

**THE EFFECT OF STRATEGIC LEADERSHIP ON THE
PERFORMANCE OF
SMALL AND MEDIUM ENTERPRISES IN KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS FOR THE AWARD
OF THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION, UNIVERSITY OF NAIROBI**

2016

DECLARATION

This research project is my original work and has not been presented for examination purpose to any other university, college or institution of higher learning.

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This project has been submitted for examination with my approval as university supervisor.

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DEDICATION

To my parents Kephah Ogechi and Esther Ogechi for their encouragement, selfless support, prayers and sacrifices they made to successfully see me through school.

To my girlfriend, Margaret Muriithi for her love, prayers and a peace of mind as I went through this project.

To my brothers Douglas and Augustine for being supportive through this challenging education path.

ACKNOWLEDGEMENTS

This study has been completed through the sustenance and encouragement from various individuals to whom am really appreciative.

First, I will thank God for His grace and mercies that He saw me through my studies in good health and right mind. I give him glory and gratitude.

A special thank you to Professor Peter K'Obonyo, my supervisor, for transforming this project into a sensible product. His discerning reviews and patience are most appreciated.

I am grateful to the family I have, for their invaluable encouragement and the thoughtfulness that they accorded me, thank you for making me whom I am. I am thankful to Maggie, my girlfriend, for her encouragement and support.

To all I say, God bless you.

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LIST OF ABBREVIATIONS

ILO	International Labour Organization
LPC	Least-Preferred Co-Worker
GDP	Gross Domestic Product
SMEs	Small and Medium Enterprises

ABSTRACT

Proper strategic leadership is essential in an organisation's decision making to ensure short term success and long term sustainability given the current volatile business environment. SMEs in Kenya are the key vehicles of economic development but they fall short of achieving their potential. SMEs are facing problems such as stiff competition, inadequate financing and the inability of the leaders to make long term strategic decisions. This study aimed at establishing the effect of strategic leadership on performance of small and medium enterprises in Kenya. Descriptive survey design was used. The target population consisted of 3,001 registered SMEs in Kenya. 301 SMEs were selected as a sample using stratified sampling technique. Respondents were the owners and managers of the organisations. Collection of primary data was done through a structured questionnaire. The response rate of this study was 56% based on 170 respondents out of 301. Descriptive statistics (standard deviations, percentages and mean) was used in the analysis. Pearson correlation analysis was also performed to determine the level of the relationship between strategic leadership and performance of the SMEs in Kenya. Strategic leadership practices have been discussed in this study, which include: determined corporate strategic direction, effectively managed corporate resource portfolio, emphasized organizational culture, ethical practices and organizational controls that are balanced. Measures of organisational performance such as customer satisfaction, net profit margin, high annual revenue and low annual employee turnover were also studied. The two variables' level of relationship was tested using a correlation analysis and it confirmed that strategic leadership has an effect on organizational performance. Therefore, this study concluded that strategic leadership positively affects the performance of SMEs in Kenya. The researcher recommended that balanced organizational controls should be effectively applied to realize good performance. Further studies are recommended to be undertaken to determine the effect of strategic leadership on the performance of county governments in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Business world has been swiftly changing more than ever before. Factors such as competition, globalisation and technology have reshaped the environment which modern businesses thrive. To address this kind of environment, businesses require leaders with adequate capabilities. Strategic Leadership is the managerial ability to expect, predict, keep flexibility, and endow others to generate strategic change where appropriate (Robbins et al, 2010). Strategic leaders understand the current state of available markets, how to structure their products to serve the market competitively, the health of their organisation and the presence of capital, how to determine the needs of the different sections of an organisation, how to manage change in various states, how to use accountability and power, and ways to develop an optimum leadership team with adequate skills and competencies (Harris, 2008). Strategic leadership is one of key determinants of performance of an organisation through strategic decision-making, determining organisational structure and managing the organisational process.

This study will be anchored on contingency theory, Upper echelons theory and the trait theory. The contingency theory explains that the design and operations of a firm are shaped by environmental factors such as technology, competition and culture (Vroom and Jago, 1988). Therefore there is no paramount way of leading since a leader needs to align his/her strategies to the existing and future environmental conditions. The upper echelon theory emphasises that operational

excellence of a firm are largely determined by the principles and skills of the top management in assessing the external environment and developing prudent structures (Hambrick and Mason, 1984). The trait theory highlights the specific traits that enable managers to be optimal leaders. Traits such as emotional stability, communication skills, owning up mistakes and intellectual breadth enable individuals to be effective leaders (McCall and Lombardo, 1983).

SMEs are regarded as foundations of economic dynamism, competition, innovation, and employment in any economy. They have the capacity to spur speedy economic growth, and contributing to creation of employment opportunities (Reddy, 1991). Small and medium scale enterprises are expected to provide the driving force for the industrialization and overall development of the economy. They are also expected to play significant roles in meeting some basic economic and industrial developmental objectives. In Kenya, the earliest time that SMEs' significance was identified was in 1972 by an ILO report (ILO, 1972). SMEs contribution to employment in Kenya is pegged at about 80%. Despite the above fact, SMEs contribute only 20% of the GDP (Tarus and Ng'ang'a, 2013). This is a clear indication that the sector is performing miserably despite its potential to contribute more to the Kenyan economy. There is evidence of an absence of strategic leadership practises in most organisations, they tend to gravitate towards goals addressing short needs as opposed to long term needs, and ability to make decisions lean towards being reactive (Wang et al, 2011). SMEs are mainly run by owners and relatives and financing is mainly offered by the owners. Most of the time, the owners fail to notice the value of external sources of capital in order to

affect the expansion in the business. SMEs are usually distributed across four sectors, including agro-based industry, other industry, services, and trade and in the finance and economic activities (Gathenya, Bwisa and Kihoro, 2011).

