INFLUENCE OF LEADERSHIP STYLES ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES AT NAIROBI CENTRAL BUSINESS DISTRICT IN KENYA

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ABSTRACT
Small and Medium Enterprises (SMEs) have a critical contribution in the economy of Kenya. These enterprises employ hundreds of thousands of Kenyans, and make immense contribution to the country’s economic growth. Yet, aside from this important role they do play in the economy, up to 80 percent of these enterprises do not survive their fifth year of operations. One of the key reasons for this situation is that the strategic direction of such firms are limited by the inappropriate leadership styles of the entrepreneurs. It has to be noted that the leader plays a critical role in driving his or her team towards a specified goal. Hence, when the leadership style adopted is inadequate to keep the team motivated, then the organizations is unlikely to realize its goals. In any case, employees are the most important resources in an organization, and the role of the leader is to cause them to give their best. This study focused on four leadership styles; transactional, transformational, participative and laissez faire with a view to suggesting the best style of leadership for an SME. The research was conducted in Nairobi County specifically within the Central Business District (CBD). Chapter two looked at the available literature on the subject, in a bid to lay grounds for the study. In doing so, the sources consulted included books and referred journals articles, thus guaranteeing that the information used in this section was reliable and not just unverifiable opinions. Chapter three delved deeper on how the data to be used in the study was collected and analyzed. In essence, according to Nairobi County Business
Licensing Department (2015), we had a total of 1,319 registered SMEs within Nairobi County, which were spread across nine sectors, namely investment, consultancy, contractors, office products, general merchants, electronics, tours and travels, supplies and food retailers. The study adopted a descriptive research design. A sample of 132 organisations was used to collect data. Data collected was analyzed using SPSS software. The study results showed that Transactional Leadership had a positive and significant influence on performance of small and medium enterprises at Nairobi central business district in Kenya. Regression results also showed that transformational leadership style and participative leadership style had a positive and significant effect on performance of small and medium enterprises at Nairobi central business district in Kenya. Finally results showed that laissez fairez style of leadership had a negative but significant effect on performance of small and medium enterprises at Nairobi central business district in Kenya. The study concluded that leadership style had an influence on performance of small and medium enterprises at Nairobi central business district in Kenya. The study recommends for inclusion of strategic leadership styles on small and medium enterprises to boost performance.

**Key words:** Transformational Style of Leadership, Laissez Faire Leadership Style, Performance of SMEs’ in Nairobi Kenya, Participative Leadership Style, Performance.

**Background of the Study**

One of the problems that has been traditionally associated with the management of SMEs has been the inability to access the requisite fund and the need for business management skills. As a result, Kituku (2013) notes that there has been a tendency to focus outwards for solutions to SMEs problems, in a way that has not touched the need for reengineering internal structures. As a result, Kimando, Njogu, & Kihoro (2012) notes that progress made by SMEs has largely been slow, and even negligible in some cases. The journey of SMEs towards successfully implementing their own strategies is one that is punctuated with more cases of failure compared to success. Tripathi & Siddiqui (2012) are of the view that as high as 90 percent of SMEs do not survive to see their fifth anniversary, with up to 50 percent of this firms failing within their first years of operations. Hence, there is a great need to relook at how they formulate and manage their strategy implementation processes.

One of the critical pillars in the performance of SMEs has to be the leadership style adopted by the leader. Schabracq & Smit (2014) warns that the leader has the responsibility of charting the path to be followed, but this responsibility extends to getting the employees to embrace that path and dedicate themselves to working towards realization of the vision put forth by the leader. If the leader is unable to elicit requisite effort from the employees, then however good the strategy and vision are, performance of the firm will be negligible, and the business may even fail (Kimando, Njogu, & Kihoro, 2012). It has to be noted that the success or failure of any business boils down to performance. Good performance in terms of achieving higher sales and profitability figures, higher levels of customer satisfaction, and a wider base of loyal customers are all responsible for the success of the business. Yet, all these largely depend on the relationship between the leader and his subordinates, and how the leader is able to motivate and influence them. To consider this issue, then we have to relook at the leadership styles present in SMEs and how effective they are in the successful implementation of the business strategies.

**Specific Objectives**

1. To establish the influence of transactional leadership on the performance of SMEs in Kenya.
2. To determine the influence of transformational leadership on the performance of SMEs in Kenya.
3. To assess the influence of participative leadership on the performance of SMEs in Kenya.
4. To analyze the influence of laissez faire leadership on the performance of SMEs in Kenya.

Literature Review

Theoretical Review
Theoretical review involved anchoring the variables under review on specific theories. The purpose was to ensure that the variables were evaluated critically and the research problem placed into perspective (Greiner, 2010). In this section therefore, the independent variables were evaluated on the basis of specific theories, which included the path-goal theory, Vroom expectancy theory, theory Z and theory X.

Path–Goal Theory
This theory is related to transactional style of leadership. It was propagated by House & Mitchell (1975) who observed that an individual will act in a certain way because he is expecting that his action will be followed by a specific outcome, or that the outcome will be attractive to him. According to this theory therefore, the leader will have to first understand the kind of behaviour he desires from the employee, and therefore provide a working environment that best suits the employee. This includes setting goals and conditioning rewards in such a way that it is in line with the needs of the employee (Bass & Riggio, 2013).

