

Nexus between Leadership Styles and Performance of Small and Medium Manufacturing Firms in Thika, Kenya

ABSTRACT

This study aimed at establishing the nexus between leadership styles and performance of small and medium manufacturing firms (SME's). Three Leadership styles investigated included the transformational, transactional and passive/avoidant behaviour based on Avolio and Bass definitions. Theoretical frameworks used included the Resource Based View and the Dynamic Capabilities View of the firm. These frameworks views leadership styles as a vital resource and a strong dynamic capability required by the firm to attain superior performance and sustain a competitive edge among rivals. A combination of qualitative and quantitative designs were used, part of which was the exploratory design operating under the philosophy of logical positivism, pointing out that a statement is only meaningful if it can be proven to be true or false. Primary data was collected using a self-administered questionnaire from a sample of 115 small and medium manufacturing firms obtained from a population of 165 SME industrial firms in Thika town and within 15 Kms radius. Hypotheses were tested using bivariate correlations and multiple linear regression method. The results indicated that the leadership styles positively and significantly influences SME's performance ($r = .259^{**}$, $P = .005$). Secondly, most of the owners/CEOs of these firms in Thika sub-county practiced transactional leadership (composite mean score, 3.54), followed by transformational leadership (composite mean score, 3.42) and lastly the passive/avoidant leadership behavior (composite mean score, 3.12). Thirdly the study established that transformational leadership style is the best and relates positively and significantly with the SME's performance ($r = .297^{**}$, $P = .001$; $\beta_1 = .208$, $P = .013$). The transactional leadership style ($r = .180$, $P = .054$) and the passive/avoidant leadership behaviour ($r = .169$, $P = .071$) have an insignificant positive relationships with the manufacturing SME's performance respectively.

Key Words, Leadership styles, , Manufacturing, Performance, Dynamic Capabilities, SME

1. INTRODUCTION

A leader in is someone who owns-up, steer and drives the organization's efforts towards accomplishment of the set goals and objectives. He is a role model who provides a vision and directions, makes crucial and tough decisions, solves problems and supports firm's strategies by mobilizing and marshalling resources where and when needed. He creates an enabling environment governed by strong rules, policies and procedures and promotes a strong culture in an organization where employees work without fear or intimidation. He is also responsible for creating a strong platform, in an organization, where performance of work related goals and objectives is viewed by all stakeholders as a winning formulae and a process that drives and confers a competitive edge among the key rival firms. He does these in an environment characterized by integrity, trustworthiness and honesty [1]

Past studies in strategic management literature have underscored the importance of a strong leadership style in an organization as an ingredient towards superior performance and competitive advantage [1], [2], [3], [4], [5], [6], [7], [8] [9] and [10]. Teece [11] stated that “a good leader must possess some superior skills required to effectuate high performance through sensing, seizing and transformation” [P23]. He views a strong leadership as an important dynamic capability required to drive superior performance in organizations operating in a dynamic environment that characterizes organizations all over the world in the 21st century. Leadership is a dynamic capability in that a strong leadership style is difficult for to easily acquire, transfer or imitate. An organization with strong leadership has a valuable resource that is tacit and often embedded in other firm's processes [P 23]. Leadership styles changes with time as a result of changes in the environment and the competitive needs of the society.

Strong leadership skills are required by organizations to drive the strategic management processes forward. However, among the three stages of strategic management process, the strategy implementation stage remains the most difficult and challenging task to undertake [12]. The implication is that leaders in organizations today need to pay a close attention and provide strong leadership in order to translate strategic efforts to superior organizational performance. The strategic management literature has evidence that, even with good and well thought of strategies in place, a good number of organizations all over the world today still struggles with strategy implementation to the extent that between 60 – 80% of all strategies are partially or remain unimplemented [13]. It does not always follow that an organization with a well crafted strategy is guaranteed of success unless the strategy is fully implemented as intended.

The main aim of this study was to establish the nexus between leadership styles and the performance of manufacturing SME in Thika Sub-County in Kenya. The small and medium manufacturing sector in Kenya is increasingly becoming competitive especially with the emerging middle income class who buys their products. The business environment is more competitive with new firms joining the market and others leaving on a daily basis. Since quite a number of SME firms are producing in the increasingly competitive global markets, then, the practices of strategic management are likely to make this sector even more competitive than the past in this new era of globalization and information technology (ICT).

The Kenyan Vision 2030 [14] envisages a vibrant manufacturing sector as a key sector meant to make the economy industrialized by the year 2030. However, the manufacturing sector has recorded poor

performance in the past contributing a dismal 14.2% to the country's GDP [15]. This phenomenon not only paints a grim picture of the sector, as a key pillar of economic growth, but also threatens to slow down the realization vision 2030 dream. The manufacturing SME firms outperformed the large industrial firms in terms of growth and job creation [14, 15]. The SME's in the country are likely to perform better when they fully embrace strategic management practices. The impetus of this study is that not all the SME's engages in strategy management practices [16] and the gap existing in the literature where past studies have largely ignored the strategy implementation process. Leadership in this study was taken to be a key driver of successful strategy implementation efforts which in turn translates to better performance. Thika Sub-County was selected because it is one of the industrial towns and it is ranked third in the country in terms of the easiness to do business [17].