1.1.1 Strategic Leadership

Strategic leadership is a managerial capability of a firm expect, predict, keep flexibility, and endow others to generate strategic change and a feasible future of the firm (Kjelin, 2009). It is therefore the capability of the leadership to keep on reinventing motives for the organization's sustained presence. The leader must have the ability to focus on the organisation's operational activities and at the same time monitor the changes that affect the organisation, both internally and externally. Such changes are bound to determine the existence of the organisation in the future and they are prospects to grow the firm. The performance of any firm is dependent on its leaders (Finkelstein and Hambrick, 2008). Businesses go down if the leadership aches from the flaws like inability to convince its employees to follow its vision; the failure to counter or recognise threats; misjudging their capability to manage the business' external environment; inability to separate personal needs and those of the firm; a conviction that they are able tackle all situations, sacking any staff that differ with them; and underrating impediments that have occurred in the past.

The main significance of any leader is to nurture their followers' abilities. Therefore, the role of leaders is to convert the work place into a place they can achieve their full potential (Sharma, 2007). An organisation earns substantial

results in terms of allegiance, output, inventiveness and dedication to the organisation's compelling objective if its leaders commits themselves to unshackle as opposed to suffocate the abilities of the people they leads (Goffee and Jones, 2006). Strategic leadership concept provides the required values and abilities for the owners and managers of SMEs to enable them succeed in running their businesses. The ability to anticipate and position an organisation to the dynamic business environment plays an essential part in the continued survival and success of a business.

There are five main practises of strategic leaders: Determining strategic purpose and vision, Effective management of the resources of the firm, Fostering effective culture in the firm, Underlining all operations with ethical considerations, and establishing a balance between strategic and financial controls. These practises are discussed below.

Strategic leadership involves creating long term purpose and vision of the firm. The purpose and vision of an organization bring into line the activities of all people in the firm (Harris, 2008). A good vision is lively and everyone in the firm comprehend it and act by it. It is also full of ambition and energy, hence employees keep talking about their firm's purpose and vision. However, firms fall into a trap when leadership are fixated on their vision and ignore emerging market prospects (Nel, 2008)

Strategic leaders have a task of administering resources of the organisation. The resources can be classified into social capital, financial capital and human capital

(Barney and Arian, 2001). Distefano and Maznevski (2003) alludes that it is essential to foster human capital if strategic leadership is required to be achieved.. Harris (2008), stated that a firm achieves competitive advantage over its competition using its available resources.

A culture of a firm is a collection of core beliefs and behaviours, which are shared within the organisation and impacts the way operations are steered. Every firm has a culture that assist to express the framework in which employees' conduct is distinguished and adjudged (Raisch, and Birkinshaw, 2008). Culture enables a firm to regulate their employees' conduct since it determines how a firm operates. This is a foundation on an advantage over its rivals.

Organisations which base their actions on ethical principles are able to effectively accomplish their strategies. Companies with leadership that prioritises moral considerations inspire and allow staff at all echelons of the firm to perform ethically when striving to achieve the firm's strategies (Nel, 2008). Organisations are required to recruit strategic leaders that embrace ethical practices as an element of their enduring vision for the organisation, those who wish to act in the right manner and with honest and integrity (Robertson and Crittenden, 2003).

Controls are important since they enable an organisation to achieve its desired outcomes (Redding, 2002). Controls are structured used by a firm to uphold or alter patterns in its operations. Controls assist strategic leaders develop reliability, validate the importance of strategies to the organisation's participants and endorse and back strategic change (Shields, Deng and Kato, 2000). According to Hitt and

Hoskisson (2006) the organization's ability to regulate and check progression for tasks and outcomes need to be adequately developed. Leaders are accountable for the creation and usage of the available internal controls.

1.1.2 Organizational Performance

Performance is the record of results achieved on a given action during a given period of time (Wang et al, 2011). Therefore performance is identified through output, streamlined internal processes, profits, attitudes of workers, customer satisfaction among others (William 2002). As per Chen (2002, p.432), a firm's performance is the "transformation of inputs into outputs for achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency) and between output and achieved outcome (effectiveness)"

Richard (2009) states three areas in the organisation's outcomes that can be used in measuring its performance: commercial performance (incomes, investment return), return to shareholders (return of the shareholders) and performance of the product in the market (annual turnover, market share), employee stewardship, customer satisfaction and CSR.

1.1.3 Small and Medium Enterprises in Kenya

SMEs are defined based on different criterion. One criteria is based on employee numbers. It defines SMEs as the firms with work force not exceeding 50 employees. Another criteria defines the SMEs as the extent of legalization, differentiating between the informal and formal organisation. SMEs are reflected as firms that have not been registered and hence are not conforming to the safety regulations, taxes and other laws. Another criteria defines SMEs as based on the amount of financial muscle and expertise of employees (Tarus and Ng'ang'a, 2013).