Path Goal theory is related to the transactional style of leadership because under this style of leadership, the leader adopts a carrot and stick approach to managing. Good behaviour is rewarded, so as to encourage employee to continue exhibiting such behaviour, while at the same time, punishing undesired behaviour, such as poor performance to stop it. In this sense therefore the behaviour of employee is guided by the leader. The leader has to first determine what sought of behaviour is desired, and then provides working environment that support that kind of behaviour in the workplace (Ilegbinosa & Jumbo, 2015).

Vroom Expectancy Theory
This theory has a lot of relationship with the transformational style of leadership. It was developed by Vroom (1964) who observed that the actions of individuals is as a result of conscious choices the make among several alternatives with an aim to maximizing their pleasure or minimizing pain. At the core of this theory is the belief that the performance of an individual is largely influenced by personal factors such as skills, personality, knowledge, experience and abilities. It is therefore the leaders’ role to influence the individuals and teams to put in their best effort and help achieve organisational objectives. According to the theory, performance is impacted by three critical things. The first is expectancy, which is the belief by the employee that increased effort will result into increased performance (Vroom, 1964). Secondly is instrumentality, which is the belief by the employee that a better performance from him or her will results into an outcome he or she values (Vroom, 1964). Lastly, is valence, which is the degree to which the individual prefers to attain better performance anticipated (Vroom, 1964). If valence is lower, the individual will not prefer achieving the set goals or putting in required effort. Transformation leader has therefore to influence the employee emotionally and psychologically so that employees value the anticipated outcomes and gets ready to give their
best to achieve that outcome (Ilegbinosa & Jumbo, 2015). Unless employees are made to value it, they are not going to exert themselves.

**Theory Y**

Theory Y is related to laissez faire leadership style and was propagated by McGregor (1990). This theory is basically based on the assumptions that leader have about employees, and is opposed to Theory X. With theory Y, leaders assume that by nature, employees are keen on assuming responsibilities and giving their best (McGregor, 1990). Besides, it is anchored on a belief that employees want their organisation to succeed and will do all they can to realise this. McGregor (1990) adds that the theory also assumes that employee are capable of directing their behaviour, and they do not need to be micromanaged, but can do equally well when left on their own. Lastly, the theory assume that people have a need for achievement, and even if they are left on their own, they can still perform better as they have their own self drive and do not need external push factors (McGregor, 1990). Based on this assumptions, it is clear that this theory inherently reduces the role of a leader in the day to day organisational activities, and employees can be trusted to work on their own. Quite fundamentally, the leader’s role can only be to give broad strategies and goals, and leave it upon the employees to handle the finer details and succeed at that that.
Conceptual Framework

Performance of SMEs’ in Nairobi Kenya
- Profitability
- Growth in sales

Independent Variables

- Transformational Style of Leadership
  - Inspirational motivation
  - Individualized consideration

- Laissez Faire Leadership Style
  - Avoidance of responsibility
  - Minimal direction

- Transactional Leadership Style
  - Contingent on reward and punishment

- Participative Leadership Style
  - Orientation towards teamwork
  - Transparency

Dependent Variable

http://www.ijsse.org  ISSN 2307-6305  Page | 41
Methodology

Research Design
A research design is a blueprint which enables the smooth sailing of the various research operations, thus making research as efficient as possible hence yielding maximum information with minimal expenditure of time, effort and money. A research design refers to a set of methods and procedures that describe variables (Creswell, 2013). It involves gathering data that describe events and then organizes, tabulates, depicts and describes the data. This study adopted a descriptive study as described by Cooper and Schindler (2006) as detailed description of events, situations and interactions between people and things. The design is considered suitable as it allowed an in-depth study of influence of leadership styles on performance of small and medium enterprises at Nairobi central business district in Kenya.

Population of the Study
The population in any study refers to the complete set of individuals or firms or objects with some common characteristics (Mugenda & Mugenda, 2012). On the other hand, Oso & Onen (2009) are of the view that the population refers to the total number of subject in an environment that is of interest to the researcher. In this study therefore, the researcher’s aim was to study the SMEs located in Nairobi country, and this essentially forms the target population. According to Nairobi County Business Licensing Department (2015), we have a total of 1,319 registered SMEs within Nairobi county, which are distributed as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Population Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>210</td>
</tr>
<tr>
<td>Consultancy</td>
<td>105</td>
</tr>
<tr>
<td>Contractors</td>
<td>121</td>
</tr>
<tr>
<td>Office Products and Printers</td>
<td>149</td>
</tr>
<tr>
<td>General Merchants</td>
<td>176</td>
</tr>
<tr>
<td>Electronics communication and computers</td>
<td>187</td>
</tr>
<tr>
<td>Tours and Travel</td>
<td>108</td>
</tr>
<tr>
<td>Suppliers</td>
<td>176</td>
</tr>
<tr>
<td>Food Retailers</td>
<td>87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1319</strong></td>
</tr>
</tbody>
</table>

Registered SMEs in Nairobi CBD

Sampling Frame
Blumberg, Cooper, & Schindler (2014) defines the sampling frame as a list of elements which the sample is actually drawn from. It is therefore the complete and accurate list of members of a given population. Having such a list was beneficial to the researcher because it reduced the length of time that was required to complete the study, cut costs involved and it was manageable. Creswell (2014) gives examples of sampling frame as consisting of a list of company databases, random digits dialling and membership rosters. Hence the sampling frame was actually made up of the physical representative from which the sample is to be drawn. Looked at from a different direction, the sampling frame in this case, was an accurate identification of the members of the target population. Cooper & Schindler (2011) further refines this by noting that each member of the population could only be mentioned once in a sampling frame. Cochran (2013) was of the view given the fact that a sample was drawn mirrors of the population. Sampling enabled the
researcher to attain the overall accuracy compared to what a census could have attained. This study covered a list of 1,319 SMEs which were regarded by Ministry of Trade (2016) as registered within Nairobi County CBD.