The results from this study indicated that leadership styles has a positive and significant relationship with the manufacturing SME's performance. The study also revealed that most of the leaders of these firms practiced transactional leadership style, followed by transformational leadership style and lastly the passive/avoidant leadership behavior. The study also revealed that, among the three leadership styles, transformational leadership is the best and has a positive and significant relationship with the SME performance. The transactional and passive/avoidant both have insignificant relationships with SME performance. These finding further supports the arguments by Avolio and Bass [18] that transformational leadership style is always the best in any organization set-up.

1.2 Objectives of the Study

1. To establish the influence of leadership styles on performance of the manufacturing SME firm
2. To determine the influences of the transformational, transactional and passive/avoidant leadership styles on performance of the manufacturing SME firm

1.2.1 Research Questions

This study attempted to answer the following two research questions;

1. Does the attention to leadership style have any effect on performance of the manufacturing SME firm?

2. Which one among the three leadership styles (transformational, transactional and passive avoidant behaviour) has the strongest influence on the performance of manufacturing SME firm?

2 REVIEW OF THE RELATED LITERATURE

2.1 The Empirical Review

This study focused on the three main leadership styles according to Avolio and Bass definitions [18]. The transformational leadership style is the process in which leaders create new awareness among their followers of the important areas they need to focus on and also induce them to see the world from a different perspective in terms of the opportunities they need to seize on and how to tackle challenges that come along their world in a better fashion. These leaders proactively seek to optimize organizational innovation and development at individual, group and organizational levels. Secondly, the transactional leadership style exhibits behaviors associated with constructive and corrective transactions. The constructive style is labelled Contingent Reward while the corrective style is labelled Management-by-Exception. Transactional leadership defines expectations and promotes performance to achieve these levels and thirdly, the passive/avoidant leadership style is more passive and non pro-active to situations. Most of the times the leaders reacts to what is happening in their environment as opposed to the transformational leaders who are highly pro-active and challenges the status quo. This leadership does not respond to situations and problems systematically and has a negative effect on desired outcomes. It is often associated with the laissez-faire leadership styles where the leader expects that the followers will always drive themselves and there is no need for him to interrupt. He is laid back and only intervenes when the situation warrant it. Teece [11: pp 23] underscored the importance of leadership styles by stating that “a leader must possess superior skills required to effectuate high performance through sensing, seizing and transformation”. According to him, leadership in an organization is an important dynamic capability that keeps on changing with the changes in the dynamic and competitive environment of an organization as opposed to an ordinary resource postulated by the Resource Based View of the firm [19]. Strong leaders possesses strong skills, mental capacities and capabilities that drives their organizations to perform better than their rivals and confers these firms a competitive edge in a dynamic and competitive environment organizations find themselves today. Thompson and Strickland [20] further stated that strategic leadership keeps organizations innovative and responsive by taking special plans to

foster, nourish and support people who are willing to champion new ideas, new products and product applications. Griffins [21] identified leadership in an organization as one of the main factors influencing strategy implementation by providing a clear direction, up to date communications, motivating staff and setting up culture and values that drives organizations to better performance. Heracleous [22] identified various roles played by leaders during strategy implementation process and classified them as a commander (a leader who attempts to formulate an optimum strategy), an architect (a leader who tries to designs the best way to implement a given strategy), a coordinator (a leader who attempts to involve other managers to get committed to a given strategy, a coach (a leader who attempts to involve everybody in the strategy implementation efforts) and a premise-setter (a leader who encourages other managers to come forward as champions of sound strategies). Based on the foregoing, the following null and alternative hypotheses were set to test the relationship between attention to leadership styles and performance of manufacturing small and medium firms in Thika, Kenya;

H_{01} *There is no significant relationship between leadership styles and performance of manufacturing SME firm in Thika Sub-County, Kenya*

H_1 *There is a significant relationship between leadership styles and performance of manufacturing SME firm in Thika Sub-County, Kenya*

A study in South Africa concluded that leadership and especially strategic leadership's role of providing direction during strategy implementation is important in influencing organization performance [23]. Noble and Mokwa [24] found out that manager's commitment to strategy (which refer the extent to which a manager comprehends and supports the goals and objectives of a strategy) and individual manager's role performance (the degree to which a manager achieves goals and objectives of a particular role) positively influences the success of strategy implementation effort and performance in an organization. Bourgeois and Brodwin [25] identified a variety of leadership styles which are practiced by leaders during strategy implementation and found out that leadership approaches to strategy implementation varies from being an autocratic leader to a more participative style that involves active engagement of various stake holders in the implementation process. According him, the five main categories of leadership styles practiced during strategy implementation include commander, collaborative, coercive, cultural and organizational change. Ling *et al.* [2] identified that there is a significant relationship between transformational CEOs and

the performance in SMEs. In order to test the significance of various leadership styles based on the above findings on transformational leadership, the following null and alternative hypotheses were developed;

H_{02} *There is no significant relationship between transformational leadership practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

H_2 *There is a significant relationship between the transformational leadership practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

Aziz *et al.* [3] tested the three most common leadership styles commonly practiced by SMEs which include the transactional, transformational and passive avoidant (Laissez-faire) leadership styles and found out that among the three leadership styles, the transformational leadership has the highest influence and is directly related to the performance in SMEs. His findings are consistent with a study by Naeem and Tayyeb [4] in Pakistan which found a positive correlation between the transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SMEs performance. The study concluded that the transformational leadership style positively and significantly influences performance in SMEs in Pakistan. Based on the need to test the relationship between the transactional leadership style and performance of manufacturing SME firm in Thika Sub-County in Kenya, the following null and alternative hypotheses were developed;

