4.4, a clear five-factor structure emerged and that the structure explained a variance of 75.382% of the variance in the original data.

Table 4.5 Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.034	40.137	40.137	10.034	40.137	40.137	4.122	16.488	16.488
2	3.499	13.996	54.133	3.499	13.996	54.133	4.075	16.300	32.788
3	2.195	8.779	62.912	2.195	8.779	62.912	3.822	15.289	48.077
4	1.897	7.590	70.502	1.897	7.590	70.502	3.814	15.257	63.334
5	1.220	4.880	75.382	1.220	4.880	75.382	3.012	12.048	75.382
6	.766	3.064	78.446						
7	.695	2.782	81.228						
8	.541	2.166	83.394						
9	.510	2.039	85.433						
10	.497	1.987	87.420						
11	.390	1.561	88.981						
12	.353	1.414	90.394						
13	.320	1.282	91.676						
14	.317	1.266	92.942						
15	.300	1.200	94.143						
16	.256	1.025	95.168						
17	.199	.797	95.965						
18	.196	.785	96.749						
19	.165	.658	97.408						
20	.153	.611	98.019						
21	.138	.552	98.571						
22	.120	.481	99.052						
23	.106	.424	99.476						
24	.078	.311	99.787						
25	.053	.213	100.000						

Extraction Method: Principal Component Analysis
Source: Research Data (2023)

Table 4.6: Rotated Component Matrix

Code	Item	Component				
		1	2	3	4	5
Autocratic_1	Limited worker autonomy	.908				
Autocratic_2	Centralized control dominance	.907				
Autocratic_3	Suppressed worker creativity	.880				
Autocratic_4	Clear rule communication	.872				
Autocratic_5	Inclusive worker involvement	.811				
Transaction_1	Goal based performance		.858			
Transaction_2	Restricted worker initiative		.835			
Transaction_3	Preserving business traditions		.829			
Transaction_4	Centralized decision making		.797			
Transaction_5	Transparent work rewards		.758			
Bureactive_1	Policy adherence prioritized.			.878		
Bureactive_2	Owner centric decision making			.827		
Bureactive_3	Formal operations briefings			.808		
Bureactive_4	Emphasis on stability			.775		
Bureactive_5	Established dominance hierarchy			.718		
LaissezF_1	Seeking diverse perspectives				.905	
LaissezF_2	Inclusive problem solving				.902	
LaissezF_3	Employees guidance provided				.793	
LaissezF_4	Reconsidering hands-off approach				.601	
LaissezF_5	Flexible self-management				.581	
Organizational Performance_1	Their business has other branches					.740
Organizational Performance_2	Wide market share					.734
Organizational Performance_3	High Sales Revenue					.716
Organizational Performance_4	Increased workforce size					.574
Organizational Performance_5	Strong asset performance					.570

*Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization
a. Rotation converged in 6 iterations*

Source: Research Data (2023)

The rotated component matrix is another key output of FA important in interpreting the extracted components or factors. It shows which items form collectively component. From the results, it is clear that the five items meant to measure autocratic leadership (autocratic 1 to autocratic 5) all loaded to one component. Similarly, the items meant to measure transaction leadership (transaction 1, to transaction 5) were loaded to one other component. In sum, the items measuring same construct stuck together (indicating convergent validity) and Items measuring different constructs loads weakly to other different constructs (indicating discriminant validity). Therefore, it is evident that the instrument that collected data from SMEs in Mombasa on leadership and organizational performance demonstrate sufficient construct validity.

4.4 Descriptive Analysis Results

The mean is one of the descriptive statistic used in this section in assessing intensity of each leadership style in the SMES in Mombasa County. Also, the standard deviation

which shows the amount of variability from the mean are presented. The Skewness and Kurtosis presented Recall that Skewness and Kurtosis values less than one in absolute suggests a normal distribution.