Sample and Sampling Technique

Sample

A sample is simply a portion of the whole population, which is studied and then inferences amount the population made (Cooper & Schindler, 2011). Samples are an important way of studying phenomena because the researcher does not need to study each and every individual in the population. Cochran (2013) notes that this is advantageous because it helps to save on time and resources and is equally as accurate. The sample size is critical in making important statistics inferences.

According to Mugenda & Mugenda (2012), there is need for careful selection of the sample so as to ensure that the selected sample is representative of the population and that the method of analysis to be employed is catered for. The sample size was taken from 9 subsectors of the SMES; this comprises Investment, Consultancy, Contractors, Office Products and Printers, General Merchants, Electronics communication and computers, Tours and Travel, Suppliers, Food Retailers. The respondents were of high cadre employees who were either CEOs or managers in each sector. This decision was informed by the ability of the said to be informed in leadership roles, policy setting and ability to make managerial decisions.

According to Mugenda (2013), a good sample should be between 10 and 30 percent of the population size. For this reason, the study settled on a 10 percentage representation across all segments. Hence, the sample size was calculated as below: unit of the sample population was 132 high cadre employees.

<table>
<thead>
<tr>
<th>Sample</th>
<th>Category</th>
<th>Population Size</th>
<th>Sample Size (10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>210</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Consultancy</td>
<td>105</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Contractors</td>
<td>121</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Office Products and Printers</td>
<td>149</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>General Merchants</td>
<td>176</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Electronics communication and computers</td>
<td>187</td>
<td>19</td>
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</tr>
<tr>
<td></td>
<td>Suppliers</td>
<td>176</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Food Retailers</td>
<td>87</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1319</td>
<td>132</td>
</tr>
</tbody>
</table>

Sampling Technique

The study employed probability sampling. In probability sampling, every unit within the population has some known, non-zero chance of being chosen to make up the sample (Drost, 2013). This is even more crucial where there is a need to make a generalisation about the population and there is representativeness across the population from which the sample is withdrawn. For example a presence of other factors that make probability sampling to be difficult.
For a probability sampling, the sample was drawn using the random sampling to establish the number of high cadre employees who were either CEOS or managers in each sector. Stratified proportionate random sampling was used in view of the fact that there is uneven distribution of firms in various segments, hence bringing about homogeneity which, if not properly accounted for would lead to unbiased parameters estimates. Hence, at the end, simple random sampling was used to select specific individual or high cadre employees to be included in the sample (Uprichard, 2013).

**Data Collection Instruments**
The study involved collection of both qualitative as well as quantitative data. Blumberg, Cooper, & Schindler (2014) notes that in such a study, the key assumption is that the two sets of data provide different types of information. Hence, the researcher combined both the quantitative as well as qualitative data so as to get a more comprehensive look at the problem being studied (Cooper & Schindler, 2011).

A structured questionnaire was employed to collect quantitative data. Creswell (2014) notes that structured questionnaires are best suited to collect quantitative data because the respondents have little room to deviate, hence making it possible for researcher to make a comparison across data and it’s easier to analyse such data. Besides, the use of a questionnaire in general, make it possible for the researcher to collect information from a large number of respondents within a short period of time. Drost (2013) also add that data collected by questionnaires can also be easily analysed and converted into quantitative data with much ease. The questionnaire was administered to the managers and CEOS of this companies as they were best suited to answer questions on leadership styles.

**Data Collection Procedure**
This study utilized both primary and secondary data. Questionnaires were used to collect primary data which was distributed to the respondents. The researcher made follow ups to ensure that the questionnaires were filled and collected. The respondents were assured of confidentiality of their names and responses and that the responses would not be handled by any other person but rather was to be used purely for academic purposes (Kasomo, 2007). Each questionnaire was coded and only the researcher got to know which person responded. The coding technique was used for the purpose of matching returned completed questionnaires with those delivered to the respondents. Secondly, the employees chosen in the sample were informed of the same, and given the option of opting out, in line with the ethical code of conduct. It was unethical to force anyone to participate in a research process that they did not want to (Dooley, 2012). Besides, if that was done, it could have hindered the extent to which the respondents could be willing to participate in the process.

The researcher targeted a sample of 132 SMEs. As noted above, the first stage was to use simple random sampling to identify the firms to be studied. This firms were therefore notified of the decisions, and given a chance to opt out.

