

## **Relationship between Leadership Styles in Strategy Implementation and Performance of Small and Medium Manufacturing Firms in Thika Sub-County, Kenya**

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### **Abstract**

*This paper examined the relationship between leadership styles practiced during strategy implementation and the performance of small and medium manufacturing firms (SME) in Thika Sub-County in Kenya. The three leadership styles investigated in this study included the transformational, transactional and passive/avoidant leadership behavior based on Avolio's and Bass definitions. The study is underpinned in the Dynamic Capabilities View of the firm where a leadership style is recognized as one of the key dynamic capabilities required by the firm in maintaining superior performance and a competitive edge among the rival firms. A survey questionnaire was used to collect data from 115 firms from the two key industrial subsectors within Thika Sub-County. Guided by the philosophy of logical positivism and for triangulation purposes, this study adopted a mixed research design which incorporated the descriptive, quantitative, and qualitative designs. The bivariate linear correlations and linear regression analysis were used to indicate the relationship between the dependent and independent variables and to test the proposed hypotheses. The study found statistical evidence that a positive and significant relationship exists between leadership styles applied during strategy implementation process and performance of the SME manufacturing firm in Thika Sub-County, Kenya. Secondly, the study results indicated that most of the key leaders (owners and CEO's) in these firms practiced transactional leadership style followed by transformational style and lastly the passive/avoidant behavior. Thirdly, the study findings revealed that among the three dominant leadership styles practiced in most organizations today, the transformational leadership style is positively and significantly related to SME's performance. The transactional and passive/avoidant behavior has positive but insignificant relationships with performance of these firms. The findings in this study are in line with other scholars in literature who found out a positive and a significant relationship between organizational leadership and performance. The study concluded that manufacturing firms interested in enhancing their performance and staying ahead of competition should endeavor to practice superior leadership styles starting with transactional leadership and progressively changing to transformational leadership style in the entire process of strategy implementation in their firms.*

**Key Words:** Leadership styles, strategy implementation, SME Performance, Dynamic Capabilities

## **1. Introduction**

A well-crafted and executed strategy has the potential of putting a firm on the competitive roadmap and increases her chances of success through superior performance. Unfortunately, most organizations all over the world today, struggle with strategy implementation to the extent that the past studies have documented that organizations fail to implement between 60 and 80 percent of their strategic plans [1] [2].

In a dynamic and competitive environment that characterizes SME manufacturing firms all over the world today, managers not only need to adapt to the changing trends in management of their strategies in line with environmental changes, but also ensure that they are committed to their strategic plans to the extent that they are fully implemented. Strategy implementation is the second step in the strategic management process and it is usually regarded by many scholars and practitioners of management as the most difficult, challenging and time consuming activity [2, 3, and 4]. Other steps include the strategy formulation and strategy evaluation and control which come first and third respectively. The strategy implementation process determines whether an organization excels, survives or dies [3] depending on the manner in which it is undertaken by the stakeholders. In turbulent environments, the ability to implement new strategies quickly and effectively may well mean the difference between success and failure for an organization [5-6]. The practical experiences and scholarly works in the past have indicated that strategy implementation has a significant influence on organizational performance [7, 8]. Therefore, it follows that successful execution and implementation of strong and robust strategies will always give a firm a significant competitive edge [2], especially in the industries where unique strategies are difficult to achieve [9]. Before a strategy is implemented, it has to be formulated first.

The strategy formulation and implementation activities are intertwined. However, the literature indicates that many scholars in strategic management have concentrated their researches on strategy formulation and neglected research works on strategy implementation [10, 11], therefore, the literature on strategy implementation exists in pockets, is fragmented, and is inadequate [9]. Strategy implementation is a more elaborate and difficult task than strategy formulation [2] and involves concentrated efforts and actions and by all stakeholders in an organization. Hrebiniak [12] underscored that it is not only true for people to believe that strategy formulation is a difficult task because it is even more difficult to implement that strategy throughout the organization.

Leadership styles have been identified in literature as one of the key drivers in strategy implementation process. A superior and strong leadership skill is an important dynamic capability required to drive superior performance in organizations operating in a dynamic environment that characterizes organizations today [13]. Past studies have underscored the importance of leadership in strategy formulation and implementation [14-17]. This study investigated the major leadership styles identified in literature as the most important in driving superior performance in organizations today. The study also recognized that strategies are formulated and implemented by leaders and therefore, it is difficult for one to separate organizational leadership and strategy implementation.