Table 4.7: Descriptive Statistics

	N	Mean	Std. Dev.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Autocratic	137	2.53	.578	.768	.207	-.886	.411
Transaction	136	4.03	.709	-.954	.208	.860	.413
Bureaucratic	137	3.88	.738	-.812	.207	.625	.411
Laissez-faires	137	3.73	.836	-.912	.207	.853	.411
Organizational Performance	137	3.90	.740	-.947	.207	.548	.411

Source: Research Data (2023)

From the descriptive results in table 4.7, the mean values range from 2.53 for autocratic style (std=.578) to 4.03 (.709) meaning that in general, most SME managers practices transaction leadership styles and few of the SMEs practice autocratic leadership style. This further shows that few SMEs leaders do not rely on specific rules, policies, and procedures to govern all processes within the workplace characteristics of autocratic leader. Instead, the leaders are mostly hands-off approach and decisions are left to employees inherent in transaction leadership. A significant number of SMEs also employ bureaucratic leadership (style 3.88, SD=.738) and faires leadership style (m=3.73, SD=.836). In summary, the mean values show that all the four leadership styles are practiced in the SMEs.

In checking the distribution statistics, it is evident that the Skewness and Kurtosis statistics are all less than one indicating normal distribution. Skewness range from .548 to .886 all are less than 1 in absolute values. Thus, the data shows normal distribution which is desired property in some inferential analysis such as correlation and regression analysis.

4.5 Correlation Results

The correlation analysis is a technique to analyze association between two variables. In this study, it helps investigate nature of leadership style variables and organizational performance.

Table 4.8: Correlation Coefficient on Leadership Style and Performance

		Autocratic	Transaction	Bureaucratic	Laissez Fairies	Organizational Performance
Autocratic	Pearson Correlation	1				
	Sig. (2-tailed)					
Transaction	Pearson Correlation	.239**	1			
	Sig. (2-tailed)	.001				
Bureaucratic	Pearson Correlation	.224	.453*	1		
	Sig. (2-tailed)	.433	.014			
Laissez Fairies	Pearson Correlation	.236**	.265	.322*	1	
	Sig. (2-tailed)	.010	.313	.000		
Organizational Performance	Pearson Correlation	.446	.692	.320	.566	1
	Sig. (2-tailed)	.001	.000	.000	.000	

****.** Correlation is significant at the 0.01 level (2-tailed) *.

. Correlation is significant at the 0.05 level (2-tailed)

c. Listwise N=137

Source: Research Data (2023)

The correlation matrix results in table 4.8 shows that autocratic, has a significant positive association with organizational Performance of SMEs ($r=.446$, $p=.001$) meaning that SMEs with a strong autocratic leadership style practice performs well than SMEs with weak autocratic leaders.

Also it seen that Transaction Leadership style and Organizational Performance, are positively and significantly associated ($r=.692$, $p=.000$). The association is positive indicating that SMEs led by strong transaction ethics perform better than SMEs with weak transaction leadership. The results of the analysis showed that the relationship between leadership style and organizational performance of SMEs is stronger for larger SMEs than for smaller SMEs. This means that the effects of leadership style on organizational performance of SMEs are more pronounced in larger SMEs than in smaller SMEs.

Bureaucratic style of leadership and Organizational Performance, are positive significantly associated ($r=0.320$, $p=.000$). It is observed that Laissez Faire and Organizational Performance, are significantly and positively associated ($r=0.566$, $p=.000$) meaning that Laissez faires enhance organizational performance of SMEs. In summary, the test of association has shown that each leadership style is positively associated with organizational performance. Collectively indicating that good or compatible or appropriate leadership style is positively associated with organizational Performance.

The next section presents regression analysis for hypothesis testing.

4.6 Regression Assumptions and Regression Analysis Results

Regression analysis is a statistical method used to examine the relationship between a dependent variable and one or more independent variables. There are several assumptions that must be met in order for regression analysis to be valid and reliable.

4.6.1 Regression Assumptions

Normality of residuals assumption states that the residuals should be normally distributed. The plot of a histogram of regression residuals is one of the ways to assess for normality. The results in figure 4.1 shows that the assumption is met. The histogram of residuals has a shape fitting a normal distribution thus concluding that the normality assumption is not significantly violated.

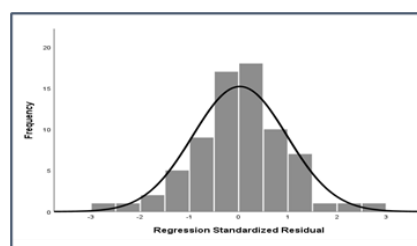


Figure 4.1: Histogram of Residuals

Source: Research Data (2023)

No Heteroskedasticity assumption: The residuals should have constant variance across all levels of the independent variables. A scatter plot of residuals versus predicted values, test for constant variance. The residuals should be evenly distributed above and below the regression line (that is the line $y=0$ in the figure. As shown in figure 4.2, the distribution of the residuals below and above the regression line is roughly similar; the constant variance assumption is met.

