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The Relationship between Laissez-Faire Leadership Style and SMEs Growth in the Top 100 SMEs in Kenya

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Abstract:

The study sought to establish the relationship between laissez-faire leadership style and SMEs growth. The study adopted a pragmatic philosophical approach in order to facilitate data triangulation so as to have a clear understanding of the research problem and used a causal research design. The target population comprised of 553 personnel including owners and Managers of the top 100 SMEs of 2013. A sample of 227 managers was selected through a proportionate sampling and 25 top managers were purposely selected for the study. The study relied on primary data that was collected using closed-ended questionnaires as well as structured interview guides. Descriptive statistics were used to describe and summarize the data while inferential statistics were used to make inferences and draw conclusions about the quantitative data. Inferential statistics included Pearson's correlation to test the association between the variables and chi-square test that was applied to test the research hypothesis. The study findings established that Laissez-faire leadership style and SMEs growth was positively correlated and significantly related to SMEs growth ($r = 0.792$, $P = 0.011$ ($p < 0.025$); the null hypothesis was rejected and the alternative hypothesis was accepted since the p value was less than alpha ($\chi^2 = 213.143$; $d.f. = 60$; $P = 0.021$ ($P < 0.05$)).

The study concluded that the effectiveness of the leaders in utilizing laissez-faire leadership style greatly influenced the performance and SME growth as the employees were able to execute their duties successfully and thus SME leaders should adopt leadership styles that would facilitate growth of their enterprises.

Keywords: Leadership, Leadership styles, SMEs growth

1. Introduction

It is generally acknowledged that SMEs contribute significantly to the economic development of a country. Small and Medium Enterprises (SMEs) are considered to be engines of economic growth especially in emerging economies where they account for over 70 percent of employment in the private sector in Kenya (Nugi, 2012; Ernest and Young, 2011) and account for more than 95 percent of all firms outside the primary agriculture sector (OECD, 2004). SMEs have been described by Panitchpakdi (2006) as a source of employment, economic dynamism, competition and innovation. SMEs encourage the entrepreneurial spirit and the diffusion of skills. SMEs are also a major contributor to improving income distribution since they are established in a wider geographical area than large companies, including rural areas. In Kenya, SMEs have been defined as a small enterprise with a workforce (employees) of between 10-49, with an annual turnover of between Ksh.500, 000 to Ksh.5M and a medium enterprise as that with 50-99 employees and an annual turnover of between Ksh.5Million to Ksh.800M (Kushnir, Mirmulstein and Ramalho, 2010).

Although the SMEs in the Kenyan market in different sectors seem to be experiencing a high growth rate, some enterprises have been unable to cope and therefore leading to their failure. Some studies carried out indicate that most SMEs fail due to lack of appropriate leadership that can steer the firms through hard times (Ochanda, 2014). Meredith and Miller (2009) noted that effective leadership style is important to the attainment of organizational success and the SMEs growth. Every organization needs sound and effective leadership. Hashim, Condong, Habidin, Zubir and Lanang (2012) acknowledging the important links between leadership and organizational growth, observed that many firms are focusing on developing effective leaders in their organizations. Papalexandris and Galanaki (2009) posit that most of the leadership research has focused on the impact of a leader's behavior on follower's individual performance, motivation and satisfaction, rather than examining firm performance, even though the most important effects of leadership are on organizational performance (Tsai, 2008).

Leadership is the ability of a superior to influence the behavior of his subordinates and persuade them to follow a particular course of action. An organization requires a leader to shape the behavior of the employees and lead them to the desired direction. Good leadership style is imperative to improved organizational performance. Performance is the organization's ability to attain its goals by using resources in an efficient and effective manner (Kiige, 2013). However, Wang and Poutziouris (2011) pointed out that there is still a lack of understanding of leadership in small businesses. Thus, studying leadership in the SME environment may result in a better understanding of the organizational performance of SMEs.

SMEs leaders need to know the most appropriate leadership style that can be applied given the dynamic business environment that they operate in, leaders or managers in the SMEs sector must make an analysis of the environment to increase the effectiveness of the leadership style in the attainment of the organizational goals (Fjose, Grunfeld & Green, 2010). Achua and Lussier (2015) define leadership style as the combination of traits, skills and behaviours leaders use as they interact with followers and further observe that, although a leadership style is based on traits and skills the important component is the behaviour, because it is the relatively consistent pattern of behaviour that characterises a leader. Laissez-faire leadership style has been defined by Northouse (2015) as the leadership that sets the direction of what is to be accomplished by the followers with very little supervision. This style allows complete freedom to group decision without leader's participation. Subordinates are free to do what they like. The main role the leader plays is just to supply materials. The leader does not interfere with or participate in the course of events determined by the group.