H_{03} *There is no significant relationship between transactional leadership style practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

H_3 *There is a significant relationship between transactional leadership practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

Okwu *et al.* [6] tested the application of transformational and transaction leadership styles in Nigerian SMEs and found out that transformational leadership style is weak in explaining variations in performance while the transactional leadership style has a significant positive effect on performance and both jointly explain very high proportion of variations in SME's performance. The study concluded that transactional leadership style is more appropriate in inducing performance than transformational leadership and recommended that SME firms should adopt transactional leadership style but strategize to transit to

transformational leadership style as their enterprises develop, grow and mature. In order to test the relationship between passive/avoidant leadership behaviour and performance of the manufacturing SME firm in Thika Sub-County in Kenya, the following null and alternative hypotheses were developed;

H_{04} *There is no significant relationship between passive/avoidant leadership behaviour and performance of manufacturing SME firm in Thika Sub-County, Kenya*

H_4 *There is a significant relationship between passive/avoidant leadership behaviour and performance of manufacturing SME firm in Thika Sub-County, Kenya*

2.2 THE CONCEPTUAL FRAMEWORK

The relationship between the dependent (performance) and independent (leadership styles) variables were conceptualized and results presented in Figure 1. The arrow shows the direction of the relationship between the dependent and the independent variables and the hypotheses tested.

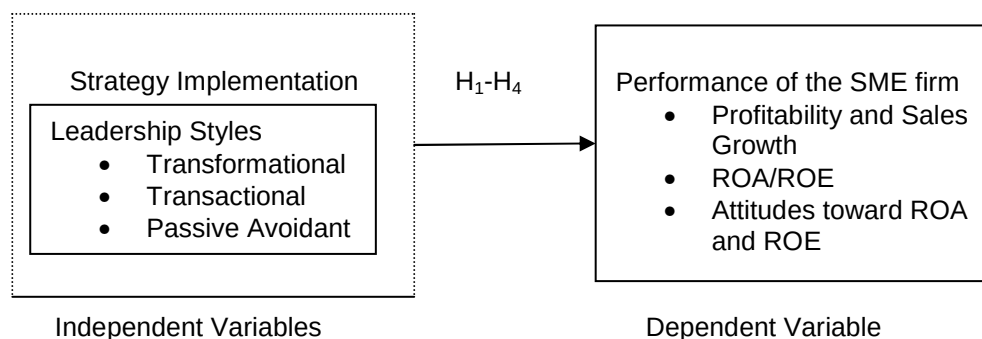


Fig. 1. Relationship between Leadership Styles and manufacturing SME's Performance

2.3. THEORETICAL ORIENTATIONS

Both the dependent (Performance) and independent variables (Leadership Styles) in this study are well underpinned in the Dynamic Capability's View of the firm (DCV) which was developed by David Teece in 1990s. The framework, is based on the works of Barney [26] Rumelt [27] and Wernerfelt [28], provides a better explanation of how organizations gain competitive advantage through acquiring and developing their unique dynamic capabilities as opposed to the view advanced by the proponents of the Resource Based View of the firm [19] who argues that the resources an organization possesses plays an important role in determining her success and competitive advantage. The Dynamic Capability View (DCV) framework perceive changes taking place in the firm's environment as an impetus for a continuous

renewal and regeneration of their resources in a way that matches the dynamics taking place in the organic environment where the firm operates [29]. Teece, Pisano and Shuen [30], observed that the DCV framework explores various ways a firm is able to consolidate, grow, configure and re-configure their unique internal and external processes and competencies into a new set of processes and competencies that are well aligned to the environmental changes taking place in an increasingly a turbulent world [31]. According to the DCV framework, any firm that possesses strong and greater dynamic capabilities will always outperform the firms with weaker and smaller dynamic capabilities. It therefore follows that any firms operating in a dynamic environment will always attempt to continuously renew, re-configure and re-build unique firm specific capabilities (both internal or external) in order to remain competitive [32]. The theory argues that the dynamic capabilities are hard to imitate, transfer or develop since they are tacit and often embedded in the firm in a unique set of relationships and histories [33]. A firm with ordinary capabilities will always do things right according to Resource Based View (RBV) while a firm with dynamic capabilities will do the right things at the right time based on her unique processes, the prevailing firm's culture and correct judgement and knowledge of the happenings in the firms competitive environment and the opportunities derived from superior technology the firm has according to DCV [34]. Teece [34] gives examples of strong dynamic capabilities in a firm that include unique processes, advanced technology, strong and flexible structures, strong leadership skills and strong business models required by organization's leadership to effectuate high performance sensing, seizing and transforming an organization [10: pg23]. Strong dynamic capabilities provide an easy path for the firms to achieve superior results, outperform rivals and acquire and sustain a competitive advantage over the rival firms in the industry.

The Dynamic Capability View of the firm framework is important in this study because a strong leadership style is not only a driving force and capability required by organization to achieve a better performance but also dynamic in nature. The capability is developed through learning and practice and is usually tacit and difficult for other organizations to imitate because it resides in an individual. The implication here is that strong leadership skills are required to drive forward superior performance.