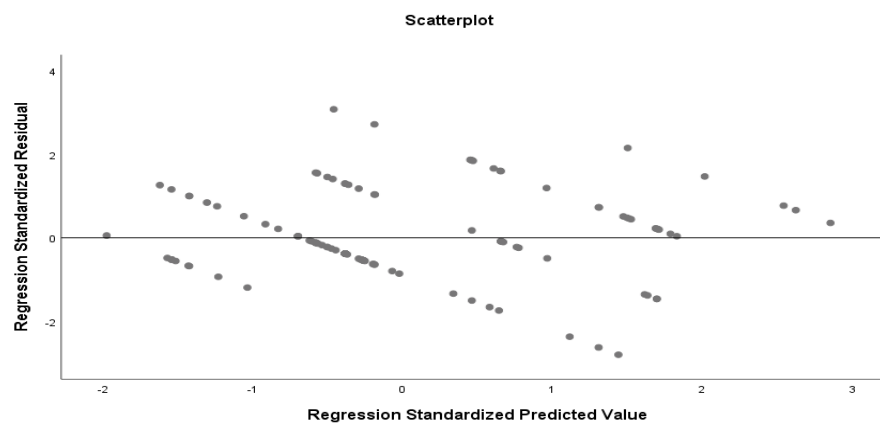


Figure 4.2: Scatter Plot of Residuals versus Predicted Values

Source: Research Data (2023)

Linearity assumption; a data set that meets the No Heteroskedasticity assumption and normality of residuals also meets the linearity assumptions. Since the two assumptions are met hence, it is conclusive that the linearity assumption is met.

The multicollinearity assumption assumes no two or more variables in the model are highly correlated ($r > 0.7$). In other words, no linear relation between two or more IVs in the model. This assumption was easily checked using collinearity function in SPSS that yields the Variance Inflation Factor, VIF statistic. A rule of thumb suggests that IF values less than 10 are indications of no significant multicollinearity in the data set. The

VIF values of the four IVs in table 4.21 are all far less than 10 and therefore no significant multicollinearity issues in a model comprising the four IVs.

Table 4.9: Collinearity Statistics, to test for Multi-Collinearity

	Collinearity Statistics	
	Tolerance	VIF
Autocratic Leadership Style	.282	3.547
Transaction Leadership Style	.214	4.665
Bureaucratic Leadership Style	.277	3.615
Laissez-Faire Leadership Style	.288	3.473

Source: Research Data (2023)

The VIF values of the four IVs in table 4.21 are all far less than 10 and therefore no significant multicollinearity issues in a model comprising the four IVs.

4.6.2 Regression Results

Regression analysis is technique used to assess the influence of an independent variable on the dependent variable. Typically, there are three important outputs in regression analysis. The model summary is one of the regression outputs that provides the coefficient of determination; the R square statistic. The R2 provides information on the suitability of the independent variables in the model to explain dependent variable.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.807 ^a	.615	.632	.595

Source: Research Data (2023)

The R value of 0.807 indicates that the four leadership styles collectively explain 61.5% of the variance in organizational performance of SME. This means that the leadership styles are a significant predictor of organizational performance of SME.

The Adjusted R Square value of 0.632 indicates that the four leadership styles explain 63.2% of the variance in organizational performance of SME after controlling for other

factors, such as SME size. This means that the leadership styles are a significant predictor of organizational performance of SMEs, even after controlling for other factors.

The Std. Error of the Estimate value of 0.595 indicates that the average difference between the predicted and actual organizational performance of SME scores is 0.595 units. This means that the model is able to predict Organizational performance of SME with a reasonable degree of accuracy.

ANOVA

Table 4.11: ANOVA^a

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	84.511	7	12.073	34.060	.000b
	Residual	45.371	128	.354		
	Total	129.882	135			

Source :Research Data (2023)

The ANOVA table provided shows the results of a statistical test that was conducted to compare the mean scores of four different leadership styles: autocratic, bureaucratic, transactional, and laissez-faire.