## **2. Objective of the Study**

The main aim of this study was to establish the relationship between leadership styles practiced during strategy implementation process and performance of SME manufacturing firms in Thika Sub-County in Kenya

## **3. Hypotheses of the Study**

This study was guided by the following hypotheses:

**H<sub>1</sub>** There is a significant positive relationship between attention to leadership styles during strategy process and performance of SME firms

**H<sub>2</sub>** There is a significant relationship between the practice of transformational leadership style during strategy implementation process and performance of SME manufacturing firms

**H<sub>3</sub>** There is a significant relationship between the practice of transactional leadership style during strategy implementation process and performance of SME manufacturing firms

**H<sub>4</sub>** There is a significant relationship between the practice of passive/avoidant leadership style during strategy implementation process performance of SME manufacturing firms

#### 4. Literature Review

This study focused on the three main leadership styles according to Avolio and Bass definitions [18]. The transformational leadership style is the process in which leaders change their associates' awareness of what is important, and move them to see themselves and the opportunities/challenges of their environment in a new way. These leaders proactively seek to optimize organizational innovation and development at individual, group and organizational levels. Secondly, the transactional leadership style exhibits behaviors associated with constructive and corrective transactions. The constructive style is labeled Contingent Reward while the corrective style is labeled Management-by-Exception. Transactional leadership defines expectations and promotes performance to achieve these levels and thirdly, the passive/avoidant leadership style is more passive and "reactive" in nature. It does not respond to situations and problems systematically and has a negative effect on desired outcomes expected by the leaders. It is similar to laissez-faire leadership styles - or "no leadership at all".

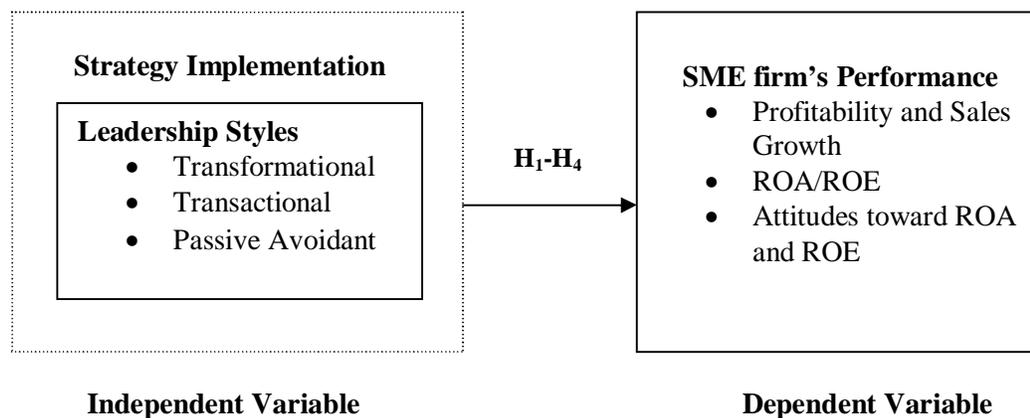
Teece [13] underscored the importance of leadership styles by stating that a leader must possess superior skills required to effectuate high performance through sensing, seizing, and transformation. A strong leadership skill is an important dynamic capability required to drive superior performance in organizations operating in a dynamic environment that characterizes organizations today. Thompson and Strickland [19] further stated that strategic leadership keeps organizations innovative and responsive by taking special plans to foster, nourish and support people who are willing to champion new ideas, new products and product applications. Griffins [20] identified leadership in an organization as one of the main factors influencing strategy implementation by providing a clear direction, up to date communications, motivating staff and setting up culture and values that drives organizations to better performance. Heracleous [10] identified various roles played by leaders during strategy implementation process and classified them as a commander (a leader who attempts to formulate an optimum strategy), an architect (a leader who tries to design the best way to implement a given strategy), a coordinator (a leader who attempts to involve other managers to get committed to a given strategy), a coach (a leader who attempts to involve everybody in the strategy implementation efforts) and a premise-setter (a leader who encourages other managers to come forward as champions of sound strategies).