**Pilot Testing**
To ensure that the questionnaire developed was valid in the sense that it measured what it was intended to measure, it was normally advisable to pilot the questionnaire. This was a process of having a few respondents, not essentially those who were participate in the actual research, participate in a ‘mini-research’ the sole purpose of their responses being to determine if the
questions were adequate both in structure and number, to give the researcher the kind of information she was looking for. Creswell (2014) adds that the purpose of testing was to enable researcher identify ambiguity in questions, sequence and structure. Running a research program only to realize that the responses were inadequate or irrelevant as the research problem was concerned could be a waste of time, money and effort. The piloting process of a data collection instrument such as the questionnaire was also important in determining the validity and reliability of the instrument. Dooley (2012) notes that a sample size to be used for piloting a research instrument should be 10 percent of the projected samples. In this study therefore, 10 percent of 132 respondents was 13. These is the number that the researcher was going to use. These respondents were excluded from the final data collection as required (Blumberg, Cooper, & Schindler, 2014).

Reliability of the Instrument

Reliability measures the extent to which an instrument has no bias and therefore guarantees consistency in the measurement across all the indicators. According to Mora (2011), an instrument that is reliable has internal consistency of items. Hence, the instrument should measure what it is supposed to measures on a consistent basis. Hence, even if we were to have different people, in different occasions under different conditions using the same instruments, the same results would be achieved (Creswell, 2014). This is due to the fact that the instrument is not ambiguous and it is measuring the same thing. The analysis of piloted study was done by use of SPSS software to ensure that it met the threshold of Cronbach’s alpha of 0.7 as required (Creswell, 2014). Cronbach’s alpha ranges for 0 to 1, with values that are either equal to 0.7 or more being considered to be indication that the questionnaire is reliable. Otherwise, the questionnaire was declared reliable.

Validity of Instrument

Field (2009) explains that the validity of research instrument is the extent to which that instrument is able to accurately measure a given concept which it is supposed to measure. Hence, it helps the researcher to identify specific usefulness of the finding that has been obtained by the use of a given data collection instrument. Hence, while reliability relates to measuring what is intended to be measured, validity relates to extent to which the instrument has to measure to a given scale. With validity, therefore makes the research more verifiable and gives it a levels of empiricism.

Data Analysis and Presentation

Once data has been collected, it has to be analysed. Data analysis refers to the procedure of getting meaning from the data collected. Hence, the collected data is manipulated in various way, so that the researcher is able to get a trend in the data, and be able to find answers to the research questions raised.

As noted earlier, questionnaires were used to collect quantitative data. Quantitative data is discrete in nature. The first stage in analysing the data was to employ factor analysis so as to reduce that data into likert scales table. The use of the table was to ensure that any redundancy or duplication in data is eliminated, and that each question is noted to be measuring something different. Blumberg, Cooper, & Schindler (2014) calls this process cleaning of data. Mugenda & Mugenda (2012) notes that this process ensures that the data collected is reduced into a smaller number of uncorrelated factors. In this study therefore, the use of factor analysis ensured that
leadership styles are reduced to a few representative variables that described observed relationships. With the tables in place, it was possible to calculate other descriptive statistics such as mean, standard deviation, frequencies and percentages.

Correlation analysis was conducted to test the relationships between the dependent variables which was SMEs performance, and independent variables which included participative, laissez faire, transformational and transactional leadership styles. Hence, value of correlation (r) therefore, measures the degree of association between the dependent and independent variables. For this study, Pearson correlation matrix was used to indicate the direction, strength and significance of the relationships (Cooper & Schindler, 2011). In such a test, r ranges between -1 and 1. Hence, when r is zero, it means that there is no relationship. When r is positive, it means that the two variables increase or decrease in the same direction. When r is negative, it means that the two variables are inversely related. Besides, the Chi square test was conducted at 5 percent significance level in a two tailed test. Hence, the critical value for significance was 0.025 above which the association was deemed insignificant.

**Regression Model**

A multiple linear regression model was used in the study to link the independent variables to the dependent variable. The model is as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Where:
- \( Y \) = Performance of SMEs
- \( X_1 \) = Transactional Leadership Style
- \( X_2 \) = Transformational Leadership Style
- \( X_3 \) = Participative Leadership Style
- \( X_4 \) = Laissez Faire Leadership Style
- \( \beta_0 \) = constant
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) = are regression coefficients to be estimated
- \( \varepsilon \) – Error term

**Response Rate**

A sample of 132 respondents were approached using questionnaires that allowed the researcher to drop the questionnaire to the respondents and then collect them at a later date when they had filled the questionnaires. A total of 132 questionnaires were distributed to employees. Out of the population covered, 100 were responsive representing a response rate of 76%. This was above the 50% which is considered adequate in descriptive statistics according to (Mugenda, 2008).

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Response</td>
<td>100</td>
<td>76</td>
</tr>
<tr>
<td>Non-Response</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>132</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Pilot Study
The cronbach’s alpha was computed in terms of the average inter-correlations among the items measuring the concepts. The rule of thumb for cronbach’s alpha is that the closer the alpha is to 1 the higher the reliability (Serekan, 2006). A value of at least 0.7 is recommended. Cronbach’s alpha is the most commonly used coefficient of internal consistency and stability. Consistency indicated how well the items measuring the concepts hang together as a set. Cronbach’s alpha was used to measure realibilty. This was done on the four objectives of the study. The higher the coefficient, the more reliable is the test.