3. RESEARCH METHODOLOGY

3.1 Population and Sample of the Study

This study adopted a mixed research design that incorporated the qualitative and quantitative designs. Logical positivism was the guiding philosophy which points out that a statement is any valid if it can be proven to be true or false [35], [36]. To compensate for the weaknesses of one design over the other and to increase accuracy data collected, a triangulation of both designs was applied. This approach has been used before by a number of researchers in related studies [37, 38 and 39]. The current study limited itself to manufacturing firms in Thika town and within a radius of 15 kms in order to maintain a homogeneous population. The manufacturing sector in the town comprised of 10 large scale industries, which were not the main focus of this study, and 165 SME's firms which formed the basis of this study [40]. These firms were further stratified into two main categories resulting into medium and small manufacturing firm's classification. From the population of 165 firms, a sample was drawn using a simple random procedure giving 115 firms that participated in this study. The formulae used to obtain the correct size of the sample had been provided by Mugenda and Mugenda [41]. Data was collected using a self-administered questionnaire where the owner manager/CEO or lead manager was interviewed and further issued with a questionnaire containing both open and close ended questions. Due to the difficulty of getting the CEOs to respond and return the filled questionnaire in good time, several follow ups were made and the data collection process took a period of eight months to complete. All the intended 115 questionnaires were correctly filled and returned hence the response rate was 100%.

3.2 The Reliability Test

The psychometric constructs in this study were tested for internal consistency. Cronbach's alpha was then used to test reliability of these constructs. The dependent variable (performance) obtained an alpha of 0.815 while the independent variable (leadership styles) returned an alpha of 0.800. The acceptable level of alpha, as a measure of reliability of test instrument, lies in between 0.700 -1.00 [42]. The results obtained from these tests indicated that the constructs were reliable and valid.

3.3 Data Analysis

Summary statistics comprising of the mean scores and standard deviations were obtained for both variables. These summaries provided information on how the respondents scored on the Likert based psychometric instruments [43] indicating the extent to which they agreed or disagreed with each question. A mean score above 3.4 on a 1-5 Likert scale indicates that the respondents agreed with a given construct while the opposite is true for a mean score below 3.4. A bivariate linear correlation was obtained to show how the dependent variable relates to the independent variable. The strength of this relationship is given by the Spearman's Rho (r) which ranges from 0.00 – 1.00. The more close the Rho value is to 1.00, the stronger the relationship and the vice versa is also true. The significance of the relationship is shown by its corresponding p-value where the p-value below 0.05 indicate that the variable is statistically significant while the p-value above 0.05 indicate that the variable is not statistically significant. The correlation results obtained were then used to reject or fail to reject the null hypothesis depending on the corresponding p-values. The linear regression analysis was then performed which gave the coefficient of determination (R^2) indicating how well the proposed model fitted the data collected and the F-statistics indicating whether the proposed model is valid for further analysis or not. The unstandardized beta values gave the regression weights and the direction of the relationship while their corresponding p-values indicated whether the relationship is statistically significant or not. The correlation and regression results were used to test hypotheses proposed in this study.

3.4 Research Models

First, the relationship between the dependent variable (Y) and the independent variable (X) in this study was represented in a functional form as shown in equation 1. Secondly, a linear function was developed to show the relationships among the specific leadership styles (Transformational, Transactional, Passive/Avoidant) and the SME performance as shown in equation 2. Thirdly, from these two equations (1 and 2), regression models were developed to capture the relationship (s) between/among the dependent variable (Y) and the independent variable (s) (X, X_i where $i=1, 2, 3$) as shown in equation 3 and 4 respectively;

$Y_f(X_1) + \varepsilon$ (1) Where; Y = SME's performance, X_1 = leadership styles and ε is the stochastic disturbance error term

270 $Y_f(X_{11}, X_{12}, X_{13}) + \varepsilon$ (2) Where; X_{11} = transformational leadership, X_{12} = transactional
 271 leadership, X_{13} = passive/avoidant leadership

272 The following regression models were derived from equation 1 and equation 2 respectively;

273 $Y = \beta_0 + \beta_1 X_1 + \varepsilon$ (3) Where; β_0 = constant/slope and β_1 = coefficient for X_1

274 $Y = \beta_0 + \beta_1 X_{11} + \beta_2 X_{12} + \beta_3 X_{13} + \varepsilon$ (4) Where; $\beta_{j (j=1, 2, 3)}$ = coefficient/slope of X_i for $i = 1, 2, 3$

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276 4. MEASUREMENT OF VARIABLES

277 4.1 Performance of the SME Firm

278 The manufacturing SME's performance was measured using financial indicators that elicited the
 279 respondent's perception on the level of profitability, ROA/ROE and growth of sales for the past five years.
 280 To obtain the sensitive information on the financial performance that the respondents will ordinarily not
 281 disclose due to sensitivity or confidentiality, the study used a 5 point Likert scale questions [43] aimed at
 282 obtaining the same information in a more indirect approach. The scale ranged from 1 – 5 (strongly
 283 disagree – strongly agree). Mean scores were then computed on each item and the scores above 3.4
 284 indicated agreements while those below indicated disagreements with a given statement. These mean
 285 scores were then used to arrive at the composite score and the higher the score, the better the perceived
 286 performance and otherwise is also true for poor performance.