A study in South Africa concluded that leadership and especially strategic leadership's role of providing direction during strategy implementation is important in influencing organization performance [14]. Noble and Mokwa [21] found out that manager's commitment to strategy (which refer the extent to which a manager comprehends and supports the goals and objectives of a strategy) and individual manager's role performance (the degree to which a manager achieves goals and objectives of a particular role) positively influences the success of strategy implementation effort and performance in an organization. Bourgeois and Brodwin [22] identified a variety of leadership styles which are practiced by leaders during strategy implementation and found out that leadership approaches to strategy implementation varies from being an autocratic leader to a more participative style that involves active engagement of various stake holders in the implementation process.

According to him, the five main categories of leadership styles practiced during strategy implementation include commander, collaborative, coercive, cultural, and organizational change. Ling *et al.* [23] identified that there is a significant relationship between transformational CEOs and the performance in SMEs. Aziz *et al.* [24] tested the three most common leadership styles commonly practiced by SMEs which include the transactional, transformational, and passive avoidant (Laissez-faire) leadership styles and found out that among the three leadership styles, the transformational leadership has the highest influence and is directly related to the performance in SMEs. His findings are consistent with a study by Naeem and Tayyeb [25] in Pakistan which found a positive correlation between the transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SMEs performance.

The study concluded that the transformational leadership style positively and significantly influences performance in SMEs in Pakistan. Okwu *et al.* [26] tested the application of transformational and transaction leadership styles in Nigerian SMEs and found out that transformational leadership style is weak in explaining variations in performance while the transactional leadership style has a significant positive effect on performance and both jointly explain very high proportion of variations in SME's performance. The study concluded that transactional leadership style is more appropriate in inducing performance than transformational leadership and recommended that SME firms should adopt transactional leadership style but strategize to transit to transformational leadership style as their enterprises develop, grow and mature.

## 5. Conceptual Framework



**Fig 1.0: Relationship between Leadership Styles and Performance of SME Manufacturing Firm**

## 6. Theoretical Framework

### The Dynamic Capability View of the Firm

The Dynamic Capabilities View (DCV) of a firm which was launched by David Teece in early 1990s is based on the works of Barney [27], Rumelt [28] and Wernerfelt [29]. The framework is an advancement of the Resource-Based View (RBV) of the firm which views resources as the key to superior organization performance and competitive advantage. The dynamic capability view [30] is based on the concept that organizations will always attempt to renew their resources in a way that suits the changes taking place in a dynamic environment. According to Teece *et al.* [31], the dynamic capability framework examines how firms are able to integrate, build, and reconfigure their specific competencies (internal or external) into new competencies that match changes taking place in a turbulent environment [32]. The DCV framework is based on the assumption that firms with greater dynamic capabilities will always outperform those with smaller dynamic capabilities. Therefore, operations in a dynamic environment call for firms to continuously renew, re-engineer and regenerate their internal and external firm's specific capabilities in order to remain competitive [33]. Dynamic capabilities are hard to develop and difficult to transfer because they are tacit and are often embedded in a unique set of relationships and histories of a firm. Ordinary capabilities, according to RBV, are about doing things right whereas dynamic capabilities are about doing right things at the right time based on unique processes, organizational culture and prescient assessments of the business environment and technological opportunities surrounding a firm [13]. Strong dynamic capabilities include processes, business models, technology, and leadership skills needed to effectuate high performance sensing, seizing, and transforming an organization [13]. This framework is relevant in this study because leadership skills that govern how leaders behave faced by different circumstances are dynamic in nature and resides in a manager himself. The practices of these skills differ from one organization and another and sometimes success is largely attributed to the capabilities of leadership existing in an organization at any one time. Organizational leadership, being dynamic in nature, determines the kind and type of strategies formulated, how the implementation process is conducted and whether an organization succeeds or fails based on commitments.

## 7. Research Methodology

To test the relationship between leadership styles and performance of small and medium manufacturing firms, the study adopted a mixed research design involving the descriptive, quantitative, and qualitative designs. The study data was collected once over a period of eight months from a sample of 115 out of a population of 165 targeted SME firms in Thika town and within 15 km radius. Bivariate linear correlation analysis was performed and the Spearman's Rho ( $r$ ) was used to show the relationship between the dependent variable (Performance) and independent variable (leadership styles) and the corresponding p-values indicated whether the relationship was significant or not. The relationship was deemed significant at  $p < 0.05$  and the opposite is true for insignificant relationships.