Reliability Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>No of Items</th>
<th>Respondents</th>
<th>α=Alpha</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional Leadership</td>
<td>3</td>
<td>10</td>
<td>0.893</td>
<td>Reliable</td>
</tr>
<tr>
<td>Transformational Leadership</td>
<td>6</td>
<td>10</td>
<td>0.987</td>
<td>Reliable</td>
</tr>
<tr>
<td>Participative Leadership Style</td>
<td>6</td>
<td>10</td>
<td>0.974</td>
<td>Reliable</td>
</tr>
<tr>
<td>Laissez Faire Leadership Style</td>
<td>6</td>
<td>10</td>
<td>0.976</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Demographic Information
This section presented the personal details of the respondents and it provided data regarding the study and was necessary for the determination of wether the individuals in a particular study were a resrepresentative sample of the target population and testing appropriateness of repondent in answering the questions for generalisation. The study sought to determine the demographic characteristics of the respondents as they are considered as categorical variables which give some basic insight about the respondents. The characteristics considered in the study were; gender, age, their highest level of education attained and their work experience.

4.4.1 Distribution of Respondents by Age
The study also determined the age of the respondents. The results are submitted in figure 4.1 where the majority 36% were 46_55 years. Respondents aged between 36_45 years were 14%. Responds aged between 26_35 years accounted for 14%. Residents above 55 yaers accounted years accounted for 30%. Finally results indicated that respondents age brackets of 18_25 years was 6%.
The study determined the gender distribution of the respondents. The results summarized in the table below. The result in figure 2 revealed that majority of the respondent (73%) indicated that they were male, while only (27%) of the respondent indicated that they were female.

Distribution of Respondents by Gender

The respondents were asked to state their highest level of education and the results were as captured in Table 4.4.3 The result in figure 4.4.3 revealed that majority of the respondent (40%) indicated that their academic qualification was up to bachelor’s level. The result further revealed that (31%) of the respondent indicated that their academic qualification was up to postgraduate level. The result also revealed that (18%) of the respondents indicated that their academic
qualification was up to secondary level. The result also showed that only (11%) of the respondent indicated that their academic qualification was up to primary level. With majority respondents having degree and above, it is expected that their level of understanding of performance of SMEs is good. This is an indication that the results obtained from respondents interviewed in the present study can be relied upon.

Distribution of Respondents by Level of Education

Distribution of Respondents by Length of Service
The study determined the number of years the respondents had worked at SMES Nairobi central business district in Kenya. The respondent were asked to indicate their work duration. The result revealed that majority of the respondents (37%) indicated that their work duration was over 5 years. The result also showed that (32%) of the respondent indicated that their work duration was 3-5 years. The result further revealed that (16%) of the respondent indicated that their work duration was less than 1 year while (15%) of the respondent indicated their work duration to be less than 3 years.
Correlation Analysis

Correlation analysis was used to determine both the significance and degree of association of the variables and also predict the level of variation in the dependent variable caused by the independent variables. In Table 4.6:

Summary of Pearson’s Correlations

<table>
<thead>
<tr>
<th></th>
<th>Transactional Leadership</th>
<th>Transformational Leadership</th>
<th>Participative Leadership</th>
<th>Laissez Leadership</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional Leadership</td>
<td>Pearson Correlation</td>
<td>.375**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>.0001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Transformational Leadership</td>
<td>Pearson Correlation</td>
<td>.332**</td>
<td>.431**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Participative Leadership</td>
<td>Pearson Correlation</td>
<td>.366**</td>
<td>.773**</td>
<td>.512**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Laissez Faire Leadership</td>
<td>Pearson Correlation</td>
<td>.556**</td>
<td>.665**</td>
<td>.680**</td>
<td>-.693**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-Tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

** Correlation Is Significant At The 0.05 Level (2-Tailed).

The correlation summary shown in Table 4.6 indicated that the associations between each of the independent variables and the dependent variable were all significant at the 95% confidence level. The correlation analysis to determine the association between Transactional Leadership and performance of small and medium enterprises at Nairobi central business district, Pearson correlation coefficient computed and tested at 5% significance level. The results indicate that
there was a positive relationship \((r=0.556)\) between Transactional Leadership and performance of small and medium enterprises at Nairobi central business district. In addition, the researcher found the relationship to be statistically significant at 5% level \((p=0.000, <0.05)\).

The correlation analysis to determine the relationship between Transformational Leadership and performance of small and medium enterprises at Nairobi central business district, Pearson correlation coefficient computed and tested at 5% significance level. The results indicated that there was a positive relationship \((r=0.665)\) between Transformational Leadership and performance of small and medium enterprises at Nairobi central business district. In addition, the researcher found the relationship to be statistically significant at 5% level \((p=0.000, <0.05)\).

The correlation analysis to determine the relationship between Participative Leadership and performance of small and medium enterprises at Nairobi central business district, Pearson correlation coefficient computed and tested at 5% significance level. The results indicate that there was a positive relationship \((r=0.680)\) between Participative Leadership and performance of small and medium enterprises at Nairobi central business district. In addition, the researcher found the relationship to be statistically significant at 5% level \((p=0.000, <0.05)\).