As per the Kenyan laws, SMEs are defined based on the employee numbers and annual sales (MSMEs Act, 2012). The micro enterprises are those with less than 10 staff with annual sales not exceeding five hundred thousand Kenyan shillings and capital of not exceeding ten million shillings for manufacturing firms and five million for service firms. Small enterprises are those with staff numbers between ten and fifty, with annual sales of exceeding five hundred thousand and not exceeding five million and capital of between five million and fifty million for manufacturing firms. Legislation in other countries differ in the limits set in categorising a firm to be an SME. In the USA the limit is set to contain firms with fewer than 500 employees (Achanga, Shehab, Roy and Nelder, 2006). The European Commission (2016), sets the limit to contain less than two fifty employees and an annual turnover of less than fifty million Euros.

1.2 Research Problem

Strategic leadership has been widely identified as one of the main contributors of effective strategy implementation, which has a critical part in leading and upscaling the tone, speed, and style of strategy implementation. Effective strategic leadership activities aid organizations to effectively use strategic management processes which conclude in competitiveness and high returns (Hitt et al. 2007). William (2002) states that performance of firms is gauged in terms of output and result, profits, the firm's structures and processes, attitude of staff, and how the firm reacts to the environment. The owners and the providers of the resources to a firm are always keen on the performance of a firm. It is through performance that resource owners are able to assess whether to continue investing in the firm or not. This underscores the significance of performance in a firm's continued survival.

SMEs in all economies have been acknowledged as main agents for creation of jobs. They fortify the ability of a country to generate employment and wealth for the general advantage of national and regional economies. In Kenya, SMEs constitute about to 80% of employment and contributes 20% of the GDP (African Economic Outlook, 2011). They are important in the elevation of national and regional economic development. However, almost 80% of these SMEs cease operation within three years of their creation, which raises concerns that they constantly underachieve and are ill equipped for future challenges.

Serfontein (2010) performed a study "The impact of strategic leadership on the operational strategy and performance of business organisations in South Africa".

The research established that elements of strategic leadership are proportionately related with performance of organizations in South Africa. Zindiye (2008) did an empirical investigation “Factors affecting the performance of small and medium enterprises in the manufacturing sector of Harare, Zimbabwe”. The findings showed that above normal inflation rate and other factors such as forex rates affected the performance SMEs. The research recommended that SMEs need to improve their strategic management practices in order to counter the economic uncertainties. Stokes (1995) found that the smallest firms were most susceptible and that those that grew were less likely to fail than those that did not.

Locally, a studies have been performed on the effect of strategic leadership on organisation performance. (Nthini, 2011) researched on the, “Effect of strategic leadership on performance of commercial and financial state corporations in Kenya” and found out that strategic leadership have a positive effect on the performance of government corporations. The respondents concurred with the fact that their institutions recorded a high net profit margin/ return on sales due to strategic management practises. (Nganga, 2013) focused on strategic leadership and performance of manufacturing firms. The study established a high linear relationship between performance of manufacturing firm and strategic leadership. He found out that firms which had leveraged on strategic leadership were able to withstand the economic challenges affecting the industry and align themselves to attain competitive advantage. Makena (2011) did research on “Challenges faced by SMEs in accessing financing in Kiambu town and found out that 25% of the respondents had made effort at seeking financing from banks and of those, 56%

had been turned down by the banks. Lack of structures in the firms and limited skills from the owners and managers were identified as the main hindrance to accessing to financing.

None of the studies that the researcher came across focused on SMEs in Kenya and how strategic leadership affects their performance. This is the gap that this study intends to address. The research question that will be answered in this study is: What is the effect of strategic leadership on the performance of Small and Medium Enterprises in Kenya?

1.3 Research Objective

To establish the effect of strategic leadership on performance of small and medium enterprises in Kenya.

1.4 Value of the Study

Policy makers who are the regulators and the government; this study will assist them to ascertain whether there is any increased performance of SMEs that can openly be credited to strategic leadership. In the end, it will help them to set policies on how to improve and provide an environment where SMEs thrive.

Investors; this study will help investors appreciate the management complexities of SMEs and how their survival depends on strategic leadership. This is vital when making investment decisions with regard to investing in SMEs.

SMEs owners and managers; this study will assist the owners and the leadership to comprehend the value of strategic leadership on performance of SMEs. This will assist the owners to mark the areas that require to be enhanced and make strategic leadership an instrument of performance.

Academicians and researchers; this study is aimed at helping them to understand how strategic leadership affects the performance of SMEs in Kenya. And also identify areas of more research in the area of strategic leadership on performance of organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theories supporting the study, the concept of strategic leadership; actions of strategic leadership; and strategic leadership and performance.

2.2 Theoretical Foundation

This section provides a discussion of the theories that supports the study .These theories are trait theory, contingency theory and upper echelons Theory.

2.2.1 Contingency Theory

Contingency theory explains how conditional factors such as culture, technology, competition impact the design and operation of organizations. The effectiveness of a firm is therefore not always reliant on on a fit or match among the kind of technology, environmental uncertainty, the extent of the organisation, and its information structure (Vroom and Jago, 1988). According to Hersey and Blanchard (1974), the contingency theory offers that there is no one paramount approach of leading and that an effective style of leadership in one situation may not work in another. How effective a leader turns out is dependent on his behaviour in the given situation.