287 4.2 Leadership Styles

288 A Multi-factor Leadership Questionnaire short form, 6-S :MLQ – 6S [44] was adopted by this study to
 289 measure the three dominant leadership styles commonly practiced in organizations today namely the
 290 transformational leadership, transactional leadership and passive/avoidant leadership behavior. The tool
 291 consisted of 21 items which are marked from 1-5 rating scale where 1 = not at all, 2 = once in a while, 3 =
 292 sometimes, 4 = fairly often, 5 = frequently if not always. The factors of MLQ 6-S are grouped according to
 293 Avolio and Bass definitions [18]. The transformational leadership style includes: Factor 1. Idealized
 294 influence (item 1, 8 & 15), Factor 2. Inspirational motivation (items 2, 9 & 16), Factor 3. Intellectual
 295 stimulation (item 3, 10 & 17), Factor 4. Individualized consideration (item 4, 11 & 18). The Transactional
 296 leadership style include: Factor 5. Contingent reward (item 5, 12 & 19) and Passive/Avoidant leadership

behavior include: Factor 6. Management-by-Exception Passive (MBEP) (item 6, 13 & 20) and Factor 7. Laissez-faire (items 7, 14 & 21). According to Avolio and Bass [16], the MLQ 6-S short form is scored as follows: Summing three scores of specified factor 1, 2, 3 & 4 gives the total score of transformational leadership. The total score of transformational leadership is divided by four to give the composite mean score of transformational leadership style. Total score of factor 5 gives the total score of transactional leadership. The total score of transactional leadership divided by one gives the composite mean score of transactional leadership style. Summing scores of factor 6 and 7 gives the total score of passive/avoidant leadership behavior while total score of passive/avoidant behavior is divided by two to give the composite mean score of passive/avoidant behavior.

5. RESEARCH FINDINGS AND DISCUSSIONS

According to the findings of this study in Appendix 1 (Table 1), the owners/CEOs of the SME firms in Thika Sub-County agreed with majority of the constructs based on the performance of their firms. Results shows that the mean score for most of the psychometric constructs on performance were above 3.4. However, the leaders disagreed with two constructs one based on the satisfaction with the ROA (mean score, 3.37) and the other on increase of the number of employees in the given period (mean score, 3.18). The mean score for these two items was below 3.4 as shown in Table 1 in appendix 1.

According to Avolio and Bass definitions [18] of leadership styles shown in Fig. 2 and Table 2 in appendix 2, majority of the leaders in manufacturing SME firms in Thika Sub-County practiced the transactional leadership style (composite mean score, 3.54), followed by transformational leadership style (composite mean score, 3.42) and lastly passive/avoidant leadership behavior (composite mean score, 3.12).

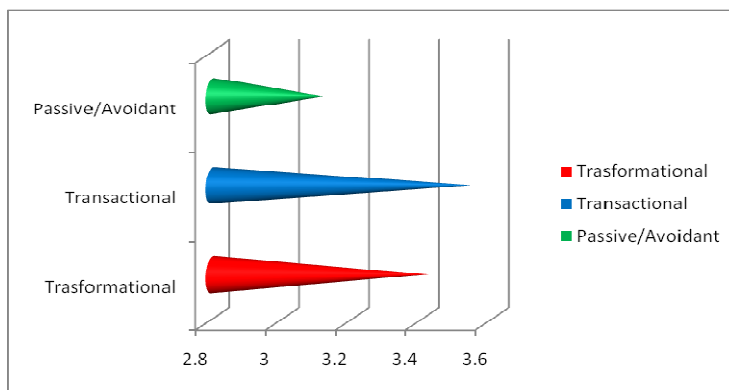


Fig. 2. Common Leadership Styles Practiced in SME manufacturing Firms in Thika, Kenya.

Table 3 shows the bivariate linear correlations between leadership styles and performance of a manufacturing SME firms. This study found statistical evidence from the results obtained in table 3 that a positive and significant relationship exists between the dependent variable (performance) and the independent variable (leadership styles) ($r = .259^{**}$, $P = .005$). This finding is consistent with the works of earlier scholars who found out that leadership positively influences performance in an organization [1], [2], [3], [4], [5], [6], [7], [8] [9] and [10]. The implication of this finding is that the SMEs firms will always experience a significant improvement in their performance with adoption of a better leadership style.

Table 3. Bivariate Linear Correlations between Leadership Styles and SME's Performance

		Y	X_1
Manufacturing SME's Pearson Correlation		1	
Performance	Sig. (2-tailed)		
(Y)	N	115	
Manufacturing SME's Pearson Correlation		.259**	1
Leadership Styles	Sig. (2-tailed)	.005	
(X_1)	N	114	114

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

A univariate regression analysis was then performed and the results are presented in Table 4 and Table 5. The relationship between leadership styles and manufacturing SME's performance was captured in a model $Y = \beta_0 + \beta_1 X_1 + \epsilon$. The results in Table 4 indicated that the model is valid ($F_{(1, 112)} = 8.062$, $P = .005$) implying that the independent variable (X_1) play an important role in predicting performance (Y).