The Model row of the table shows the results of the regression analysis, which is the statistical test that was used to compare the mean scores of the four leadership styles. The Sum of Squares column shows the total amount of variance in the data, and the df column shows the degrees of freedom. The Mean Square column shows the average variance within each group, and the F column shows the F-statistic. The Sig. column shows the p-value, which is the probability of obtaining the results of the test by chance.

The Regression row of the table shows that the F-statistic is 34.060, which is statistically significant ($p < .001$). This means that there is a significant difference between the mean scores of the four leadership styles.

The Residual row of the table shows that the mean square of the residuals is 0.354. This means that the variance within each group is relatively small, which suggests that the data is normally distributed.

The Total row of the table shows that the total sum of squares is 129.882. This means that there is a total of 129.882 units of variance in the data.

The results of the ANOVA table suggest that there is a significant difference between the mean scores of the four leadership styles. This means that the four leadership styles have different effects on organizational performance.

Table 4.12: Regression Coefficient- Leadership Styles, SME Size and Organizational Performance of SMEs

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std Error	Beta	T	Sig.
1	(Constant)	.205	.334		.614	.540
	Autocratic	.236	.120	.245	.968	1.051
	Transaction	.255	.098	.251	2.595	.011
	Bureaucratic	.272	.078	.284	3.484	.001
	Laissez Faire	.267	.113	.266	2.374	.019
	SME Size	.304	.114	.302	2.678	.008
	Autocratic * SME Size	.318	.092	.304	3.446	.001
	Transaction *SME Size	.115	.123	.096	.928	.355
	Bureaucratic *SME Size	.025	.077	.028	.329	.743
	Laissez Faire*SME Size	.153	.075	.171	2.048	.043

Dependent Variable: F. Performance

Source: Research Data (2023)

The regression coefficient estimates provided the main effect of the four leadership styles on organizational performance as well as the effect of each of the four interactions on SME Size.

From the results, the coefficient of Autocratic Leadership Style is positive and significant indicating that Autocratic leadership has significant positive effect on organizational performance (Autocratic=.236, $p=.051$). The hypothesis H01a is thus rejected and conclude that Autocratic leadership has positive significant effect on organizational performance in Mombasa. Still on the Autocratic-performance relation, it is seen that the interaction term is significant (Autocratic*SME Size = .318, $p=.001$) suggesting that the SME size showed significant moderating effect on the relation between Autocratic Leadership style and SME performance. Therefore, the hypothesis H01b is thus rejected at 0.05 significant level. The result shows that the positive effect of Autocratic style on organizational performance is different in Small and larger. Further probe of the moderation through graphical approach provided further evidence of the nature of moderation. The two plots have different positive slopes which shows that the effect of Autocratic leadership on performance is strengthened and that the effect is stronger in big SMEs than in small ones

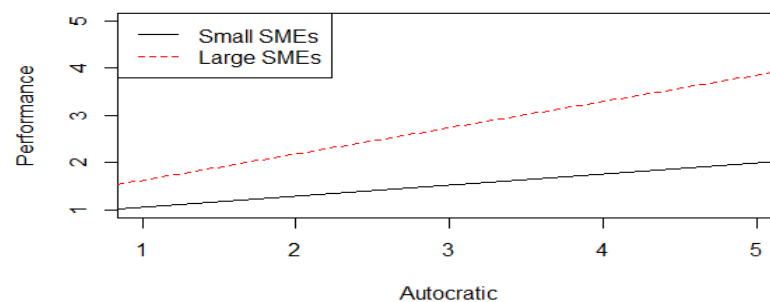


Figure 4.3: Autocratic Style Results

Source: Research Data (2023)

On the relation between Transaction leadership style and organizational performance, it was noted that the leadership style has positive significant positive effect (Transaction =0.255, $p=.011$) thus the hypothesis H02 is rejected. The coefficient of the interaction term, Transaction X SME size is positive but insignificant (Transaction *SME Size =.115, $p=.355$). Therefore the hypothesis H02b was not rejected at 0.05 alpha level.