The linear regression analysis was used to test the hypotheses and to show the nature and significance of the relationships between leadership styles and manufacturing SME performance. The F-Statistics in the ANOVA output was used to show the model validity while R squared ( $R^2$ ) in the model summary was used to show the model's goodness of fit.

## 8. Measurement of Variables

### 8.1 SME Firm's Performance

The performance of the SME firm was measured by the degree of satisfaction on the levels of profitability, Return on Assets (ROA), Return on Equity (ROE) and sales turnover. Due to the sensitivity of obtaining information related to financial performance where owners were not willing to cooperate or the information was not available, A 5 point Likert scale psychometric instrument [34] was developed to capture information using more indirect measures of the SME's financial performance for a period of five years. The scale ranged from (1= Strongly Disagree, 2= Disagree 3= Not Sure, 4=Agree, 5= Strongly Agree). The mean score was then calculated as an average of the 5 items examined on the enterprises' perceived performance. A mean score above 3.4 on a 1-5 Likert scale indicated that the respondents generally agreed with a give statement while a mean score below 3.4 indicated that the respondents disagreed with the statement. A composite mean was then calculated based on all the statements on firm's performance. The higher the score obtained, the better the firm's perceived performance and the opposite is also true to poor perceived performance.

### 8.2 Leadership Styles

This study adopted the Multi-factor Leadership Questionnaire short form, 6-S:MLQ – 6S [35] to measure the three dominant leadership styles commonly practiced in organizations today namely the transformational leadership, transactional leadership and passive/avoidant leadership behavior. The tool consisted of 21 items which are marked from 1-5 rating scale where 1 = not at all, 2 = once in a while, 3 = sometimes, 4 = fairly often, 5 = frequently if not always. The factors of MLQ 6-S are grouped according to Avolio and Bass definitions [19]. The transformational leadership style includes: Factor 1. Idealized influence (item 1, 8 & 15), Factor 2. Inspirational motivation (items 2, 9 & 16), Factor 3. Intellectual stimulation (item 3, 10 & 17), Factor 4. Individualized consideration (item 4, 11, & 18). The Transactional leadership style include: Factor 5. Contingent reward (item 5, 12 & 19) and Passive/Avoidant leadership behavior include: Factor 6. Management-by-Exception Passive (MBEP) (item 6, 13 & 20) and Factor 7. Laissez-faire (items 7, 14 & 21). According to Avolio and Bass [18], the MLQ 6-S short form is scored as follows: Summing three scores of specified factor 1, 2, 3 & 4 gives the total score of transformational leadership.

The total score of transformational leadership is divided by four to give the composite mean score of transformational leadership style. Total score of factor 5 gives the total score of transactional leadership. The total score of transactional leadership divided by one gives the composite mean score of transactional leadership style. Summing scores of factor 6 and 7 gives the total score of passive/avoidant leadership behavior while total score of passive/avoidant behavior is divided by two to give the composite mean score of passive/avoidant behavior.

## 9. Research Findings and Discussions

The study results in Table 1.0 shows that the respondents agreed with most of the Likert-based performance constructs apart from the following two statements; we are highly satisfied by the returns from assets (ROA) invested (mean score, 3.37) and that the number of employees has been rising every year (mean score, 3.18). According to Avolio and Bass definitions [18] of transformational, transactional and passive/avoidant leadership styles as shown in Table 2.0, majority of the leaders in manufacturing SME firms in Thika Sub-County practiced transactional leadership style (composite mean score, 3.54), followed by transformational leadership style (composite mean score, 3.42) and lastly passive/avoidant leadership behavior (composite mean score, 3.12).

Table 3.0 shows the bivariate correlations between leadership styles and performance of a manufacturing SME firms in Thika Sub-County in Kenya. The study revealed that leadership styles ( $X_1$ ) has a positive and significant relationship with the performance (Y) of the SME manufacturing firm ( $r = .259^{**}$ ,  $P = 0.005$ ). Leadership styles were identified by the literature as one of the key drivers under strategy implementation that influences organization performance [17]. This implies that as the leadership styles improve during the strategy implementation process; there is a significant positive change in the SME firm's performance. These findings were subjected to further analysis using univariate linear regression model  $Y = \beta_0 + \beta_1 X_1 + \varepsilon$  where Y represents

SME's performance,  $X_1$  represents leadership styles and  $\varepsilon$  is the stochastic disturbance error term. According to the study results in Table 4.0 showing the ANOVA output, the univariate regression model was found to be valid ( $F_{(1, 112)} = 8.062, P = 0.005$ ) hence the conclusion that the explanatory variable ( $X_1$ , Leadership Styles) is good factor in explaining the variations in performance ( $Y$ ) of the manufacturing SME firm.