Table 4. Relationship between Leadership Styles and SME Performance: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.745	1	1.745	8.062	.005 ^b
Residual	24.245	112	.216		
Total	25.990	113			

a. Dependent Variable: Performance

b. Predictors: (Constant), Leadership Styles (X_1)

Results in Table 5 indicated that the independent variable (X_1 ; leadership styles) alone accounts for 6.9% of the total variations in performance of the manufacturing SME firm. The value of β_0 indicate that leadership styles will always be present in the SME firm at a certain significant minimum ($\beta_0 = 3.754$, $P < .001$). These results are in agreement with the correlations output in Table 3 that a positive and significant relationship exists between leadership styles and the manufacturing SME's performance ($\beta_1 = .284$, $P = .005$). The existence of a positive and significant relationship between the two variables are in line with other scholars who found that a leadership style is an important variable and a good predictor of performance in organizations [1], [2], [3], [4], [5], [6], [7], [8] [9] and [10].

Table 5. Relationship between Leadership Styles and SME Performance: Regression Weights

Model	Unstandardized Coefficients		Standardized Coefficients	R^2	t	Sig.
	B	Std. Error	Beta			
Constant	3.754	.044			85.988	.000
X_1	.284	.100	.259	.067	2.839	.005

a. Dependent Variable: Performance

The first alternative hypothesis (H_{1a}) in this study predicted that a significant relationship exists between leadership styles and manufacturing SME's performance. The findings from bivariate linear correlations in Table 3 ($r = .259^{**}$, $P = .005$) and from univariate regression analysis in Table 5 ($\beta_1 = .284$, $P = .005$) indicated that a positive and significant relationship exists between the two variables. Therefore, the null hypothesis (H_{01}) was rejected in favour of H_{1a} and concluded that a positive and significant relationship exists between leadership styles and performance of SME manufacturing firm in Thika Sub-County.

To test the specific leadership styles based on Bass and Avolio definitions [44], a bivariate linear correlations was performed to establish how each of the three leadership styles are related to the SME's performance. The results are presented in Table 6 and indicated that the transformational leadership style is the best among the three with a significant positive influence on SME's performance ($r = .297^{**}$, $P = .001$). On the other hand, the transactional and passive/avoidant leadership styles respectively have an insignificant positive relationships with the SME firm's performance ($r = .180$, $P = .054$), ($r = .169$, $P = .071$).

Table 6. Bivariate Correlations of Specific Leadership Styles and SME's Performance

		Y	X ₁₁	X ₁₂	X ₁₃
Performance (Y)	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	115			
Transformational (X ₁₁)	Pearson Correlation	.297**	1		
	Sig. (2-tailed)	.001			
	N	115	115		
Transactional (X ₁₂)	Pearson Correlation	.180	.395**	1	
	Sig. (2-tailed)	.054	.000		
	N	115	115	115	
Passive/Avoidant (X ₁₃)	Pearson Correlation	.169	.494**	.480**	1
	Sig. (2-tailed)	.071	.000	.000	
	N	115	115	115	115

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

A multiple linear regression model was then developed containing these three dominant leadership styles. This resulted to the model $Y = \beta_0 + \beta_1 X_{11} + \beta_2 X_{12} + \beta_3 X_{13} + \varepsilon$ (see equation 4 pp. 12). The results of this regression are presented in Table 7 and 8. Table 7 shows that the model was valid ($F_{(3, 111)} = 3.788, P = .012$) implying that the combination of these leadership styles significantly influences firm's performance.

Table 7. Relationship between Specific Leadership Styles and SME performance: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.466	3	.822	3.788	.012 ^b
Residual	24.087	111	.217		
Total	26.553	114			

a. Dependent Variable: Performance

b. Predictors: (Constant), X₁₃, X₁₂, X₁₁

The findings in Table 8 show that the three leadership styles, in a combined relationship, explains 9.3% of the total variations in SME performance ($R^2 = .093$). The results of β_0 in the table indicate that a combination of leadership styles will always be present at a certain significant minimum ($\beta_0 = 2.864, P < .001$). These results also provides evidence that transformational leadership style (X₁₁) and the SME performance are positively and significantly related (X₁₁, $\beta_1 = .208, P = .013$). The transactional leadership style (X₁₂, $\beta_2 = .049, P = .481$) and passive/avoidant leadership style (X₁₃, $\beta_3 = .001, P = .012$) have positive but insignificant relationship with the SME performance. The implication here is that, by and

large, the transformational leadership style is the best predictor of performance in the SME manufacturing firms followed by the transactional leadership and lastly the passive/avoidant behavior.

Table 8. Relationship between the Specific Leadership Styles and Performance of the Manufacturing SME Firm: Regression Weights

Model	Unstandardized Coefficients		Standardized Coefficients	R ²	t	Sig.
	B	Std. Error	Beta			
Constant	2.864	.289			9.914	.000
X ₁₁	.208	.083	.267		2.512	.013
X ₁₂	.049	.069	.074		.706	.481
X ₁₃	.001	.091	.001	.093	.012	.990

a. Dependent Variable: (Y) Performance

This study had proposed the following alternative hypotheses based on these leadership styles;

H₂. *There is a significant relationship between the transformational leadership practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

H₃. *There is a significant relationship between transactional leadership practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

H₄. *There is a significant relationship between passive/avoidant leadership behaviour practices and performance of manufacturing SME firm in Thika Sub-County, Kenya*

Results presented in Table 6 and Table 8 indicated that a positive and significant relationship exists between the transformational leadership style (X₁₁) and performance of the SME firm ($r = .297^{**}$, $P = .001$; $\beta_1 = .208$, $P = .013$). Therefore, the null hypothesis (H₀₂) was rejected in favour of the alternative hypothesis H₂ and a conclusion that a significant relationship exists between the transformational leadership practices and performance of the manufacturing SME firm in Thika Sub-County was made. This means that leaders in the manufacturing SME firm who are able to practice the transformational leadership style help their organizations to achieve better performance. The findings also revealed that the transactional leadership style (X₁₂) has an insignificant positive relationship with the manufacturing SME's performance ($r = .180$, $P = .054$; $\beta_1 = .049$, $P = .481$).

