

# ***THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT***

## **The Relationship between Transformational Leadership Style and SMEs Growth in the Top 100 SMEs in Kenya**

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### **Abstract:**

*Though leadership styles are recognized to influence Small and Medium Enterprise growth in the developed world, there exists scanty literature in developing countries such as Kenya. Therefore, to contribute to the body of growing literature, this study sought to establish the relationship between transformational leadership style and SMEs growth. This was a mixed method research that utilised both quantitative and qualitative data was collected. The study employed a causal research design with a target population of 553 owners and Managers of the top 100 KPMG SMEs of 2013. Through a Proportionate sampling technique, a sample of 227 staffs in the middle and lower level management groups were selected whereas purposive sampling was employed to select a sample of 25 top managers (CEOs). "The Top 100 SMEs" is based on a survey initiative by KPMG Kenya and Nation Media Group. The study relied on primary data that was collected using closed-ended questionnaires as well as structured interview guides. The research instruments were pretested to examine the reliability of the questionnaire where by the constructs in the questionnaire that did not meet the threshold of 0.7 Cronbach's alpha, were reconstructed and subjected to a retest, the validated tool was then used for the main data collection. Inferential statistical methods that tested the relationship between the variables included the Pearson's correlation and chi-square test of significance. Findings illustrated that transformational leadership style had a positive and significant relationship with SMEs growth ( $\chi^2=89.106$ ; d.f. = 46;  $P= 0.011(P<0.05)$ ). The correlation results also showed a positive correlation between transformational leadership and SMEs growth ( $r= 0.715$ ,  $P=0.025$ ). Based on the study findings, it was recommended that SME Leaders should adopt a transformational leadership style in order to facilitate consensus and growth of employees and the organisation at large.*

**Keywords:** Leadership, Transformational leadership style, SMEs Growth

### **1. Introduction**

Leadership has been defined and measured in different ways in literature. Daft (2011) defines leadership as the ability of one to influence others towards the attainment of set goals and objectives. Luthans (2005) added that it involves aligning people toward a common goal as they are empowered to take necessary actions required to achieve the set goals. The component common to nearly all classification is that leadership is an influence process that assists groups of individuals toward goal attainment (Northouse, 2015). Leadership is pivotal to the success of both individual and organizational processes, becoming especially crucial when organization's processes change direction, such as during transition and business re-engineering initiatives. In the contemporary world that organizations are in nowadays, having a competent leader is essential for maintaining a competitive edge and sustainable growth of firms (Norhiah, Joyce, & Robertson, 2003). The leadership styles of organizational leaders directly influence actions in the work environment that enable change (Gilley, 2005). Leadership is therefore, seen as a determinant of several aspects in the way employees behave, and its impact on the SMEs growth cannot be overlooked (Shein, 2010). SMEs are also affected by global and regional economic crises which call for the need for leadership in the growth and development of the sector. For the transformational leadership style, the leader creates the need for major changes by developing the follower's attitudes for the future and building their commitment for enterprise growth than what can be expected (Kent & Chelladurai, 2001).

Transformational leadership is believed to have positive impact on performance and growth of SMEs (Matzler, Schwarz, Duetinger, and Harm, 2008; Delgado-Almonte, and Juan, 2006; Yang, 2008). Transformational leaders seek to make changes in the way things are being handled within their organizations or at least the environment they work in (Northouse, 2015). A transformational leader is a visionary leader who thinks in possibilities but believes that those possibilities can be come a reality (Lussier and Achua, 2011).

Transformational leadership is found to have a positive impact on the performance of SMEs, and this relationship is significant (Ogbonna and Harris, 2000). observe that a number of studies theorize that transformational leadership is linked to performance compared to transactional, as they tend to motivate follower to deliver superior performance. Boedker, Vidgen, Meagher, Cugin, Mouritsen and Runnalls (2011) add that transformational leadership may lead to a high-performance organization due to supportive, delegation, participative and collaborative leader-follower relationship that evolves in an organization. The employees are empowered and feel compelled and dedicated to assisting in accomplishing the goals and objectives of the organization. Feinberg, Ostroff, and Burke (2005) stated that transformational leaders promote and encourage cooperative decision-making and problem-solving. Further, in order for an organization to achieve its goals and objectives as well as gain employee cooperation, its leaders encourage employees to grow and develop, set high goals for them, offer emotional support and direction, identify and work individually and as a team, to develop their abilities and capabilities.