Fiedler and Garcia (1987) claim that a leader's productivity in the high hierarchy of the firm is dependent on his ability to adapt or change his style. This is an issue in many small organisations where managers are satisfied with their current achievements and hence not bearing in mind their abilities to achieve the same level of excellence in the future. The SMEs world is a very dynamic environment with challenge cropping up every time. The ability of the firm's leaders to give a vision and path that lets a firm to change and innovate is essential in encouraging an inspired reaction to new challenges.

The Contingency theory is criticized as it does not explain the reasons behind some styles of leaders are effective in specific situations only. The theory is also criticized that LPC scale used does not relate well with the other leadership gauges (Northouse, 2007).

2.2.2 Upper Echelon Theory

The main highlight of this theory is that, firms are replications of the intellect and ideals of their top leaders (Hambrick and Mason, 1984). Principles and inclinations of top leadership will affect their review of the environment, and the selections they make about the strategy of the organisation. Over a given duration, the firm comes to mirror the leader. The theory was further refined by Hambrick, (2007) by introducing two further moderators: managerial discretion and executive job demand. The upper echelon theory offers that a firm's outcome is directly related to the extent of managerial discretion that exists. Managers with higher discretion have a higher opportunity to influence the employees

The upper echelon theory and its subsequent refinement does not take into consideration the ethical requirements in the industry. Firms operations are not necessarily a reflection of the actions and beliefs of the top management. In some instances, the operations and practise of the firm are dictated by the ethical considerations even if the characteristics of the leadership are contrary to that (Van der Zee and Swagerman, 2009).

2.2.3 Trait theory

Trait theory help in identifying traits and qualities that are instrumental when leading others. Such traits may include honesty, responsiveness, decisiveness, good decision-making skills, and likability. On another hand, not one of these traits, will assure a successful leadership. Traits are outward manners that crop from the items running within our subconscious that impart on effective leadership. Leader effectiveness is the extent of inspiration a leader has on the how an employee or employees perform, how they are satisfied, and how effective they are (Derue et al, 2011). A research performed on failure and achievement by McCall and Lombardo (1983) recognised four main traits through which one can fail or thrive: how one is composed or stable emotionally: how confident or calm one is under a stressful challenge, how one agrees to mistakes, how one takes up responsibility for mistakes, adequate relational skills: excellent communication and persuasion skills: mastery of extensive range of disciplines instead of a narrow focused expertise.

The main criticism of this theory is that it pegs effectiveness of a leader on inborn emotional mechanisms and restricts the importance obtaining skills through

imparting knowledge on individuals through school (Pervin, 1994). At times, inborn traits are not as rigid or important when leading as the theory supposes. The theory does not consider circumstances that might affect the outcome given separate scenarios call for separate behaviours from leaders.

2.3 Strategic Leadership and Organisational Performance

The conception of organizational performance is founded on the impression that a firm is the intentional coming together of assets for the intention of achieving a common purpose (Richard, 2009). The owners of the assets will decide to pledge them to a firm only if are happy with the worth that they obtain in return, compared to alternate usage of the assets. Therefore, the core of performance is the conception of value. As long as the higher value is generated by the firm, the assets will be available to them. Therefore, the provider of the resource considers creation of value as the main criteria of measuring the value of the firm

The role of leadership is of great value to the realisation of any firm. At the beginning stage a firm, the top manager is accountable for the conveyance of the goods or service, the general operation of the firm and marketing it. As the firm develops and grows, the manager takes more emphasis into creating strategic direction and delegates the operational activities to other low level employees. The manager employs staff with specialised skills to ensure operational excellence and increased business growth. For increased growth, sales revenue needs to grow through market and product diversification (Breene and Nunes, 2006). The leader comprehends the relationship between competences and value creation which

determines performance in firms (Breen and Nunes, 2006). Creation of value encompasses translating an idea concerning customer requirements into a brilliant combination of organisational procedures and abilities that fulfil the desires at low cost. Management of creativity and talent is also fostered by a leader through investment in training and leadership development (Nel and Beudeker, 2009). A high performing culture is often synonymous with a high performing firm.

Strategic leadership contributes to improved performance as it transforms the firm and its operations to be optimised in terms of having long term growth and survival and at the same time short term financial health (Lamb, 2009). Strategic leaders put emphasis on building the firm's resources and competencies so as to achieve competitiveness in the market. Strategic leaders are aware that concentrating on the current situations and ignoring the key issues that are affected by the turbulent environment will lead to organizational disaster (Lamb, 2009). With this, a firm balances between short term success and long term sustainability. Strategic leaders consider human capital as a key element in innovation and creativity, and they put a lot of effort sustaining the health of this work force (Harris, 2008). This is achieved by sustaining as well as searching for new resources and innovations which is utilised to create wealth.

Organizations always need to study new information and in the same scenario, to operationalise newly invented ways of learning (Nel, 2008). Development and disbursing of knowledge in a firm and at the same time learning new information is critical to the long term sustainability of an entity. Most of the time, these actions

are effected by a strategic leader. Strategic leadership enables creation of a culture that encompasses organisational learning and sharing of knowledge (Nel, 2008). This has long term advantage since it assures a firm is very competitive in the market.