The correlation analysis to determine the relationship between Laissez Faire Leadership and performance of small and medium enterprises at Nairobi central business district, Pearson correlation coefficient computed and tested at 5% significance level. The results indicate that there was a negative relationship \((r=-0.693)\) between Laissez Faire Leadership and performance of small and medium enterprises at Nairobi central business district. In addition, the researcher found the relationship to be statistically significant at 5% level \((p=0.000, <0.05)\). Hence, it was evident that all the independent variables could explain the changes in the performance of small and medium enterprises at Nairobi central business district, on the basis of the correlation analysis.

**Regression Analysis**

In this study multivariate regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. Regression analysis was conducted to find the proportion in the dependent variable (performance of small and medium enterprises at Nairobi central business district) which can be predicted from the independent variables (Transactional Leadership, Transformational Leadership, Participative Leadership Style, and Laissez Faire Leadership Style).

Table 4.7 presented the regression coefficient of independent variables against dependent variable. The results of regression analysis revealed there was a significant positive relationship between dependent variable and the independent variable.

The independent variables reported R value of 0.844 indicating that there was perfect relationship between dependent variable and independent variables. R-Square is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R\(^2\) also called the coefficient of multiple determinations, is the percentage of the variance in the dependent explained uniquely or jointly by the independent variables. The coefficient of determination also called the R\(^2\) was 0.712. R square value of 0.712 means that 71.2 % of the corresponding variation in performance of small and medium enterprises at Nairobi central business district can be explained or predicted by (Transactional Leadership, Transformational Leadership, Participative Leadership Style, Laissez Faire Leadership Style) which indicated that the model fitted the study data. The remaining 28.8 % can be explained using other determinants not included in our model.
Adjusted R square in table 4.7 was called the coefficient of determination which indicated how performance of small and medium enterprises at Nairobi central business district varied with variation in effects of factors which includes; Transactional Leadership, Transformational Leadership, Participative Leadership Style, Laissez Faire Leadership Style. The results of regression analysis revealed that there was a significant positive relationship between dependent variable and independent variable at (β = 0.712), p=0.000 <0.05).

**Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>.844a</td>
<td>0.712</td>
<td>0.7</td>
<td>0.1486</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), laissez, Transactional, Participative, Transformational

The significance value is 0.000 which is less than 0.05 thus the model is statistically significance in predicting how Transactional Leadership, Transformational Leadership, Participative Leadership Style, Laissez Faire Leadership Style influence performance of small and medium enterprises at Nairobi central business district. The F critical at 5% level of significance was 58.691.

**ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>5.184</td>
<td>4</td>
<td>1.296</td>
<td>58.691</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>2.098</td>
<td>95</td>
<td>0.022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>7.282</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Dependent Variable: Performance
b Predictors: (Constant), laissez, Transactional, Participative, Transformational

The research used a multiple regression model

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

The regression equation will be:

\[ Y = 2.063 + 0.173X_1 + 0.137X_2 + 0.101X_3 - 0.104X_4 \]

The regression equation above has established that taking all factors into account (Transactional Leadership, Transformational Leadership, Participative Leadership Style, Laissez Faire Leadership Style) constant at zero, performance of small and medium enterprises at Nairobi central business district will be an index of 2.063.

The findings presented also shows that taking all other independent variables at zero, a unit increase in Transactional Leadership will lead to a 0.173 increase in performance of small and medium enterprises at Nairobi central business district. The P-value was 0.000 which is less 0.05 and thus the relationship was significant. This is a leadership that maintains or continues the status quo. It is also the leadership that involves an exchange process, whereby followers get immediate, tangible rewards for carrying out the leader's orders. Transactional leadership can sound rather basic, with its focus on exchange. Being clear, focusing on expectations, giving feedback are all important leadership skills. According to Boundless.com, transactional leadership behaviors can include: clarifying what is expected of followers' performance;
explaining how to meet such expectations; and allocating rewards that are contingent on meeting objectives. 

The findings mirrored Clark et al (2015) study findings which notes that contingent rewards are a powerful way of impacting on the performance of the employee. However, it only works if it either motivates or deters a given activity. If for instance the employee does not value the reward, it is unlikely that he will work hard to achieve set out objectives. Hence, the reward must be linked to something the employee values, so as to get them out in the needed effort. (Koech & Namusunge, 2013) notes that contingent reward can improve the performance of an employee by up to 30 percent, and it is very crucial when introducing change. 

The study also found that a unit increase in Transformational Leadership will lead to a 0.137 increase in performance of small and medium enterprises at Nairobi central business district. The P-value was 0.001 and thus the relationship was significant. Unlike other leadership styles, transformational leadership is all about initiating change in organizations, groups, oneself and others. Transformational leaders motivate others to do more than they originally intended and often even more than they thought possible. They set more challenging expectations and typically achieve higher performance. Statistically, transformational leadership tends to have more committed and satisfied followers. This is mainly so because transformational leaders empower followers. 

The ability of transformational leaders to communicate, support, appreciate and develop followers helps in building a trusting relationship between the members of the organization. Studies by previous researchers have shown that there is a strong correlation between transformational leadership with organizational growth. Erkutlu (2015) found a strong correlation with transformational leadership and SMEs growth using numerous different measures. Such researchers have correlated the transformational leadership with supervisory assessments of managerial performance, promotion, innovation. 