The study further revealed that leadership styles ( $X_1$ ) explains 6.7% of the total variations in the manufacturing SME firm's performance ( $R^2 = .067$  in the model summary's output). The coefficients in the regression model as shown in Table 4.1 indicated that leadership styles will always exist at a certain minimum at all times as shown by the constant ( $\beta_0 = 3.754, P < 0.001$ ). Attention to leadership styles during strategy implementation in the manufacturing SME firm is positively and significantly related to the performance of the SME firm ( $\beta_1 = .284, P = 0.005$ ) confirming the findings of the bivariate correlations in Table 3.0 that indicated that when the leadership styles improves, performance of the SME firm will also improve and in a similar direction.

The univariate model was significant and therefore, supports the study objective that attention to leadership styles during strategy implementation influences the performance of small and medium manufacturing firms in Thika Sub-County. The hypothesis  $H_1$ , stated that there is a significant relationship between attention to leadership styles and performance of manufacturing SME firms, that is,  $H_{01}: \beta_1 = 0$  versus  $H_1: \beta_1 \neq 0$ . The results from the bivariate correlation in Table 3.0 showed a significant and positive relationship between leadership styles and the SME firm's performance ( $r = .259^{**}, P = 0.005$ ) while those from the univariate regression in Table 4.1 showed that there is a positive and significant relationship between leadership styles and the SME firm's performance ( $\beta_1 = .284, P = 0.005$ ). This led to the rejection of the null hypothesis ( $H_{01}$ ) and the conclusion that there is a significant positive relationship between attention to leadership styles and the performance of the manufacturing SME firms.

The leadership styles variable was further broken down into specific leadership styles identified by Bass and Avolio [35]. The univariate model  $Y = \beta_0 + \beta_1 X_1 + \varepsilon$  was therefore modified to include these specific leadership styles giving rise to a new model  $Y = \beta_0 + \beta_1 X_{11} + \beta_2 X_{12} + \beta_3 X_{13} + \varepsilon$  Where:  $\beta_0$  = Intercept,  $\beta_1, \beta_2, \beta_3$  = slope coefficients representing the influence of the associated independent variable over the dependent variable,  $X_{11}$  = Transformational leadership style,  $X_{12}$  = Transactional leadership style,  $X_{13}$  = Passive/Avoidant leadership style and  $\varepsilon$  = stochastic disturbance error term. A bivariate linear correlation among these specific leadership styles in Table 4.2 revealed that the transformational leadership style has a significant positive relationship with performance of the manufacturing SME firm ( $r = .297^{**}, P = 0.001$ ), the transactional leadership style has an insignificant positive relationship with the SME firm's performance ( $r = .180, P = 0.054$ ) while the passive/avoidant leadership behavior also has a positive but insignificant relationship with the firm's performance ( $r = .169, P = 0.071$ ).

The three specific leadership styles were further subjected to a multiple regression analysis to test their combined effects on the manufacturing SME's performance. The model containing the three leadership styles contained in Table 4.3 was found to be valid ( $F_{(3, 111)} = 3.788, P = 0.012$ ) hence the three leadership styles are good predictors of the variations taking place in the performance of manufacturing SME firm's in Thika Sub-County, Kenya. The combined leadership styles were found to explain 9.3% of the variations in SME manufacturing firm's performance ( $R^2 = .093$  as shown in Table 4.4). The constant in the regression model as shown in Table 4.4 indicate that leadership styles will be always exist at a certain minimum during strategy implementation ( $\beta_0 = 2.864, P < 0.001$ ). The study results contained in the Table indicate that the transformational leadership style ( $X_{11}$ ) is significant and positively related to the manufacturing SME's performance ( $X_{11}, \beta_1 = .208, P = .013$ ) while the transactional leadership style ( $X_{12}, \beta_2 = .049, P = 0.481$ ) and passive avoidant leadership behavior ( $X_{13}, \beta_3 = .001, P = 0.012$ ) have positive but insignificant relationships with the manufacturing SME's performance. The study findings in Table 4.2 and Table 4.4 were used to test the following alternatives hypothesis in this study.