There is a association between the leader's attributes, a firm's strategies, and its operational excellence. When the owners and top management are involved in determining a path of the firm, it automatically expands its performance. The main component of strategic leadership and organizational performance, is the management's capability to utilize the organization's resources while taking into consideration the current and future environmental factors (Ireland and Hitt, 2005). The survival and excellence of a firm is determined by its ability to withstand the market challenges and create a competitive advantage in industry. This is achieved if the management employs strategic leadership skills in its operations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the design used in the research, the population, data collection methods and how data will be analysed.

3.2 Research Design

This study made use of a descriptive survey design. The descriptive research is a prominent data collection methodology in both quantitative and qualitative research. This approach allowed analysis of respondents in producing insights into the influence of strategic leadership on the performance of SMEs in Kenya.

3.3 Population

The population targeted consisted of all small and medium enterprises operating in Kenya. Data available from the Public Procurement Oversight Authority of Kenya indicated that there are 3,006 fully registered SMEs as of 18 August 2016. The listing was obtained from the authority's website (<http://www.ppoa.go.ke/>)

3.4 Sampling

A stratified random sampling technique was used. Here, a population is arranged into strata and thereafter random sampling is performed. This technique is applicable where the population is required to be divided into homogenous groups before a simple random sampling is performed. This technique was favoured since

no portion of the population is not taken into consideration when sampling. Therefore this technique reduces the sampling error greatly (Mugenda, 2003).

In the sampling procedure, the SMEs were stratified into five sections. This includes the professional services sector, the manufacturing/construction sector, agribusiness sector, hospitality and the general trade sector. Simple random sampling was carried out in each sector. A total sample of 301 SMEs were selected which represents 10% of the population as shown below.

Table 3.4 Sampling Criteria.

Stratum	Population	Sample (10%)
Agribusiness/Food Supplies	303	30
Construction/Manufacturing	348	35
Hospitality/Catering	359	36
Professional Services	332	33
General trade	1664	166
Total	3006	301

Source: Author (2016)

3.5 Data Collection

A structured questionnaire was used to collect the data. The questionnaire contained a Likert scale questions. The questionnaires were delivered to the respondents who reside within Nairobi while others were sent through email. Respondents were the owners and managers of the SMEs. The questionnaire consists of three sections. Section A focused on general information about the

respondent and the organisation, section B is focused on strategic leadership and actions that are geared towards performance and section C focused on the level of organisational performance.

3.5 Data Analysis

To ensure that the data was consistent and at the same time complete, the questionnaires collected were edited. The data was coded and tabulated. Data was analysed by use of descriptive statistics. This included frequency distribution, measures of central tendency (mean) and measures of variation (standard deviation). Also, Pearson's correlation analysis was done to analyse the relationship between strategic leadership and organisation's performance. Pearson's correlation technique tests the strength and significance of relationship between variables. Graphs and percentages as well as frequency tables will be used to present the results.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter contains the results of the study and the analysis from the data collected from the respondents. The sections discussed include; the response rate, background information, strategic leadership, organizational performance and the correlation showing the relationship between strategic leadership and organizational performance.

4.2 Response Rate

From the 301 respondents sampled to participate, 170 responded while 131 did not respond. This represented a rate of response of 56% which was deemed adequate to analyse the effect of strategic leadership on the performance of small and medium enterprises. Mugenda and Mugenda (2003) states that 50% response rate in a data collection exercise is generally considered to be adequate for a study to be done on it. The fact is corroborated by Bailey (2000) who asserted that a 50% response rate is adequate.

Table 4.1: Response Rate

	Frequency	Percent
Responded	170	56
Did not respond	131	44
Total	301	100.0

Source: Research data, 2016

4.3 Demographic Information

The demographic information reveals data related to respondents gender, age, academic level and the period they have worked in their respective institutions.

4.3.1 Gender of the Respondents

Table 4.2: Gender of the Respondents

	Frequency	Percent
Male	106	62.4
Female	64	37.6
Total	170	100.0

Source: Research data, 2016

Gender characteristic of the respondents showed that, most of the respondents equivalent to 62% were male against 38% who were female. This implies that, opinions presented by respondents in relation to strategic leadership and organization performance may be skewed to one gender category. Therefore, the results obtained could be attributed or inclined to a particular gender.

4.3.2 Respondents' Age

Table 4.3: Respondents Age

	Frequency	Percent
Below 30 years	83	49
30 - 50 years	62	36
Above 50 years	25	15
Total	170	100

Source: Research data, 2016

Many of the respondents tallying to 49% were aged below 30 years. 36% of the respondents were aged between 30 and 50 years while 15% were aged over 50 years. This finding depicted that younger people are energetic and able to take risks enough to start their own business while the older citizens are keen on avoiding risk as they retire from active work.

4.3.3 Educational Background

Table 4.4: Educational Background

	Frequency	Percent
O level	41	24
Graduate	47	28
Post graduate	15	9
Other qualification	67	39
Total	170	100

Source: Research data, 2016

An analysis of the level of education of the respondents showed that, most of the respondents (39%) have other qualifications such as diplomas, certificates and other professional qualifications. 28% of the respondents are degree holders while 9% have post graduate qualifications. 24% have only O-Level academic qualification. The above result showed that highly qualified people in Kenya (post graduate and graduate) are able to secure employment in big firms hence do not have a chance to start business/SMEs. Those with other qualifications (certificate, diploma, professional courses) are not competitive in the job market. They end up setting up their own small businesses.