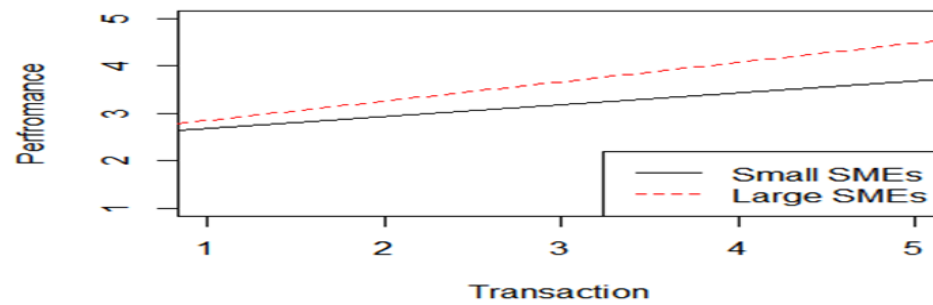


Figure 4.4: Transaction Style Results

Source: Research Data (2023)

The coefficient of Bureaucratic leadership style is positive and significant indicating that it has a significant positive contribution on organizational performance (Bureaucratic=.272, $p=.001$). The hypothesis H03a is thus rejected and conclude that bureaucratic leadership style has positive significant effect on organizational performance in Mombasa. On moderation test on this relation, it is seen that the interaction term is significant (Bureaucratic SME Size = .025, $p=.743$) suggesting that the SME size showed nonsignificant moderating effect on the relation between Bureaucratic Leadership style and organizational performance. Therefore, the hypothesis.

H_{03b} was not rejected at 0.05 significant level. The result shows that the positive effect of bureaucratic style on organizational performance is not different in Small and larger SMEs.

Finally, the effect of Laissez-faire leadership style on organizational performance is positive and significant (Laissez faire $B=.267$, $p=.019$) thus the hypothesis H03 was rejected. The interaction term is significant indication that SME size moderates this positive relation. The effect is different than in small size compared to large SMEs. The graphical analysis results show that the effect is stronger in large SMEs compared to small SMEs. The hypothesis H₀₄ is rejected and conclude that SME size moderates the

positive relation between Laissez faire and organizational performance. The slope analysis of moderation effect of SME size showed that the effect is stronger in large SMEs than in small SMEs.

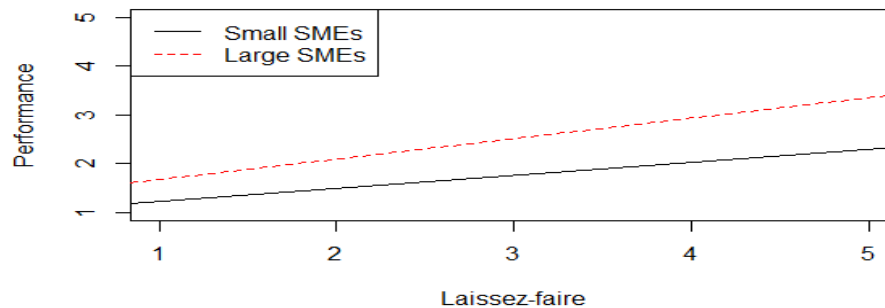


Figure 4.5: Laissez-faire Style Results

Source: Research Data (2023)

SMES in Mombasa and in the country at large play significant role in the economy but are in constant threat of going down. The results showed that the leadership styles enhanced SME performance and therefore important in SMEs survival. The significant findings were that the SME size matters. The big SMEs had strong positive impact on performance than small SMEs.

4.7 Hypothesis Testing

The results of the hypothesis testing suggest that the four leadership styles have a significant impact on organizational performance of SME. The strongest predictor of organizational performance of SME is transactional leadership, followed by autocratic leadership, bureaucratic leadership, and laissez-faire leadership.

In summary, the results of the multiple regression analysis suggest that leadership style is a significant predictor of organizational performance of SME. SMEs with strong leadership in any of the four styles tend to perform better than SMEs with weak leadership in these styles. The effects of leadership style are more pronounced in larger SMEs than in smaller SMEs.