**H<sub>2</sub>** There is a significant relationship between the practice of transformational leadership style and performance of SME manufacturing firms in Thika, Kenya

**H<sub>3</sub>** There is a significant relationship between the practice of transactional leadership style and performance of SME manufacturing firms in Thika, Kenya

**H<sub>4</sub>** There is a significant relationship between the practice of passive/avoidant leadership style and performance of SME manufacturing firms in Thika, Kenya

The findings in Table 3.0 and Table 4.2 showed that the transformational leadership style ( $X_{11}$ ) has a positive and statistically significant relationship with the manufacturing SME's firm performance ( $r = .297^{**}$ ,  $P=0.001$ ;  $\beta_1=.208$ ,  $P=0.013$ ). This led to the rejection of the null hypothesis ( $H_{02}$ ) and the conclusion that there is a significant positive relationship between transformational leadership style and performance of SME manufacturing firms in Thika Sub-County in Kenya. The implication of this finding is that those leaders in the manufacturing SME firms who promote the attributes of the transformational leadership (idealized influence, inspirational motivation, intellectual stimulation and individualized considerations) during strategy implementation efforts help their organizations to achieve better performance. The findings in Table 4.2 also revealed that the transactional leadership style ( $X_{12}$ ) has an insignificant positive relationship with the manufacturing SME's firm performance ( $r = .180$ ,  $P =0.054$ ). This study, therefore, failed to reject the null hypothesis ( $H_{03}$ ) and concluded that the relationship between transactional leadership style and the performance of SME manufacturing firm in Thika, Kenya is insignificant. Likewise, the passive/avoidant leadership behavior ( $X_{13}$ ) returned an insignificant positive relationship with the manufacturing SME firm's performance ( $r = .169$ ,  $P = .071$ ). This study, therefore, failed to reject the null hypothesis ( $H_{04}$ ) and concluded that the relationship between the passive/avoidant leadership behavior and the performance of SME manufacturing firms is positive but statistically insignificant.

## 10. Discussion

The results of both bivariate correlation ( $r = .259^{**}$ ,  $P = .005$ ) in Table 3.0 and univariate regression analysis ( $\beta_1=.284$ ,  $P = .005$ ) in Table 4.1 indicated that leadership styles practiced during strategy implementation process has a positive and significant relationship with the manufacturing SME firm's performance in Thika Sub-County. This implies that the choice of a leadership style is very important since it affects how manufacturing firms performs during the strategy implementation process. These findings concurs with observations and conclusions made by earlier scholars in management that organization's leadership is an important factor that leads to superior performance in a dynamic environment [10], [13], [14], [19], [20] and [21]. The role of an organization's leadership in owning up, steering and driving forward strategy implementation efforts is a critical factor to the success of a firm. The findings in this study that leadership styles influences manufacturing SME performance are also in agreement with the arguments advanced by the proponents of the Dynamic Capabilities View's framework that organizations with superior performance tended to exhibit strong leadership skills among other dynamic capabilities. Leadership skills are tacit and dynamic in nature making it difficult for other organizations to acquire or imitate. It therefore, follows that the SME manufacturing firms' leadership in Kenya need to enhance, foster and vary their dynamic capabilities with respect to leadership skills to suit the ever changing demands in the society. These changes should be well aligned with the changes taking place in the competitive and dynamic environment these firms find themselves in the 21<sup>st</sup> Century. The finding in this study, therefore, supports, reinforces and further validates the Dynamic Capabilities View of the firm (DCV) arguments that dynamic capabilities are key to superior performance and competitive advantage in organizations today.