4.3.4 Length of Operation

Table 4.5: Length of Operation

	Frequency	Percent
Under 3 Years	111	65
4-7 Years	45	26
Above 8 Years	14	9
Total	170	100

Source: Research data, 2016

The length of operation of the organisations were sought. Table 4.5 shows that the majority of the SMEs were operational for less than 3 years. 65% of the respondents indicated that their organisations had been operational for under 3 years, 26% indicated that they had been operational for between 4 and 7 years while only 9% of the organisations had been operational for over 8 years. These

findings show that most SMEs do not survive beyond 3 years. This is because of the immense challenges they face in the market such as competition from the other big firms, financing challenges, inadequate skills among others.

4.3.5 Number of employees in the organisation

Table 4.6: Number of Employees

	Frequency	Percent
Under 5 employees	89	52
5 – 20 employees	65	38
20 – 50 employees	16	9
Total	170	100

Source: Research data, 2016

As per table 4.6 above, 52% of the organisations had less than 5 employees, 38% of the SMEs had employees numbers between 5 and 20. 9% of the SMEs had between 20 and 50 employees. The results above show that most SMEs prefer to have fewer employees given their small size. In many instances the owner of the organisation is the one who is in charge of the day to day running of the firm and at the same time dealing with the governance function of the firm. They also keep the staff numbers low to manage the costs of the organisation.

4.4 Strategic Leadership

Table 4.7: Descriptive Statistics on Strategic Leadership

	N	Mean	Std. Deviation
The organisation has a distinct culture that is fostered among the employees	170	4.48	0.417
A strategic Purpose and Vision has been developed	170	4.31	0.367
All actions are underlined by ethical considerations.	170	2.42	0.886
The organisation's resources are effectively managed	170	3.76	0.663
There is an established balance between strategic and financial controls.	170	3.24	0.435
There is adequate communication of changes to employees	170	2.81	0.872
There are steps that have been taken to curb resistance to change	170	2.42	0.783
Research and development is greatly emphasised	170	2.03	0.665
Worker grievances are normally settled promptly	170	3.37	0.654
There is a cordial relationship between employees and the leadership	170	4.21	0.543

Source: Research data, 2016

The strategic leadership variables were analysed and the results were as per the table 4.7 above. Respondents were asked to indicate the extent in which they foster effective organizational culture which encompasses the organisation's core values and ideologies shared. The results showed that to a large extent the

respondents emphasised an organisational culture (mean of 4.48). Respondents also indicated that to a large extent, they had laid out a strategic purpose and vision for their organisations. On the other hand, respondents agreed to a small extent that ethical practices in their respective firms are emphasized. This was determined by the mean of 2.42 obtained from the study results.

The question of establishing a balance between strategic and financial controls had a mean of 3.24 showing moderate extent of agreement. The respondents also agreed to a moderate extent the implementation process to address staff resistance to change. Respondents agreed, to a small extent that changes in their organisations are adequately communicated to employees.

The assertion that organisational resource base comprising of financial capital, human capital and social capital is well managed had a mean of 3.76. On whether there was weight put on research and development, the mean was 2.03 indicating agreement to a small extent. On the question of addressing the worker complaints promptly, the result showed that they are performed moderately, as depicted by the mean of 3.37. The respondents indicated that the relationship between management and the leadership was good with a mean score of 4.21.

4.5 Organization Performance

Table 4.8: Descriptive Statistics for Measures of Organization Performance

	N	Mean	Std. Deviation
There is high customer satisfaction (above the industry average)	170	3.65	0.319
The net profits are high (above the acceptable industry average)	170	3.13	0.268
Annual revenue is high (above the industry average)	170	2.95	0.353
The return on equity/investment is high (above the industry average)	170	2.86	0.455
The firm's market share is high than that of the industry	170	2.68	0.227
There is a low staff turnover (excluding the retired) is low (below the industry average)	170	4.68	0.284

Source: Research data, 2016

Table 4.8 above shows the results of an analysis of the various measures of performance that were tested. Respondents were asked to express their level of agreement on whether customers are satisfied in their goods and services. The measure had a mean of 3.65 showing agreement to a moderate extent. The respondents agreed to a large extent that there is a low staff turnover in their organisations. The respondents agreed moderately that their organisations make profits above industry average.

The respondents agreed to a small extent on issues of high annual revenue (mean of 2.95), high return on investment (mean of 2.86) and high market share (mean of 2.68).

4.6. Relationship between Strategic Leadership and Organizational Performance

The study sought to establish the relationship between strategic leadership and performance of small and medium enterprises in Kenya. To achieve this objective, a correlation analysis was performed between the elements of strategic leadership and indicators of performance in the organisations. The results of correlation analysis were assessed based on the level of relationship between the correlated variables, whether or not the correlation coefficient was negative or positive and whether the correlation coefficient was statistically significant.

Table 4.9: Correlation matrix

		Performance of SMEs	Strategic leadership
Strategic leadership	Pearson Correlation	.577**	1.000
	Sig. (2-tailed)	.006	
Performance of SMEs	Pearson Correlation	1.000	
	Sig. (2-tailed)		
	N	171	171

** . Correlation is significant at the 0.01 level.

Source: Research data, 2016

As shown in table 4.9 above, the results show that strategic leadership has a moderately strong relationship with performance of SMEs in Kenya ($r=0.577$, $p<0.01$). This implies that there is a strong positive relationship between strategic leadership and performance of SMEs. Therefore, adoption of strategic leadership practises will increase the performance of a firm. The p-value of 0.006 indicates that the effect of strategic leadership is significant at 99% confidence level.