Table 4.13: Summary of Hypothesis Testing Results

Hypothesis no	Hypothesis	Statistics	Verdict
H01A	Effects of autocratic leadership style on organizational performance of small and medium sized enterprises in Mombasa county, Kenya	B=.256, P= .051	REJECT H01A
H01B	SME size does not moderate the effects of autocratic leadership style on organizational performance of small and medium enterprises in Mombasa County, Kenya.	B=.318, P=.001	REJECT H01B
H02A	Effects of Transaction leadership style on organizational performance of small and medium sized enterprises in Mombasa county, Kenya	B=.255, P= .011	REJECT H02A
H02B	SME size does not moderate the effects of Transaction leadership style on organizational performance of small and medium enterprises in Mombasa County, Kenya.	B=.115, P=.355	FAIL TO REJECT H02B
H03A	Effects of leadership style Bureaucratic leadership Style on organizational performance of small and medium sized enterprises in Mombasa county, Kenya	B=.272, P= .001	REJECT H03A
H03B	SME size does not moderate the effects of Bureaucratic leadership style on organizational performance of small and medium enterprises in Mombasa County, Kenya.	B=.025, P=.743	FAIL TO REJECT H03B
H04A	Effects of leadership style Laissez-faire leadership Style on organizational performance of small and medium sized enterprises in Mombasa county, Kenya	B=.267, P= .019	REJECT H04A
H04B	SME size does not moderate the effects of Laissez-faire leadership style on organizational performance of small and medium enterprises in Mombasa County, Kenya	B=.153, P=.043	REJECT H04B

Source: Research Data (2023)

4.8 Discussion of Key Findings

The study was out to find the effects of leadership styles and the organizational performance of small and medium sized in Mombasa county. The autocratic leadership style, characterized by high control and limited employee empowerment, is not associated with positive and significant influence on Small and Medium-sized

Enterprises (SMEs) organizational performance. Instead, it often leads to negative consequences, such as high workers attrition, resentment within workers, and a stifling work environment. Modern management practices emphasize more participative and empowering leadership styles to foster a positive work culture and improved performance. The negative impact of autocratic leadership may be more pronounced in smaller SMEs, where teamwork and collaboration are vital, but it can still hinder workforce potential in larger SMEs. Adopting participative and collaborative leadership approaches is essential for SMEs to achieve better outcomes. Creative ideas improve performance of SMEs; therefore leaders should learn to exercise the use of quality ideas in running their institutions.(Gill 2016).

The study findings indicate that transactional leadership style has positive but significant relationship with performance of SMEs. The study examines the effect of transactional leadership style characterized by inflexible workers, short term goals and favored structured policies on the performance of small and medium sized enterprises. It provides valuable insights for SMEs leaders as they will better understand the relationship between their leadership style and organizational performance with potential implication for adapting leadership practices to suit different context and foster long term growth and innovation (Lovorn &Chen 2016)

The study findings indicate that transactional leadership style has positive but significant relationship with organizational performance of SMEs. The study examines the effect of transactional leadership style characterized by inflexible workers, short term goals and favored structured policies on the performance of small and medium sized enterprises. It provides valuable insights for SMEs leaders as they will better understand the relationship between their leadership style and organizational

performance with potential implication for adapting leadership practices to suit different context and foster long term growth and innovation (Lovorn & Chen 2016)

The findings of the study on the bureaucratic leadership style's impact on Small and Medium-sized Enterprises (SMEs) reveal a positive but insignificant relationship with performance. The bureaucratic leadership approach emphasizes rules, procedures, and a hierarchical structure, which may benefit task-oriented and hard-working workers. However, the impact on SME performance is not statistically significant. The moderating variable of SME size suggests that larger SMEs might benefit more from the bureaucratic style due to their greater need for structure and stability, while smaller SMEs may find it too rigid to adapt quickly. Overall, SMEs should consider their specific characteristics when implementing leadership styles to optimize organizational performance. (Smith 2018)

The findings indicate that this laissez-faire leadership approach has a positive and significant influence on SME performance. The minimal intervention from leaders encourages creativity, innovation, and a sense of ownership among employees, leading to higher job satisfaction and productivity. However, the impact of this leadership style on organizational performance is found to be contingent upon SME size. In larger SMEs, where there is likely a greater need for structure and guidance due to increased complexities, the positive influence of laissez-faire leadership may be less significant compared to smaller SMEs that can thrive in an environment of greater freedom and self-directedness. Thus, SMEs should consider their specific size and organizational characteristics to effectively implement the laissez-faire leadership style and harness its positive impact on performance (Akhungu 2016).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study, the conclusions and the recommendations

5.2 Summary of the Study

Assessment of organizational performance is a fundamental component of management process. The link between organizational performance and leadership styles lies on the right execution of leadership roles in driving the success of an organization. The study investigated the moderation effect of SME size on organizational performance.

