

**THE EFFECT OF LEADERSHIP ON SMALL AND MEDIUM SIZED
ENTERPRISES DEBT MANAGEMENT: A CASE OF KANDARA
TOWN**

BY

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DECLARATION

I declare that this research project is my original work and has not been presented for award of a degree in any other university.

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

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DEDICATION

To my family for the continued support.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	: Analysis of Variance
GDP	: Gross Domestic Product
GoK	: Government of Kenya
KAM	: Kenya Association of Manufacturers
MSMEs	: Micro, small and medium sized enterprises
SME	: Small and Medium Enterprise

ABSTRACT

The study sought to establish the effect of leadership on SME's debt management. Leadership has been measured using leadership skills, styles and ethics in leadership. The study was conducted to establish the effect of leadership on SMEs debt management at Kandara town. Over the years, a great deal has been written about leadership, with particular emphasis being paid to identifying the core traits and personal characteristics of effective leaders. However, there still remains scarcity in the studies conducted locally, particularly on the SME sector. Moreover, there is no consensus on the exact relationship that exists between leadership and debt management in spite of the high SME failure rate and importance in the country has been established. The study adopted the descriptive research survey design. Population of the study consisted of small and medium enterprises in Kenya. Due to the size and dispersion of this target population, the study was limited to small and medium enterprises within Kandara town. This entailed a total of 187 SMEs in Kandara town as per the Murang'a County Integrated development plan (2013 – 2017). The study adopted simple random sampling to obtain 30% of the study population. This totaled to 56 SMEs; these SMEs were studied. The study used entirely primary data which was collected through use of structured questionnaires with both close ended and open ended questions. The questionnaires were organized into sections, each section addressing the specific research question. They were administered by drop and pick method. To enhance reliability and validity, the questionnaire was pre-tested on 10 respondents who were selected using purposive sampling from SMEs in Nairobi County. The qualitative data from the open ended questions was analyzed using content analysis because the focus was be on interpretation of the results rather than quantification while quantitative data from the close ended questions was entered into statistical package for social sciences (SPSS) version 23 and analyzed through the use of descriptive statistics which included frequencies, percentages, standard deviation and arithmetic mean. Correlation and multiple regression analysis were used to show the relationship between the study variables. The study found that leadership skills, leadership styles and leadership skills had significant effect SMEs debt management. Leadership was found to have significant positive effect on the SMEs debt management. The leadership skills which were crucial in improving SME debt management included communication skills, financial planning, listening to others views, and negotiation skills. The study concludes that leadership has significant positive effect on SMEs debt management at Kandara town. Therefore, effective leaders will lead to improved SME performance in terms of debt management. Today's organizations need effective leaders who understand the complexities of the rapidly changing global environment. For small businesses to prevail, they need practitioners with knowledge, skills, and education appropriate for their operations. The study therefore recommends that the government and development partners to regular conduct leadership training workshops on SMEs leaders. This can be done by through the County governments so as to reach SMEs leaders in rural areas. The training should cover personal leadership and financial management, record keeping.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In the previous decade there has been drastic recognition of the impact that leadership and strategic formulation has on the success of SMEs. Though leadership varies among individuals, the leadership behaviours are easily distinguishable (Nahavandi, 2002). Effective leadership is critical in the attainment of the set organization goals and objectives. Particularly, the leadership effect attained will be based on the type of leadership employed.

Leadership plays a central role among SMEs and significantly influences the day to day operations of the SMEs and subsequently their performance (Randeree& Chaudhry, 2012). So as to prosper, the SMEs require practitioners with knowledge, skills, and education appropriate for their operations (Atamian & VanZante, 2010). SMEs leadership suffers from limited leadership expertise and operational practices appropriate for small business management (Samujh, 2011) that will help ensure their prosperity. Teng, Bhatia & Anwar (2011) consequently noted that there was the need for a better understanding of leadership among small business to lower their failure rates for continued economic wellbeing.

In Kenya, the Small and Medium Enterprise sector, commonly known as Jua kali, is an integral part of the economy. The sector not only contributes majorly in creation of employment but also contributes over 18% to the nation's total GDP (Strategic Plan, 2008-2012). These statistics imply that despite considerable barriers to entry into a market, the importance of the sector cannot be under estimated. Debt management forms an integral part of these SMEs and if not well coordinated, might lead to insolvency. It entails the behavior of the leaders in terms of willingness to pay and the mechanisms put in place by the business to collect owed accounts affects the performance of the business. Notably, understanding of the core dimensions of the firms' leadership, particularly on debt management remains minimal.

1.1.1 Leadership among Small and Medium Sized Enterprises

Leadership refers to a series of abilities and behaviors, which not necessarily have to be taught, but discovered, promoted and developed towards certain objectives and environment (Plinio, 2009). Leadership has to have consistent pattern of behavior (DuBrin, 2001). Leadership is different from management where management is about coordinating activities, monitoring the operations and resources allocation in line with achieving organizational goals (Yanney, 2014).

Leadership in SMEs is associated with the capability of one or several individuals at the top of the organization. Due to the small structure of the SMEs, the nature of leadership employed by the management highly determines its performance. Leadership plays vital role formulation of the firm's strategy in maximization of profits and ensuring the smooth flow of operations. However, more often than not, personal goals of a leader affect the strategies out in place at the business (Kelchner, 2016).