Therefore, the study failed to reject the null hypothesis (H₀₃) and concluded that there is no significant

relationship between transactional leadership style and performance of manufacturing SME firm in Thika Sub-County. The study also provided statistical evidence that the relationship between the passive/avoidant leadership behaviour and the manufacturing SME performance is positive but statistically insignificant ($r = .169$, $P = .071$). This study, therefore, failed to reject the null hypothesis (H_{04}) and concluded that there is no significant relationship between the passive/avoidant leadership behaviour and performance of manufacturing SME firm in Thika Sub-County, Kenya.

8. DISCUSSION OF FINDINGS

The results from both bivariate linear correlation in Table 6 ($r = .259^{**}$, $P = .005$) and univariate regression analysis in Table 8 ($\beta_1 = .284$, $P = .005$) indicated that leadership styles has a positive and significant relationship with the performance of the SME manufacturing firm. This means that the choice of a leadership style affects significantly how manufacturing firms performs These findings are in line with observations and conclusions made by earlier scholars that organization's leadership is an important factor that leads to superior performance in a dynamic environment [1], [2], [3], [4], [5], [6], [7], [8] [9] and [10]. The role of organization's leadership in owning up, steering and driving forward goals, objectives and strategies of a firm is a critical success factor. The findings in this study that leadership styles influences manufacturing SME performance are also in agreement with the arguments advanced by the proponents of the Dynamic Capabilities View's framework that organizations with superior performance tended to exhibit strong leadership skills among other dynamic capabilities. Leadership skills are tacit and dynamic in nature making it difficult for other organizations to acquire or imitate. It therefore, follows that the SME manufacturing firms' leadership needs to enhance, foster and vary their dynamic capabilities with respect to leadership skills to suit the ever changing demands in the society. These changes should be well aligned with the changes taking place in the competitive and dynamic environment these firms find themselves in the 21st Century. This finding, therefore, supports the dynamic capabilities view of the firm (DCV) arguments that leadership is a strong dynamic capability that lead to superior performance. The analysis of specific types of leadership styles practiced in most organizations based on the works of Avolio and Bass [18] in Table 6 and Table 8 revealed that the transformational leadership style is the

best among the three leadership styles. This study found transformational leadership to have a positive and significant relationship with the performance of the manufacturing SME firms ($r = .297^{**}$, $P = .001$; $\beta_1 = .208$, $P = .013$) while transactional leadership styles ($r = .180$, $P = .054$; $\beta_2 = .049$, $P = .481$) and passive/avoidant leadership behavior ($r = .169$, $P = .071$; $\beta_3 = .001$, $P = .990$) have statistically insignificant relationships with the SME's performance.

A comparative analysis of the past studies indicated that the findings of the current study are consistent with the works of several scholars who attempted to relate the three specific leadership styles. Aziz *et al.* [3] found out that among the leadership styles practiced by SMEs, the transformational leadership has the highest influence and is directly related to the firm's performance. Ejere and Ugochuku [45], in an empirical study of transformational and transactional leadership styles in Nigeria, found that transformational leadership style is positively and highly related to organizational performance while transactional leadership style has a positive but weak relationship with organizational performance. Ling, Simek, Lubatkin and Veiga [2] found a significant relationship between transformational CEO's and performance of the SME's and noted that their findings tended to confirm the Upper Echelons theory's argument that CEO characteristics affect organizational performance. Udoh and Agu [7] studied the transformational and transaction leadership styles on performance of manufacturing organizations in Nigeria and found a significant positive relationship between transformational and transactional leadership styles and the organizational performance. However, deviating from Udoh and Agu's findings this study found that, although the transactional leadership style is positively related to performance of the manufacturing SME firm in Kenya, this relationship is statistically insignificant ($r = .180$, $P = .054$; $\beta_2 = .049$, $P = .481$). This can be attributed to the existence of different PESTEL conditions in Kenya and Nigeria. Okwu, Obiwuru, Akpa and Nwankwere [6] tested the application of transformational and transactional leadership styles in Nigerian SME's and found out that transformational leadership traits (charisma, intellectual stimulation/individual consideration, inspirational motivation) are weak in explaining variations in performance. Their study also found that the transactional leadership traits (constructive/contingent reward, corrective and management by exception) have a significant effect on followers and performance and explains very high proportion of variations in performance. They concluded that transactional

leadership style is more appropriate in inducing performance than transformational leadership style. The current study finds these findings completely the opposite. This study found that, although, the SME manufacturing firms in Kenya are currently practicing more of transactional leadership style, it is only the transformational leadership style which is statistically significant under the Kenyan PESTEL conditions. The leadership styles practiced by these SME's during strategy implementation process were also found to have some transformational attributes.