The objectives of the study aimed to examine the impact of the Autocratic leadership style, characterized by centralized decision-making and limited employee input, on the organization performance of Small and Medium Enterprises (SMEs). The Authoritarian style within SMEs was assessed based on dimensions such as High Workers Attrition, Resentment within Workers, and Dictatorship from Owners. The study further explored the moderation effect of employee size on the relationship between Authoritarian style and organization performance, specifically comparing small-sized SMEs (less than 10 employees) to larger SMEs. The results indicated a positive and significant effect of Autocratic leadership on SME organizational performance, with the findings suggesting that the impact is more pronounced in larger SMEs.

The second objective of the study explored the impact of Transactional leadership style, characterized by a results-driven approach and a focus on employee performance through a reward-penalty system, on Small and Medium Enterprises (SMEs) organizational performance. The research revealed a significant positive effect of

Transactional leadership on SME performance, aligning with findings from studies by Sundi (2013) and Nungky, Alifian & Sampir (2020). Moreover, the moderation analysis indicated that the positive influence of Transactional leadership on SME performance is more pronounced in larger SMEs compared to smaller ones.

The study also delved into the effects of Bureaucratic leadership style on Small and Medium Enterprises (SMEs) organizational performance, characterized by a focus on rules rather than personal relationships and authority. The evaluation of Bureaucratic style in SMEs considered factors such as Task Orientation of Workers, adherence to rules, and the level of Structured Management. Al Khajeh (2018), the study identified a positive effect of Bureaucratic leadership on employee performance. Notably, unlike the other leadership styles examined, no significant moderation effect of SME size was observed in this case. Bureaucratic leadership, emphasizing organizational performance over individual contributions, is characterized by an impersonal approach, distinguishing it from other leadership styles that may prioritize strong individual leadership or a more personal connection among team members.

The study also investigated the effect of the laissez-faire leadership style, rooted in an 18th-century economic theory advocating minimal government intervention in business affairs. Laissez-faire, translating to "leave alone," emphasizes limited government interference for optimal economic functioning. The research revealed a positive and significant effect of the laissez-faire leadership style on performance. Notably, the study found that the positive impact is further strengthened by SMEs size, suggesting that larger SMEs benefit more from the laissez-faire approach.

5.3 Conclusions

The study concluded that autocratic leadership style positively and significantly influences SMEs performance in Mombasa County. One key implication of this findings is that autocratic leadership is effective when there is a need for quick decision making.

Transaction Leadership Style positively and significantly influences organizational performance in Mombasa County, it emphasizes adhering to established processes and standards, making it effective for maintaining routine tasks and achieving short-term goals.

Bureaucratic leadership style positively but insignificantly influences organizational performance in Mombasa County .This suggests that while there is a certain impact on performance, it is not strong enough to significantly affect overall outcomes in SMEs.

Laissez-faire leadership style positively and significantly influences organizational performance in Mombasa County. It empowers team members with autonomy and responsibility for decision making, it fosters creativity, innovation and a sense of ownership among employees.

SME size positively and significantly influence organizational performance. Smaller SMEs have clear communications among team members. They make quicker decisions and adapt more rapidly to changing market conditions.

5.4 Recommendations

5.4.1 Managerial Recommendations

Implementing autocratic leadership styles can be valuable for managers in small or large SMEs, providing clear direction, structured tasks, and rule adherence for enhanced efficiency. While moderation is essential to avoid drawbacks, autocratic

leadership proves effective in situations demanding quick decision-making and guidance, ensuring the necessary structure for team success.

Implementing transactional leadership behavior in SMEs is crucial for emphasizing structure and order in goal attainment. This leadership style, characterized by adherence to guidelines and organized resource allocation, ensures efficiency, clarity in the chain of command, and timely achievement of desired outcomes.

Managers in SMEs are advised to promote bureaucratic leadership behaviors, establishing a clear chain of command where each leader possesses a defined structure of power. This approach emphasizes organizational clarity and delineated authority structures within the leadership hierarchy.

Managers should consider adopting a laissez-faire leadership approach in SMEs, where initial guidance is provided, and thereafter, team members are encouraged to work independently with minimal supervision, relying on a foundation of trust in their capabilities.

Leveraging the positive impact of SMEs' size on organizational performance, managers should strategically capitalize on the inherent advantages of their business scale to optimize efficiency, resource utilization, and overall success

5.4.2 Policy Recommendations

This study recommends that:

The government should create a policy framework that encourages the adoption of laissez-faire leadership, highlighting the benefits of empowering employees, fostering creativity, and boosting motivation. Offer support and resources for managers to effectively implement this approach.