In addition, the study found that a unit increase in Participative leadership will lead to a 0.101 increase in the performance of small and medium enterprises at Nairobi central business district. The P-value was 0.000 and thus the relationship was significant. Participative leadership is about working with the hearts and minds of all those involved. It also recognizes that teamwork may not always involve trusting cooperative relationships. The most challenging aspect of this leadership is whether or not it will succeed. According to Harvard Business Review, team leadership may fail because of poor leadership qualities. The study results can be linked to On the other hand, Asmub & Svennerig (2014) who observed that participatory leadership style as the most effective in terms of promoting higher productivity, better contribution from the teams and increased grownup moral. While this study appreciated the important role of this mode of leadership, it was highly limited in the sense that it failed to look at other intervening variables that may have contributed to this positive outcome. 

Lastly, the study found that a unit increase in Laissez Faire Leadership Style will lead to a 0.104 decrease in the performance of small and medium enterprises at Nairobi central business district. The P-value was 0.002 and hence the relationship was significant since the p-value was lower than 0.05. Laissez-faire leadership gives authority to employees. According to azcentral, departments or subordinates are allowed to work as they choose with minimal or no interference. According to research, this kind of leadership has been consistently found to be the least satisfying and least effective management style. 

Karodia (2014) findings attempt to reach an agreement with our study. The study was carried to examine the extent to which leadership style impacts on employee motivation, performance and
absenteeism. This study employed a quantitative descriptive design, which comprised 180 respondents. According to this research, participative, and autocratic, laissez faire leadership styles tends to be prevalent in the hospitals. The study found that autocratic and laissez faire decreased employee motivation and performance while they increased absenteeism. It was therefore recommended that employees have to be engaged more so as to improve their motivation and performance levels by adopting a participative leadership style. The findings of the study show that, Transactional Leadership contributed most to the performance of small and medium enterprises at Nairobi central business district.

### Coefficients Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.063</td>
<td>0.192</td>
<td>10.745</td>
</tr>
<tr>
<td></td>
<td>Transactional Leadership</td>
<td>0.173</td>
<td>0.04</td>
<td>4.292</td>
</tr>
<tr>
<td></td>
<td>Transformational Leadership</td>
<td>0.137</td>
<td>0.053</td>
<td>2.585</td>
</tr>
<tr>
<td></td>
<td>Participative Leadership</td>
<td>0.101</td>
<td>0.017</td>
<td>5.941</td>
</tr>
<tr>
<td></td>
<td>Laissez Fairez Leadership</td>
<td>-0.104</td>
<td>0.042</td>
<td>2.472</td>
</tr>
</tbody>
</table>

**Summary of Findings**

The study sought to examine the influence of leadership styles on performance of small and medium enterprises at Nairobi central business district in Kenya. This specific study found out that majority of the respondents agreed to the statements on Transactional Leadership influence on performance of medium enterprises at Nairobi central business district in Kenya. Thus Transactional Leadership is a significant factor that influences Performance of medium enterprises at Nairobi central business district in Kenya.

This specific study also found out that majority of respondents highly agreed to the statements on Transformational Leadership had influence on performance of medium enterprises at Nairobi central business district in Kenya.

This specific study also found out that majority of the respondents agreed to the statements on participative leadership had influence on performance of medium enterprises at Nairobi central business district in Kenya.

Finally, Laissez Faire Leadership Style results from the statements concluded that it had an effect on the performance of medium enterprises at Nairobi central business district in Kenya.

The summary of the study findings presented herein followed the research objectives formulated in chapter one of the study.

**Transactional Leadership**

The study sought to assess influence of Transactional Leadership on performance of medium enterprises at Nairobi central business district in Kenya as the first objective of the study. Majority of respondents were found to highly agree that Transactional Leadership had an
influence on the performance of employees. Regression results also indicated that transactional leadership had a significant effect on Leadership on performance of medium enterprises at Nairobi central business district in Kenya.

Transaction Leadership: clarifies expectations and provides recognition when goals are met. They tend to be focused on the short term, physical securities need of subordinates and they usually operate through an economic exchange mode.

Transformational Leadership
The influence of Transformational Leadership on performance of medium enterprises at Nairobi central business district in Kenya was the second objective of the study. A majority of respondents were found to highly agree that Transformational Leadership indeed influenced performance of medium enterprises at Nairobi central business district in Kenya.

In transformational leadership style, the managers of an organization motivate by making employees more aware of the importance of their outcomes and productivity in their tasks. The managers encourage employees to think critically and seek innovative methods to approach their work and assignments, resulting in intellectual stimulation and consequently outstanding performance of the organization. The consideration and participation of employees and other junior staffs in decision making ensures a two-way conversation in a bid to exchange views between the leader and the followers so as to tackle a given challenge/problem. Through their conversation between these personnel, a suitable and appropriate measure will be reached that facilitates tackling the challenge easily and lead to the growth of the organization. Knowledge is also shared among employees as well with the leaders allowing for learning and self-growth environment in the organization. Transformational leadership therefore is ideal in dealing with organizational challenges affecting growth and operation of the organization due to its ability to incorporate employee/junior staffs’ views in dealing with such challenges. The transformational leader assumes the role of a mentor and a role model. This style of leadership may be more appropriate where the leader is dealing with mid-level and entry level employees.