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 (2008) 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 spite of the acclaimed leadership role in the attainment of enterprise success, there is a dearth of research on leadership in SMEs in East Africa, consequently knowledge of how SMEs in East Africa especially the successful ones, are led is very limited and largely undocumented (Mwangi et al., 2013). Yet some research has also claimed that the success or failure of an organization solely rest on the capabilities of the leader (Ejere and Abasilim, 2013). In the running of small medium enterprises, the management is faced with numerous multifaceted challenges that may hinder the effectiveness of the firm.

Gamba and Komo (2014) argues that for a country to achieve high economic growth; SMEs should be able to create new employment opportunities, maximize profit, harness various skills of the entrepreneurs and the bargaining power, enhance financial accessibility, boost social capital, promote investment, provide market access and contribute to poverty eradication. In other words, the development of SMEs is believed to be a desirable end as the key driver of employment and economic growth.

## 2. Methodology

This study employed a causal research design. The target population of this study comprised of top management team (chief executive officer, human resources manager, information technology manager, finance manager and administration manager) of the top 100 KPMG SMEs in Kenya of 2013. Proportionate stratified random sampling was used to obtain a sample of 227 out of a target population of 553, while purposive sampling was used to select the unit of analysis as well as to obtain the 25 respondents for the qualitative study. A closed ended questionnaire and structured interview schedule where used to collect data. The independent variable was measured with 13 items while the dependent variable had 15 items. Data was analysed using descriptive and inferential statistics. Descriptive statistics where used to describe and summarise the data while inferential statistics where used to make inferences and draw conclusions about the quantitative data. The inferential statistics included Pearson's correlation, multiple regression and chi-square.

## 3. Results

		Frequency (n)	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: Characteristics of the Respondents

The participation comprised of 11.7 % management staffs aged between 18 to 25 years, 31.4 % 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. The respondents at the CEO level were 6.4 %, the human resource managers were 21.3 %, finance managers/ accountants were 25.5 % and the IT managers were 20.7 % whereas the administrative managers were 26.1 %.

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
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: SMEs Growth

SMEs growth in sales had a very high growth rate. This was found to have 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.

	<b>Mean</b>	<b>Std. Deviation</b>
I motivate the employees to increase their productivity.	4.2713	1.01107
I am inspired to set an example for employees to accomplish tasks in the organization.	4.4309	.89592
I express my commitment to the employees to make a difference in their performance.	4.2766	1.16458
I show interest in the well-being of the employees to give their best.	4.2660	1.04114
I help employees enjoy their work for their self-development.	3.9894	1.35232
I convince employees that they have the ability to achieve high levels of performance beyond what is possible	4.1649	1.07943
I communicate an achievable view of the future.	4.0053	1.37003
I encourage the exchange of views among the employees for organizational change.	4.3936	.92173
I am satisfied when employees meet agreed upon standards to solve organization problems.	4.4202	.77323
I assign projects based on employees' ability to perform exceptionally high.	4.1330	1.15549
I recognize the strengths and weaknesses for collaborative relationship with the employees.	4.2553	1.08894
I sacrifice my personal gain for the empowerment of the staff so as to achieve the organization vision.	4.4628	.91552
I provide a sense of joint mission and ownership in the accomplishment of the organization vision.	4.4734	.98346