5.5 Suggestions for Future Research

This study recommends that the following studies should be carried out;

Effect of Bureaucratic Leadership Styles on the Organizational Performance of SMEs since findings showed that Bureaucratic leadership styles had an insignificant effect on Performance of SMEs.

Leadership styles and their effect on financial performance in other industries especially the Commercial industry.

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APPENDICES

Appendix 1: Letter of Introduction

BRENDA UCHI
KALAMA
P.O. BOX 19654-80100,
MOMBASA.
KENYA.

14th January, 2023.

MOMBASA SMEs ASSOCIATION,
MOMBASA COUNTY,
P.O BOX 83934-80100,
MOMBASA.
KENYA

Dear Sir/ Madam,

RE: REQUEST FOR PERMISSION TO CARRY OUT RESEARCH

I am a student at Moi University Mombasa Campus pursuing a Master's Degree in Strategic Management.

Pursuant to the pre-requisite course work, I would like to conduct a research on investigating **The Effects of Leadership Style on Performance of Small and Medium Enterprises**. The focus of my research will be in Mombasa County and this will involve use of questionnaires administered to owners of the SMEs within the county.

I kindly seek your permission to conduct the research at your company through questionnaires and use of relevant documents. Data collected shall be treated as confidential and strictly be used for academic purposes.

Thanking you in advance as I look forward for your cooperation.

Yours faithfully,

Brenda Uchi Kalama
Student, Department of Management Science and Entrepreneurship

Appendix II: Questionnaire

Instructions: Kindly answer the questions below by ticking the appropriate answer or writing your answer in the space provided.

Section A: Background Information

1. Level of education of respondent?

Certificate []

Diploma []

Degree []

Others []

2. What is the category of the business?

Catering and accommodation []

General trade, wholesalers and retailers []

Professionals, financials and technical services []

3. For how long has this business operated in Mombasa County?

0-5 years []

5-10 years []

10-15 years []

Over 10 Years []

4. What is the estimated number of employees in this SME?

10 - 49 []

50 - 249 []

In this section kindly indicate your level of agreement to these statements regarding leadership style in this organization. Therefore, for each question, Select

SD for Strongly Disagree,

D for Disagree,

N for Neutral,

A for Agree or

SA for Strongly Agree.

Opinion Statements on Autocratic Leadership Style

- | | | | | | |
|---|----|---|---|---|----|
| 5. The owner of the business fully seeks input from workers at all intervals. | SD | D | N | A | SA |
| 6. The group heads dictate all the work methods and processes. | SD | D | N | A | SA |
| 7. Workers are rarely trusted with decisions that are regarded important and crucial. | SD | D | N | A | SA |
| 8. Rules are important and tend to be clearly outlined and communicated. | SD | D | N | A | SA |
| 9. Creativity from the workers tends to be discouraged from the owner. | SD | D | N | A | SA |

Opinion Statements on Transactional Leadership

- | | | | | | |
|--|----|---|---|---|----|
| 10. The owner gives a clear reward scheme for each completed task in the project. | SD | D | N | A | SA |
| 11. The owner of the business almost makes all of the decisions in the business. | SD | D | N | A | SA |
| 12. The owner discourages independent thinking from workers. | SD | D | N | A | SA |
| 13. The owner rewards performance based on specific goals and targets set. | SD | D | N | A | SA |
| 14. The owner is focused on maintaining the status quo within the entire business. | SD | D | N | A | SA |

- | | | | | | |
|--|----|---|---|---|----|
| 25. The number of employees impact the performance of small and medium sized enterprises (SMEs). | SD | D | N | A | SA |
| 26. The number of employees moderate the relationship between the size of small and medium-Sized enterprises (SMEs) and their performance | SD | D | N | A | SA |
| 27. The size of small and medium sized enterprises (SMEs) impact the optimal number of employees needed to achieve maximum performance and growth. | SD | D | N | A | SA |
| 28. The number of employees in small and medium sized enterprises (SMEs) impact their ability to effectively scale their operations. | SD | D | N | A | SA |
| 29. The number of employees determines the performance and growth potential of small and medium sized enterprises (SMEs) | SD | D | N | A | SA |

Thank you for your Cooperation