Naeem and Tayyeb [4] in Pakistan found a positive correlation between transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SME performance. The findings of these two studies [4], [45] are in agreement with this study on the significance of the transformational leadership style but disagree on the significance of transactional leadership. Their studies found a weak relationship between transactional leadership and SME performance but the current study indicated that although there is a weak positive relationship between the two variables, this relationship is statistically insignificant. Ojokuku, Odetayo and Sajuyigbe [5] examined the impact of the leadership styles in unrelated sector to this study which included the banking industry in Nigeria and found a strong relationship between leadership and organizational performance. The findings of their study indicated that the transformational leadership is positively and significantly related to bank's performance. The transactional leadership style is negatively related to performance but insignificant. Their study findings are in agreement with current study on both leadership styles. Zumitzavani and Udchachone [9] also examined the influence of leadership on organizational performance in hospitality industry in Thailand and found out that transformational leadership style has a positive relationship with organizational performance; transactional leadership style has a weak positive relationship while passive/avoidant has a negative relationship with organizational performance. Koech and Namsonge [8] investigated the effects of leadership styles on organizational performance of state owned corporations in Kenya and found a high correlation between transformational leadership, a low but significant correlation between transactional leadership and performance and no correlation between passive/avoidant leadership style and performance. Okwachi *et al* [46] studied Kenya SME's and found that leadership practice has a direct relationship with organizational performance.

9. CONCLUSION

This study found statistical evidence that a positive and significant relationship exist between leadership styles practiced and performance of manufacturing SME's firms. Secondly, the study also found that most of the CEOs and the owners of manufacturing SME firms in Thika Sub-County in Kenya practice more of transactional leadership styles followed by transformational style and lastly passive/avoidant leadership behavior. Thirdly, among the three specific leadership styles commonly practiced in organizations today, only transformational leadership was found to be statistically significant in a combined relationship. The transactional and passive/avoidant leadership were found to be positively related to manufacturing SME firm's performance but their influence is statistically insignificant in a combined relationship. Fourthly, the study revealed that leadership styles is an important dynamic capability in manufacturing SME firms as postulated by the proponents of the dynamic capability's view of the firm. The study also found out that leadership is an important and significant variable influencing strategic decisions and hence the performance of manufacturing SME firm. The study recommended that the manufacturing SME firms should begin by enhancing their transactional leadership styles and progressively advance to transformational style which is the best as per the findings of this study. Passive/avoidant leadership has the least influence on the performance of these firms. Finally, the study came into a conclusion that the leaders of the SME firms need to continuously foster, learn, and develop better leadership skills as one of the dynamic capabilities significantly influencing firm's performance.

11. COMPETING INTERESTS

Authors have declared that no competing interests exist.

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13. APPENDICES

Appendix 1

Table 1. Summary Statistics: Performance of the SME manufacturing Firm Likert-Based Psychometric Constructs on Manufacturing SME's Performance [47]

Performance Construct	N	Mean	Std. Dev
Our Total Profits (Total sales – Costs) have been increasing yearly	115	4.139	.475
The volume of sales has been increasing ever yearly	115	4.078	.664
The number of employees has been rising every year	115	3.183	1.064
The geographical market size of our products has been expanding	115	3.635	.921
We are highly satisfied by the returns from assets invested (ROA)	115	3.374	1.013
We are highly satisfied by the returns from borrowed money (ROE)	115	3.504	.921
Number of customers satisfied by our products has been rising each year	115	3.913	.695
The size of our organization has been expanding for the last five years	114	3.895	.643
The quality of our products has improved considerably	114	3.851	.755
Efficiency of our internal work processes has improved tremendously	115	3.965	.576
Valid N (listwise)	113		

Note: Reliability α – Performance = 0.815: Ranked on a scale where 1=Strongly Disagree, 2= Disagree, 3=Not Sure, 4=Agree, 5=Strongly Agree

Appendix 2

Table 2. Summary Statistics based on Avolio & Bass's [18] MLQ 6-S Short Form Leadership Constructs applied in manufacturing SME firm in Thika Sub-County, Kenya

MLQ 6-S Short Form Statement on Leadership Styles	N	Mean	Std. Dev
I make employees feel good to be around me	115	2.835	1.059
I tell others in a few simple words what need to be done	115	3.844	1.204
I help others to think about old problems in new ways	115	3.400	.896
I help other employees to develop themselves	113	3.398	.797
I tell employees what to do if they want to be rewarded for their work	115	3.244	1.014
I am satisfied when employees meet the agreed targets	114	4.877	.356
I am contented to let others to continue working in the same ways always	115	2.145	1.258
Other people have complete faith in me	114	3.290	.938
I use tools, images, stories and models to help other people understand	115	3.044	.862

I provide employees with new ways of looking at complex or difficult issues	114	3.333	.984
I give employees feedback to let them know how they are doing	113	4.177	.804
I reward employees when they achieve their targets	113	3.336	1.040
As long as things are working, I do not try to change anything	112	2.286	1.352
I give employees freedom to do whatever they want	115	1.730	1.029
Other people are proud to be associated with me	115	3.574	3.978
I help the employees to find meaning in their work	113	3.814	.892
I help others to rethink about issues that they had never thought of or questioned before	115	3.130	.822
I give personal attention to others when they are in need	114	3.254	1.037
I let employees to know what they are entitled to after achieving their targets	114	4.053	.967
I remind employees the standards they need to maintain while doing their work	114	3.649	1.137
I do not ask anything more from others than what is absolutely necessary	114	3.939	1.271

643 Note: Reliability α – Attention to leadership styles = 0.800