Organization leaders should strive to push for a distributed management of organizations to enhance performance (Teal, 1998). Distributed leadership promoted teamwork and increased participation in decision making leading to a greater commitment to organizational goals and strategies. It increases on-the-job leadership development experiences, and the increased self-determination arising from it the increasing personnel work experience (Bolden & Terry, 2000). Practicing distributive leadership will allow organization members to be conscious of the demands of the firm and the environment and enhance their response to any challenges (Duits, 2011).

In this regard, the current study aimed to establish the relationship between Laissez faire leadership style and the SMEs growth. Kenya's vision 2030 implicitly emphasizes the need for entrepreneurs to have leadership styles that can create long-term development through increasing SMEs competitive advantage to transform Kenya into an industrialized nation by the year 2030. The implementation of the appropriate leadership styles aims to achieve an average economic growth rate of ten per cent per annum in order to generate more SME resources to meet the country's economic development agenda. The SMEs leaders have a responsibility to implement a number of flagship projects in every sector over the Vision period to facilitate the desired growth rate among the enterprises. In this study, laissez-faire leadership is defined as a form of passive leadership where the supervisor or manager avoids responsibility, commitment, encouragement and motivation of setting the direction of the followers in accomplishing the organization goals (Arham, 2014).

In the running of small medium enterprises, the management is faced with numerous multifaceted challenges that may hinder the effectiveness of the firm. In some firms the management due to lack of appropriate leadership skills may fail to involve their employees in decision making thus hindering the achievement of organization goals (Ngambi, 2011). Further, lack of elementary leadership skills has been blamed for numerous failures of small organizations due to lack of strategic direction towards enhancing organization performance. The growth of any enterprise is dependent on a number of factors, among the principal elements that drive the growth of a firm is having the right management team within the organization.

Ngambi (2011) further highlighted that lack of management involvement in running the firm as is witnessed in Laissez-faire leadership distorts the capacity of the organization to perform better as other firms exhibiting different leadership styles, however, in a highly motivated and aligned team with a homogenous level of expertise, laissez-faire leadership style may be effective (Schein, 2009). In general, however, having the right management which is not in a position to exercise the right leadership styles may not have the expected impact on the growth of an enterprise (Bernhard and O'Driscoll, 2011).

2. Methodology

This study was based on the Top 100 Small and Medium Enterprises of Kenya 2013. Its target population comprised of the management of these SMEs ranging from the top management (CEOs), the administration managers, the human resource managers, the finance managers and the ICT managers. A total of 553 personnel were available as the target population from which a sample of 227 respondents was selected through the use of probability and non-probability sampling techniques for the management and the CEOs respectively. Data for the study was collected through the use of questionnaires and interview guides. These were administered to the respondents by the research assistants with the supervision of the researcher. The data collected was analyzed through the use of descriptive statistics and inferential statistics. Correlation analysis was conducted to show the association between the leadership style and SME growth whereas chi-square test was used to test the hypothesis.

3. Study Results

		Frequency	Percentage
age	18 – 25 years old	22	11.7
	26 – 35years old	59	31.4
	36 – 45years old	58	30.9
	46 – 55years old	31	16.5
	Above 55 years old	18	9.6
gender	Male	120	63.8
	Female	68	36.2
academic qualification	Secondary	1	0.5
	Post-secondary	24	12.8
	Bachelor	126	67.0
	Post graduate	37	19.7
position or job title	CEO	12	6.4
	HRM	40	21.3
	Finance Manager	48	25.5
	IT Manager	39	20.7
	Administration Manager	49	26.1

Table 1: Demographic Characteristics

The study respondents comprised of 11.7 % management staff whose ages were between 18 to 25 years, 31.4 % were aged between 26 to 35 years, 30.9 % aged between 36 – 45 years, 16.5 % aged between 46 – 55 years and 9.6 % who aged above 55 years. 64% of the respondents were male whereas 36 % were the female staffs who participated. On their level of education, 67 % were holders of undergraduate bachelor's degrees, 19.7 % were post graduates, 12.8 % had post-secondary education and only 0.5% had secondary level of education. Among the participants, the CEOs represented 6.4 %, the human resource managers represented 21.3 %, finance managers/ accountants represented 25.5 % and the IT managers represented 20.7 % whereas the administrative managers represented 26.1 %.