4.7 Discussion

The study sought to investigate the effect of strategic leadership on the performance of small and medium enterprises in Kenya. Data for the study was collected via questionnaires. There was a response rate of 56%, which was deemed adequate. The majority of the respondents were male (62%). This implies that, opinions presented by respondents in relation to strategic leadership and organization performance may be skewed to one gender category. The findings also showed that most of the respondents were aged below 30 years. This is attributed to the fact that most young people are risk takers while older people avoid any form of risk. The majority of the respondents had qualifications such as diplomas, certificates and other lower professional courses as opposed to degrees and master's degrees. This is because they are not competitive in the job market as their counterparts with higher qualifications.

The results also showed that most SMEs prefer to have fewer employees given their small size. In many instances the owner of the organisation is the one who is

in charge of the day to day running of the firm and at the same time dealing with the governance function of the firm. They also keep the staff numbers low to manage the costs of the organisation. The results also revealed that most SMEs have a lifespan of 3 years. This is because of the immense challenges they face in the market such as competition from the other big firms, financing challenges, inadequate skills among others.

The findings showed that most SMEs have a distinct culture that has been propagated among their employees. These are beliefs, practises and structures that affect the way operations of a firm are steered. Given the small size of the organisations, it is easier for the employees to take up the organisational culture and not stray from it since management is able to monitor the staff behaviours affectively. The organisations have a strategic purpose and vision that organizations use to bring into line the actions of people across the whole firm. This is the key pillar that will enable an organisation to keep existing. The study also showed that there was a strong relationship between employees and the leadership. This plays a big part in ensuring that the ideologies of management are appropriately communicated and implemented by members of staff. This element is helped by the fact that the workforce is lean and leadership is involved in the day to day running of the firm.

The study also showed that the SMEs management is keen in managing its resources of the firm. Given the small size of the firms and the adverse economic environment that they operate in, it is imperative that resources are managed well and utilised fully to assure maximum returns. However, the study showed that

ethical considerations are not fully emphasised in the operation of the SMEs. Given that they operate in a relatively unregulated environment, most SMEs do not see the need to operate while considering some ethical standards. Research and development activities are less emphasised by the SMEs given the relative small size of the firms. This is viewed as an extra cost which may not give rise to a proportionate increase in income. Communication of organisational changes to employees is also a challenge in SMEs as per the results of the study. This is attributed to the perception that the leadership have on staff with regard to their input on strategic moves. Most of the staff in SMEs are less skilled and hence are regarded to have inadequate skills to contribute to strategic decisions.

The results of correlating the effect of strategic leadership with performance of SMEs showed that a strong positive relationship exist. Organisations with a strategic purpose and vision are able to focus their operations on target and in deed be able to translate the same into improved revenues and profits. Effective resource management ensures that profits are increased as costs are checked and the best is derived from the available resources. An organisation that is able to balance between their strategic controls and financial controls is able to achieve profits and at the same time keep employees motivated. Financial controls ensures the short term success is achieved and the long term sustainability is also met. Leaders who maintain a good relationship with their employees are able to minimise staff turnover and keep them motivated to provide excellent customer service. Customer satisfaction is also achieved when organisations keep their actions within the

ethical standards and fostering of a culture among employees that suits the customer demands.

These findings were similar to those of Nthini (2011) who found that strategic leadership have a positive impact on the performance of state corporations. The respondents concurred with the fact that their institutions recorded a high net profit margin/ return on sales due to strategic management practises. Nganga (2013) established a high linear relationship between performance of manufacturing firm and strategic leadership. He found out that firms which had leveraged on strategic leadership were able to withstand the economic challenges affecting the industry and align themselves to attain competitive advantage

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides a summarisation, conclusion and recommendations made to the study based on research findings. The study sought to establish the effect of strategic leadership on the performance of small and medium enterprises in Kenya.

5.2 Summary

The response rate of this study was 56% obtained from 170 respondents out of 301 who responded to the research instrument. The majority of the respondents were male as compared to their female counterparts. The results also showed that most of the respondents were below 30 years with very few being over 50 years. It was observed that the respondents had some form of academic qualification. Most of the respondents had other qualifications such as diploma, certificates and other professional courses. The results also showed that most of the SMEs were in operation for less than 3 years.

The results also showed that most SMEs prefer to have fewer employees given their small size. In many instances the owner of the organisation is the one who is in charge of the day to day running of the firm and at the same time dealing with the governance function of the firm. They also keep the staff numbers low to manage the costs of the organisation. The results also revealed that most SMEs

have a lifespan of 3 years. This is because of the immense challenges they face in the market such as competition from the other big firms, financing challenges, inadequate skills among others.

The findings from the study showed that most SMEs have a distinct culture that has been propagated among their employees. The organisations have a strategic purpose and vision that organizations use to bring into line the actions of people across the whole firm. This is the key pillar that will enable an organisation to keep existing. The study also showed that there was a strong relationship between employees and the leadership. The study also showed that the SMEs management is keen in managing its resources of the firm. Given the small size of the firms and the adverse economic environment that they operate in, it is imperative that resources are managed well and utilised fully to assure maximum returns. However, the study showed that ethical considerations are not fully emphasised in the operation of the SMEs. Research and development activities are also less emphasised by the SMEs given the relative small size of the firms. Communication of organisational changes to employees is also a challenge in SMEs as per the results of the study.