Transformational leadership should be adopted to ensure that challenges and obstacles in the operational process are identified and appropriate measures taken in order to facilitate consensus through the efforts of the leaders and the employees. This would therefore lead to the realization of visions of organizations through evaluation of the goals and the strategies employed towards the achievement of these goals, allowing employees to offer suggestions in dealing with a production/operation challenge which would give fast, acceptable and appropriate solutions to work challenges. It is therefore necessary that for any organization to realize growth through efficient operation, the management should consult employees as well as other stakeholders in dealing with challenges facing the organization.

Participative leadership
The study endeared to assess influence of Participative leadership on performance of medium enterprises at Nairobi central business district in Kenya as the third objective of the study. Majority of respondents were found to highly agree that Participative leadership had an influence on performance of medium enterprises at Nairobi central business district in Kenya.
and regression results indicated that Participative leadership had a significant effect on performance of medium enterprises at Nairobi central business district.

Participative leadership: is behavior that influences people in a manner consistent with and/or conducive to basic democratic principles and processes, such as self-determination, inclusiveness, equal participation and deliberation.

**Laissez Faire Leadership Style**

There was also needed to establish how Laissez Faire Leadership influences performance of small and medium enterprises at Nairobi central business district. The respondents were also asked to comment on statements regarding laissez faire leadership influenced performance of small and medium enterprises at Nairobi central business district. Most of the statements showed that the respondents agreed with the statement that Laissez Faire Leadership Style had an effect on performance however negative. Regression results also showed Laissez Faire Leadership Style had a negative but significant effect on performance of medium enterprises at Nairobi central business district.

**Conclusion of the study**

Based on the study findings, the study concludes that performance of small and medium enterprises at Nairobi central business district can be improved by Transactional Leadership, Transformational Leadership, Participative Leadership Style, Laissez Faire Leadership Style. First, in regard to Transactional Leadership, the regression coefficients of the study show that it has a significant influence on performance of medium enterprises at Nairobi central business district. This implies that increasing levels of Transactional Leadership by a unit would increase the levels of performance of medium enterprises at Nairobi central business district. This shows that Transactional Leadership has a positive influence on performance of medium enterprises at Nairobi central business district.

Second in regard to Transformational Leadership, the regression coefficients of the study show that it had a significant influence on performance of medium enterprises at Nairobi central business district. This implies that increasing levels of Transformational Leadership by a unit would increase the levels of performance of medium enterprises at Nairobi central business district. This shows that Transformational Leadership has a positive influence on performance of medium enterprises.

With regard to the third objective, the regression coefficients of the study show that Participative Leadership Style has a significant influence on performance of medium enterprises. This implies that increasing levels of participative Leadership Style by a unit would increase the levels of performance medium enterprises at Nairobi central business district. This shows that participative Leadership Style has a positive influence on performance of medium enterprises.

Lastly, in regard to the fourth objective, the regression coefficients of the study show that Laissez Faire Leadership Style has a significant negative influence on performance medium enterprises at Nairobi central business district. This implies that increasing levels of Laissez Faire Leadership Style by a unit would decrease the levels of performance. This shows that Laissez Faire Leadership has a negative influence on performance of medium enterprises.

**Recommendations of the study**

The leader has the responsibility of charting the path to be followed, but this responsibility extends to getting the employees to embrace that path and dedicate themselves to working
towards realization of the vision put forth by the leader. If the leader is unable to elicit requisite effort from the employees, then however good the strategy and vision are, performance of the firm will be negligible, and the business may even fail. Transformational leaders motivate others to do more than they originally intended and often even more than they thought possible. They set more challenging expectations and typically achieve higher performance. Departments that are the lifeline of the company especially sales and marketing should hire leaders to focus phenomenal results.

Transactional Leadership is also the leadership that involves an exchange process, whereby followers get immediate, tangible rewards for carrying out the leader’s orders. Firms should employ this leadership strategy to get instant results or boost their performance. Participatory leadership style is the most effective in terms of promoting higher productivity, better contribution from the teams and increased grownup moral bonding of employees. If the company has been sluggish in growth Participatory leadership style is the most effective.

Laissez-faire leadership gives authority to employees. This kind of leadership strategy should be avoided and should only include in tech firms where genius is key as well as the products are unstructured and depends on suitability in solving problems.

**Areas for further Research**

The study sought to assess the influence of leadership styles on performance of small and medium enterprises at Nairobi central business district in Kenya. The independent variables reported R value of 0.844 indicating that there was perfect relationship between dependent variable and independent variables. R square value of 0.712 means that 71.2% of the corresponding variation in performance of small and medium enterprises at Nairobi central business district can be explained or predicted by (Transactional Leadership, Transformational Leadership, Participative Leadership Style, Laissez Faire Leadership Style) which indicated that the model fitted the study data. However other studies can seek to assess the influence of leadership styles on organizational performance of public parastatals.

**Acknowledgement**

First and foremost, I would like to thank the almighty God for giving me good health throughout the period of putting together this research project. I do also wish to take this opportunity to thank my supervisors, Dr. Allan Kihara & Dr. Mary Mwanza for their guidance throughout the time of writing this project. They were always available and took the time to go through my work to ensure I produce quality work. For that I wish to sincerely show my gratitude. I also wish to thank my classmates. They were the network I relied upon in getting information sources for this research work. They gave me the courage to put in more effort and go the extra mile and for that I am really thankful.

**References**