The analysis of specific types of leadership styles commonly practiced in most organizations based on the works of Avolio and Bass [18 ] shown in Table 4.2 revealed that the transformational leadership style is the best among the three leadership styles. In this study the transformational leadership was found to have a positive and significant relationship with the performance of the manufacturing SME firms ( $r = .297^{**}$ ,  $P=.001$ ;  $\beta_1=.208$ ,  $P=.013$ ) while transactional leadership styles ( $r = .180$ ,  $P =.054$ ;  $\beta_2=.049$ ,  $P =.481$ ) and passive/avoidant leadership behavior ( $r = .169$ ,  $P = .071$ ;  $\beta_3= .001$ ,  $P = .990$ ) have an insignificant positive relationship with the manufacturing SME firm's performance. A comparative analysis of the past studies indicated that these findings are consistent with the works of several scholars who have attempted to relate the three specific leadership styles. Aziz *et al.* [24] found out that among the leadership styles practiced by SMEs, the transformational leadership has the highest influence and is directly related to the firm's performance. Ejere and Ugochuku [37], in an empirical study of transformational and transactional leadership styles in Nigeria, found that transformational leadership style is positively and highly related to organizational performance while transactional leadership style has a positive but weak relationship with organizational performance.

Ling, Simek, Lubatkin and Veiga [23 ] found a significant relationship between transformational CEO's and performance of the SME's and noted that their findings tended to confirm the Upper Echelons theory's argument that CEO characteristics affect organizational performance. Udoh and Agu [36] studied the transformational and transaction leadership styles on performance of manufacturing organizations in Nigeria and found a significant positive relationship between transformational and transactional leadership styles and the organizational performance. However, deviating from Udoh and Agu's findings this study found that, although the transactional leadership style is positively related to performance of the manufacturing SME firm in Kenya, this relationship is statistically insignificant ( $r = .180, P = .054; \beta_2 = .049, P = .481$ ). This can be attributed to the existence of different PESTEL conditions in Kenya and Nigeria. Okwu, Obiwuru, Akpa and Nwankwere [ 26] tested the application of transformational and transactional leadership styles in Nigerian SME's and found out that transformational leadership traits (charisma, intellectual stimulation/individual consideration, inspirational motivation) are weak in explaining variations in performance. Their study also found that the transactional leadership traits (constructive/contingent reward, corrective and management by exception) have a significant effect on followers and performance and explains very high proportion of variations in performance. They concluded that transactional leadership style is more appropriate in inducing performance than transformational leadership style. The current study finds these findings completely the opposite. This study found that, although, the SME manufacturing firms in Kenya are currently practicing more of transactional leadership style, it is only the transformational leadership style which is statistically significant under the Kenyan PESTEL conditions. The leadership styles practiced by these SME's during strategy implementation process were also found to have some transformational attributes.

Naeem and Tayyeb [25] in Pakistan found a positive correlation between transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SME performance. The findings of these two studies [25, 37] are in agreement with this study on the significance of the transformational leadership style but disagree on the significance of transactional leadership. Their studies found a weak relationship between transactional leadership and SME performance but the current study indicated that although there is a weak positive relationship between the two variables, this relationship is statistically insignificant. Ojokuku, Odetayo and Sajuyigbe [38] examined the impact of the leadership styles in unrelated sector to this study which included the banking industry in Nigeria and found a strong relationship between leadership and organizational performance. The findings of their study indicated that the transformational leadership is positively and significantly related to bank's performance. The transactional leadership style is negatively related to performance but insignificant. Their study findings are in agreement with current study on both leadership styles. Zumitzavani and Udchachone [39] also examined the influence of leadership on organizational performance in hospitality industry in Thailand and found out that transformational leadership style has a positive relationship with organizational performance; transactional leadership style has a weak positive relationship while passive/avoidant has a negative relationship with organizational performance. Koech and Namsonge [40] investigated the effects of leadership styles on organizational performance of state owned corporations in Kenya and found a high correlation between transformational leadership, a low but significant correlation between transactional leadership and performance and no correlation between passive/avoidant leadership style and performance. Okwachi et al [16] studied Kenya SME's and found that leadership practice has a direct relationship with strategy implementation.

## **11. Summary and Conclusions**

This study found statistical evidence that a positive and significant relationship exist between leadership styles practiced during strategy implementation and performance of manufacturing SME's firms. Secondly, he study also found out that most of the CEOs and the owners of manufacturing SME firms in Thika Sub-County in Kenya practice more of transactional leadership styles followed by transformational style and lastly passive/avoidant leadership behavior. Thirdly, among the three specific leadership styles commonly practiced in organizations today, only transformational leadership was found to be statistically significant in a combined relationship. The transactional and passive/avoidant leadership were found to be positively related to manufacturing SME firm's performance but their influence is statistically insignificant in a combined relationship. Fourthly, the study revealed that leadership styles is an important dynamic capability in manufacturing SME firms as postulated by the proponents of the dynamic capability's view of the firm.