	N	Mean	Std. Deviation
To what extent did your company grow in sales?	188	4.2713	.93410
To what extent did your company grow in number of employees?	188	3.6064	1.20798
To what extent did your company grow its return on assets?	188	4.1170	1.08324

Table 2: Statistics on the SMEs Growth

The growth in SMEs was measured in three dimensions (growth in sales, growth in workforce and growth in assets). From the table, SMEs growth in sales had a very high growth rate as this had a mean growth score of 4.2713 and a standard deviation of 0.93410. The mean growth value for the growth in work force as measured by the changes in number of employees was 3.6064 indicating that the growth rate in workforce was to a large extent of growth. Thus, the companies had a higher level of growth in the workforce due to the growth in demand which called for more production and therefore the need for more personnel in the production area. Growth in assets had a mean growth value of 4.1170 which is in the interval for a very large extent of growth. This indicated that the growth in asset base for the companies had significantly grown to a very large extent for the SMEs studied.

	Mean	Std. Deviation
I prefer staying out of the way of employees as they do their work	3.3245	1.37434
I leave it to my employees to handle the business	3.2979	1.45028
I give my employees much freedom as possible to carry-out responsibilities on my behalf.	3.2234	1.47459
I provide little direction for the employees to accomplish organization goals.	4.1170	1.26961
I have trustworthy and experienced employees to lead on.	4.1117	1.17153
I only help my employees when they encounter difficulties.	4.0106	1.29577
There is no clear need to take any necessary risks to improve my business.	3.0372	1.46754
The employees solve business problems on their own.	3.3564	1.39733
I let employees work problems out on their own	2.9840	1.43849
I allow my employees to appraise their own work	3.9894	1.45884
In most situations, the employees prefer little input from me for the performance of the organization.	4.0000	1.44044

Table 3: Laissez faire Leadership Style and SMEs Growth

The leaders (management) in the Kenyan SMEs prefer staying out of the way of employees as they do their work. This was illustrated by a mean value of 3.3245 which is in the interval for a moderate extent of agreement and a standard deviation of 1.37434 showing the level of response variability from the mean value obtained was not large. SMEs' employees are left to handle the business by themselves in their areas of operation as the mean score suggested a moderate level of agreement to this aspect with a mean of 3.2979 and a standard deviation of 1.45028. Findings also show that the management of the SMEs offer employees as much freedom as possible to carry-out responsibilities on their behalf. This had a mean score of 3.2234 for a moderate extent of agreement and a standard deviation of 1.47459. The findings illustrate that employees in the Top 100 SMEs in Kenya are provided little direction to accomplish organizational goals in their respective organizations as illustrated by a mean of 4.1170 and a standard deviation of 1.26961. In the Top 100 SMEs where the study was carried, employees were found to be trustworthy and experienced as reported by the managers who strongly agreed to this with a mean level of agreement of value 4.1117 and a standard deviation of 1.17153. The managers as well only helped employees when they encountered difficulties in the operations as shown by the level of agreement where this obtained a mean of 4.0106 and a standard deviation of 1.29577.

Among the top 100 SMEs in Kenya, employees solve business problems on their own. This had a mean of 3.3564 and a standard deviation of 1.39733 indicating a moderate extent of agreement. However, there was no sufficient agreement that managers of the top 100 SMEs let employees work problems out on their own as this aspect indicated a mean of 2.9840 which is in the interval of neutral state where the respondents neither agreed nor disagreed to this aspect. The findings further illustrate that employees were allowed to appraise their own work as shown by the mean response of 3.9894 indicating a moderate level of agreement and a standard deviation of 1.45884. The respondents as well strongly agreed that in most situations, the employees prefer little input from the leaders for the performance of the organization. This had a mean score of 4.0000 and a standard deviation of 1.44044. Thus, based on the results, the SMEs practiced *laissez faire* leadership to a large extent.