Table 3: Transformational Leadership Style and SME Growth

The respondents agreed to a very large extent indicating that they motivated the employees to increase their productivity. This is with respect to the mean value obtained of 4.2713 with a standard deviation of 1.01107. The management of the companies is inspired to set an example for employees to accomplish tasks in the organization as indicated by the mean score of 4.4309 which is in the interval for a strong extent of agreement and a standard deviation of 0.89592. The leaders also express their commitment to the employees to make a difference in their performance. This is according to the mean score obtained (4.2766) which indicate a strong extent of agreement with a standard deviation of 1.16458. SME leaders also show interest in the well-being of the employees to give their best. This had a mean score of 4.2660 revealing that the respondents had a strong extent of agreement with a standard deviation of 1.04114. Findings also showed that the leaders help employees enjoy their work for their self-development as suggested by the mean of 3.9894 indicating a moderate agreement and a standard deviation of 1.35232. The managers also convince employees that they have the ability to achieve high levels of performance beyond what is possible as the respondents agreed to this with a mean of 4.1649 and a standard deviation of 1.07943. The SME leaders encourage the exchange of views among the employees for organizational change. This had a mean of 4.3936 and a standard deviation of 0.92173 revealing a moderate level of agreement. The leaders are also satisfied when employees meet agreed upon standards to solve organization problems (mean = 4.4202, Std dev. = 0.77323). Projects are also assigned based on employees' ability to perform exceptionally high as the respondents agreed to this with a mean score of 4.1330 and a standard deviation of 1.15549. The study revealed that the management of the Top 100 SMEs recognizes the strengths and weaknesses for collaborative relationship with the employees as illustrated by the mean score of 4.2553 and a standard deviation of 1.08894. The managers (leaders) also sacrifice ones' personal gain for the empowerment of the staff so as to achieve the organization vision. As well, leaders provide a sense of joint mission and ownership in the accomplishment of the organization vision. These had mean scores of 4.4628 (0.91552) and 4.4734 (0.98346) respectively indicating a strong extent of agreement.

		Transformational leadership	SMEs growth
Transformational leadership	Pearson Correlation	1	
	Sig. (2-tailed)		
SMEs growth	Pearson Correlation	.715*	1
	Sig. (2-tailed)	.022	

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

Table 4: correlation analysis between Transformational leadership Style and SMEs Growth

The correlation coefficient as shown in the table is 0.715 which is above 0.7 showing a strong correlation between transformational leadership style and SME growth ( $p > 0.7$ ). The significant value is 0.022 ( $p < 0.025$ ) testing at the 5% level in a two tailed test. This shows presence of a statistically significant correlation between the variables. Based on these results therefore, the study found sufficient evidence of existence of strong positive and significant correlation between transformational leadership style and SMEs growth.

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	89.106 <sup>a</sup>	46	.011
Likelihood Ratio	73.614	46	.004
Linear-by-Linear Association	.031	1	.061
N of Valid Cases	188		

a. 36 cells (80.0%) have expected count less than 5. The minimum expected count is .06.

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

**H<sub>0</sub>:** There is no significant relationship between the transformational leadership style and SMEs growth in the top 100 SMEs in Kenya.

The findings indicate the chi-square test results for the relationship between transformational leadership and SMEs growth. These results give evidence of existence of a significant relationship between transformational leadership and SMEs growth ( $\chi^2=89.106$ ; d.f. = 46;  $P= 0.011$  ( $P < 0.05$ )). 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 statistically significant relationship between the transformational leadership style and SMEs growth in Kenya.

#### 4. Discussion

The study findings while testing the relationship between transformational leadership and SMEs growth also showed a positive and significant relationship. Results from the correlation analysis indicated a correlation coefficient of ( $r = 0.715$ ,  $P= 0.022$  ( $p < 0.025$ )) which is a strong positive correlation. This was in line with the findings of Burns (2003) which revealed that transformational leadership style is associated with individual values and prioritizes the followers' needs and creates enthusiasm. The chi-square test of significance indicated a significant effect at the 5% level of significance ( $\chi^2=89.106$ ; d.f. = 46;  $P= 0.011$  ( $P < 0.05$ )). Thus, the study rejected the null hypothesis and concluded that there is a statistically significant relationship between transformational leadership and SMEs growth. These findings were also in agreement with the findings of Matzler et al. (2008) which argued that transformational leadership encourages employees to identify and to exploit business opportunities for the firm

#### 5. Conclusion

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

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