The study also found out that leadership is an important and significant variable influencing the direction of strategy implementation process and hence the performance of manufacturing SME's. The manufacturing SME firms should begin by enhancing their transactional leadership styles and progressively advance to transformational style which is the best as per the findings of this study. Passive/avoidant leadership comes last in determining superior performance in these firms. Finally, this study came into a conclusion that leaders of the SME firms need to continuously foster, learn, and develop better skills in leadership as one of the key dynamic capabilities significantly influencing performance and therefore a key determinant of competitive advantage in firms operating in dynamic and turbulent environment characteristic of the 21<sup>st</sup> century firms globally.

**Table 1.0: Descriptive Statistics on the SME Performance**

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

Note: Reliability  $\alpha$  – Performance = 0.815

Ranked on a scale where 1=Strongly Disagree, 2= Disagree, 3=Not Sure, 4=Agree, 5=Strongly Agree

**Table 2.0: Descriptive Statistics on Leadership Styles practiced by the manufacturing SME firm**

MLQ 6-S Short Form Statement (Developed by Avolio and Bass [36])	N	Mean	Std. Dev
I make employees feel good to be around me	115	2.835	1.059
I tell others in a few simple words what need to be done	115	3.844	1.204
I help others to think about old problems in new ways	115	3.400	.896
I help other employees to develop themselves	113	3.398	.797
I tell employees what to do if they want to be rewarded for their work	115	3.244	1.014
I am satisfied when employees meet the agreed targets	114	4.877	.356
I am contented to let others to continue working in the same ways always	115	2.145	1.258
Other people have complete faith in me	114	3.290	.938
I use tools, images, stories and models to help other people understand	115	3.044	.862
I provide employees with new ways of looking at complex or difficult issues	114	3.333	.984
I give employees feedback to let them know how they are doing	113	4.177	.804
I reward employees when they achieve their targets	113	3.336	1.040
As long as things are working, I do not try to change anything	112	2.286	1.352
I give employees freedom to do whatever they want	115	1.730	1.029
Other people are proud to be associated with me	115	3.574	3.978
I help the employees to find meaning in their work	113	3.814	.892
I help others to rethink about issues that they had never thought of or questioned before	115	3.130	.822
I give personal attention to others when they are in need	114	3.254	1.037
I let employees to know what they are entitled to after achieving their targets	114	4.053	.967
I remind employees the standards they need to maintain while doing their work	114	3.649	1.137
I do not ask anything more from others than what is absolutely necessary	114	3.939	1.271

Note: Reliability  $\alpha$  – Attention to leadership styles = 0.800

**Table 3.0: Bivariate Correlation: Leadership Styles and SME Performance**

		Y	X <sub>1</sub>
Performance (Y)	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	115	
Leadership Styles (X <sub>1</sub> )	Pearson Correlation	.259**	1
	Sig. (2-tailed)	.005	
	N	114	114

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

**Table 4.0: Leadership Styles and Performance: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1.745	1	1.745	8.062	.005 <sup>b</sup>
	Residual	24.245	112	.216		
	Total	25.990	113			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Leadership Styles (X <sub>1</sub> )						

**Table 4.1: Leadership Styles and Performance: Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	R <sup>2</sup>	t	Sig.
		B	Std. Error	Beta			
	Constant	3.754	.044			85.988	.000
	X <sub>1</sub>	.284	.100	.259	.067	2.839	.005
a. Dependent Variable: Performance							

**Table 4.2: Bivariate Correlation Results on Specific Leadership Styles in SME's Firm**

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

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

**Table 4.3: Specific Leadership Styles: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.466	3	.822	3.788	.012 <sup>b</sup>
	Residual	24.087	111	.217		
	Total	26.553	114			
a. Dependent Variable: Performance						
b. Predictors: (Constant), X <sub>13</sub> , X <sub>12</sub> , X <sub>11</sub>						

**Table 4.4: Specific Leadership Styles: Regression Weights**

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

a. Dependent Variable: (Y) Performance

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