		Laissez leadership	SMEs growth
Laissez Faire leadership	Pearson Correlation	1	
	Sig. (2-tailed)		
SMEs growth	Pearson Correlation	.792*	1
	Sig. (2-tailed)	.019	

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

Table 4: Correlation between Laissez Faire Leadership and SMEs growth

Table 4 illustrate that *laissez faire* leadership style has a strong and positive correlation with SMEs growth. This is as indicated by a correlation coefficient of 0.792 ($r > 0.7$). The correlation was also found to be statistically significant at the 5% level of significance in a 2-tailed test ($p = 0.011$ ($p < 0.025$)). Therefore, there is a strong positive and significant correlation between *laissez faire* leadership style and growth of the Top 100 SMEs in Kenya as evidenced by the results.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	213.143 ^a	60	.021
Likelihood Ratio	109.009	60	.014
Linear-by-Linear Association	6.117	1	.023
N of Valid Cases	188		

a. 67 cells (83.8%) have expected count less than 5. The minimum expected count is .02.

Table 5: Chi-Square Tests between Laissez-Faire Leadership Style and SMEs Growth

→ **Hypothesis:** H_0 : There is no significant relationship between the *laissez-faire* leadership style and SMEs growth in the top 100 SMEs in Kenya.

The findings in table 5 indicate the chi-square test results for the relationship between *laissez faire* leadership and SMEs growth. These results give evidence of existence of a significant relationship between *laissez faire* leadership and SMEs growth ($\chi^2 = 213.143$; d.f. = 60; $P = 0.021$ ($P < 0.05$)). Based on this, the study rejected the null hypothesis and accepted the alternative hypothesis since the p-value is less than 0.025 testing at 5% significance level two tailed test. Therefore, the study concludes that there is a significant relationship between the *laissez faire* leadership style and SMEs growth in Kenya.

4. Discussion

The study results illustrated that *laissez faire* leadership style and SMEs growth were positively and significantly related. This is according to the correlation test results which gave a positive coefficient of the correlation ($r = 0.792$, $P = 0.011$ ($p < 0.025$)) indicating that increasing the application of *laissez faire* leadership in SMEs would affect the growth of these firms positively. The regression test results also revealed similar findings which showed a positive relationship as indicated by the regression coefficients where a unit change in *laissez faire* leadership would result to 0.143 times changes in SMEs growth ($\beta_1 = 0.143$, $t = 2.289$, $p > 0.023$). This relationship was also tested to be statistically significant at the 5% level of significance as illustrated by the chi-square results giving evidence of existence of a significant relationship between *laissez faire* leadership and SMEs growth (213.143; d.f. = 60; $P = 0.021$ ($P < 0.05$)). These findings supported the findings of Bernard and O'Driscoll (2011) who studied the contribution of *laissez faire*

leadership style on employees' performance and the consequential effect on the organization. The study illustrated that Laissez-faire style of leadership offered little or no supervision/guidance to teams of employees and leaves decisions making, up to the employees hence referring to this leadership style as effective in situations where employees are highly qualified in an area of expertise. In the current study, employees of some of the top 100 SMEs were said to be qualified and with possession of skills to work on their own without requiring much direction as they were personnel who were trained and experts in their duties. The employees of the SMEs also worked in team work and encouraged innovativeness in their operation and therefore were able to acquire more expertise making them more qualified for their positions. These findings disagree with the findings of Chaudhry and Javed (2012) on leadership styles which indicated that where laissez faire leadership is adopted, an organization and individual followers are unable to optimize their potential and engage in activities that may involve encountering risks in attempt to grow the organization.

5. Conclusions

Laissez-faire style of leadership in an organization allows full freedom and power to employees as seen in the study findings, this motivates employees and other low level management to be creative and approach work in a manner that is best for them without the leaders' micro managing them. Their freedom therefore positively affects their work as they will work as a team advocating for innovativeness and eventually high performance and growth of the organization. Effective leadership therefore relies on the ability of the manager to understand the situation in his work environment in regard to employee needs and incorporate this kind of culture in the organization. As such, employees spend much time dealing with activities that the management is responsible for such as handling challenges in the operation process on their own, without the unnecessary supervision of the leader, this kind of freedom in operation, gives confidence as they can consult whenever faced with a challenge as well as they can report any problem to their leaders. Thus, the study established that laissez faire leadership style motivates employees in directing their energy towards dealing with problems that occur in the organization using their own initiative. Although laissez-faire leadership style is sometimes regarded as an ineffective style, however it can be effective where employees are professional, highly skilled, experienced, motivated and capable of working on their own. This type of leadership style may facilitate visionary employees, freedom to work free from interference and therefore the employees are at the same time motivated with a high sense of responsibility. However, where the enterprise has midlevel and entry level employees' leadership should be evaluated and managers should become aware of what is needed to attain positive results from employees in order to improve performance.

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