A correlation between strategic leadership elements and the measures of performance in an organisation was carried out. The results showed that there was a strong positive correlation. This meant that organisations with a strategic purpose and vision are able to focus their operations on target and in deed be able to translate the same into improved revenues and profits. Effective resource

management ensures that profits are increased as costs are checked and the best is derived from the available resources. An organisation that is able to balance between their strategic controls and financial controls is able to achieve profits and at the same time keep employees motivated. Financial controls ensures the short term success is achieved and the long term sustainability is also met. Leaders who maintain a good relationship with their employees are able to minimise staff turnover and keep them motivated to provide excellent customer service. Customer satisfaction is also achieved when organisations keep their actions within the ethical standards and fostering of a culture among employees that suits the customer demands.

5.3 Conclusion

The strategic leadership practices in SMEs have been discussed in this study, which include: developed strategic purpose and vision, effectively managed firm resources, fostered organizational culture, emphasized ethical actions, balanced organizational controls, effective communication of changes, settlement of worker grievance and good relationship between leadership and employees. Measures of organisational performance such as customer satisfaction, high net profits, high annual revenues and low employee turnover were also studied. A correlation analysis was performed to test the level relationships of the two variables and it confirmed that strategic leadership has an effect on organizational performance. Therefore, this study concluded that strategic leadership positively affects the performance of SMEs in Kenya.

This study adds to the body of knowledge of Barney and Arian (2001) who explained that the essential task of a strategic leader is looking after the organisation resources. The study concurs with conclusions made by Nthini (2011) and Nganga (2013) who studied the effect of strategic leadership on state corporations and manufacturing firms in Kenya respectively. It has also added to the literature that effective strategic leadership promotes organizational performance.

5.4 Recommendations

It is recommended for the owners and leaders of SMEs in Kenya focus on determining strategic purpose and vision in their organisation as verified in this study. This will ensure that leadership and the employees are moving in the same direction since it assimilates the goals of the organisation with those of the individual employees. They also need to focus on effectively managing the resources. This aspect will enhance the competitive advantage of their organizations over their rivals. The organisation is able to get the best out of the resources at its resources.

In an organisation, controls assist managers to build reliability, validate the importance of their plans to stakeholders and endorse and back strategic change. The firm's leadership is the one tasked in fostering an optimum balance between the various controls that exist in an organisation. From this study balanced organizational controls have not been highly emphasized and therefore it is highly

recommended that SMEs in Kenya should effectively apply balanced organizational controls to realize good performance

Strategic leadership practices need to be assessed and adapted in the SMEs in Kenya. This has proved the case in the assessment of strategic leadership in this study. There is now a requirement for strategic leaders in SMEs in Kenya who can explore the opportunities in this turbulent environment.

5.5 Limitation of the Study

This study focused on SMEs and excluded other firms in Kenya. Therefore, the findings may not be representative of large firms since they relate to SMEs. Efforts to apply these results in other organizations, mostly large firms should be done with caution since large firms are significantly different.

5.6 Suggestion for Further Research

This study dealt with the effect of strategic leadership on the performance of SMEs as they hold an important role in development of the country. Further studies are recommended to establish the effect of strategic leadership on the performance of county governments in Kenya. These organisation are also key in ensuring economic development in Kenya. Since they came into existence less than five year ago from the date of this study, limited research has been performed.

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APPENDIX 1: QUESTIONNAIRE SURVEY

TOPIC: THE EFFECT OF STRATEGIC LEADERSHIP ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA.

The questionnaire forms part of a MBA study conducted under supervision of the School of Business, University of Nairobi and will only be used for academic purposes.

This questionnaire consists of three sections. Please mark the appropriate box with a tick [Ö].

SECTION A: GENERAL INFORMATION

Name of the Organisation (Optional)

Respondent's Position/Title.....

Gender: Male Female

Age: Below 30 years 30-50 years Over 50 years

Academic level: O level Graduate Post graduate

Other qualification

Number of employees in the organisation:

How long has the organisation been in operation?

SECTION B: STRATEGIC LEADERSHIP IN THE ORGANISATION

To what extent are each of the following actions performed in your organisation?

Strategic Action	Not at all	Small extent	Moderate extent	Large extent	Very large extent
A strategic Purpose and Vision has been developed					
The organisation's resources are effectively managed					
The organisation has a distinct					

culture that is fostered among employees					
All actions are underlined by ethical considerations.					
There is an established balance between strategic and financial controls.					
Reasons for change initiatives are communicated well					
Processes are implemented to address human resistance to change					
There exist a strong emphasis on research and development					
Negotiations take place in an atmosphere of good faith					
Worker grievances are normally settled promptly					
The relationship between employees and leadership is very good					

SECTION C: ORGANISATIONAL PERFORMANCE

Please complete the following matrix by ticking in the box against each statement.

The box you tick should be the most representative of your organisation.

Aspects of performance	Not at all	Small extent	Moderate extent	Large extent	Very large extent
Return on investment/ assets/ equity is high (above the industry average)					

The corporation's market share (growth) is higher than those of the competitors					
Annual revenue is high (above the industry average)					
Net profit margin/ return on sales is high (above the industry average)					
Annual employee turnover (not the retired or discharged staff) is high (above the industry average)					
Customer satisfaction is high (above the industry average)					