In the recent turbulent times caused by globalization, SMEs aim in ensuring they have strong leaders at the helm, together with a clearly articulated leadership development strategy that ensures a strong pipeline of future leadership (Kassim & Sulaiman, 2011). Various factors determine the effectiveness of leadership in SMEs. To begin with, is the skills and experience of those heading up the organization, as well as the individuals with people management responsibilities within an SME. The second factor is associated with the size of the business and the structures that emerge as the organization develops. While the final factor impacting leadership and management in SMEs is the external context in terms of the external market (Haron, *et al* 2015). All these ought to well evaluate so as to ensure enhanced leadership skills in the organizations.

1.1.2 Debt Management

Debt entails the net sum of money that a business must repay at the any period. It is not limited to borrowed funds but extends to outstanding payments and receivables and hence debt management involves maintaining an optimal level of borrowed funds versus advances to customers in form of credit sales (Mazzarol, Reboud and Clark, 2015). Debt management practices and financial practices applied at small business affect the ability of the business to grow and move with the dynamics in the business environment. Small businesses carry different types of debt depending on their services or products. To

manage the business debts, it is crucial understand current debts, minimum payment schedules and interest rates (Waari & Mwangi, 2015).

The success or failure of firm is dependent on the ability to secure adequate funding. Mazzarol, Reboud and Clark (2015) posit that small and medium sized firms suffer from lack of adequate cash flow and working capital at large. While these issues also affect big firms, small firms are often at bigger risk since small firms have greater scarcity of cash flows and have limited sources of capital since they cannot manage to raise extra capital through equity by issuing shares to the public. Raising debt capital is also not easy due to lack of collateral. They also lack professional staff to manage the financial aspects (Mazzarol, Reboud and Clark, 2015).

SMEs debt management involves generally two distinct processes which include making financing decisions and defining the level of working capital. The first step is financing decisions which involves defining the source of financing which are mainly three namely debt, profits retained and owner raised funds in form of equity (OECD, 2004). Second step in debt management will be making working capital decisions which include defining SME cycle of cash flows (Mazzarol, Reboud and Clark, 2015). Notably, efficient management of working capital promotes company profitability.

Will management will need maintaining an appropriate mix of the amount owned to others (payables) and amounts owned by other relating to the business (receivables). Firms which maintains an appropriate mixture of cash flows will be more profitable (Tauringana & Afrifa, 2013). Small firm which are able to convert stock into cash faster by selling more and collecting receivables faster will be more liquid, have more capital to run the operations and have reduced debt levels (Mazzarol, Reboud and Clark, 2015).

1.1.3 Small and Medium Sized Enterprises Debt Management

Success of the small and medium sized firms depends on appropriate financial management practices in developing countries. In Kenya specifically, SMEs continue to fail in spite of their role in economic growth and development. Studies have over the years found that failure rate of the firms is mainly attributed to lack of financing and in appropriate financial management practices mostly in relation to debt. Many businesses seek external financing to meet their cash demands. So as to improve the SMEs' growth,

the managers and owners are necessitated to carefully evaluate their debt management strategies.

Acquiring of debt financing differs greatly between SMEs and the larger firms in a number of ways. To begin with, due to the varying motives that may be present among owners and managers of SMEs, the exact influence the debt financing will have is not clear. This is to whether the debt can reduce the agency costs that may result from information imbalance. Also as information asymmetry problems are more acute in SMEs than in large firms, long-term lending relationships are important for SMEs in order to deal with the resultant agency problems (Wu *et al.*, 2008). Additionally, the managers of the SMEs have limited range of debt financing to choose from. Thus SMEs tend to be more dependent to commercial lenders, especially institutional lenders, as a source of financing.

The insolvency of many small businesses may not be because the owner underperforms, but that their firm is not run like a business. Hence, an organization's debt management strategy should be related closely to its cash management strategy (Smith, 2013). Therefore, the poor financial management of owner-managers or lack of financial management is the main cause underlying the problems in SMEs financial management (Jindrichovska, 2013).

1.1.4 Small and Medium Sized Enterprises in Kandara Town

Kandara town is located in Murang'a County, in Central region Kenya. According to the Murang'a County Integrated development plan (2013 – 2017), there are about 187 both formal and informal SME in operation. These SMEs cut across the manufacturing, service, agriculture and other sectors. The term SME covers a wide range of terms differing from country to country. Although there is no universally agreed definition of SME, some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital as well as turnover. The European Union categorizes firms with fewer than 50 employees as small and those with 50 to 250 employees as medium (EU Commission, 2003). This is the definition of SMEs adopted in this study.

Despite the SMEs significance, studies done indicate that three out of five businesses fail within the first two years of operation (GoK, 2007). Cader& Leatherman (2011) also shared the sentiments and by indicating that small businesses were failing at high rates.

Researchers have claimed that leadership deficiencies are the cause for failure (Isomura, 2010). Blewitt (2010) noted a lack of leadership skills in business, comprising of basic skills, motivation, and sustainable knowledge among graduates. This inadequacy of developed skill-sets affects leadership performance in organizations.

SMEs are characterized by informal understandings and shared expectations among the workforce regarding how business is done (Kelchner, 2016). Small business leaders are multifunctional, often limited by daily operational demands, yet are encouraged to facilitate sustainability. How the leader resolves these issues might be the determine between operational success and failure (Atamian&VanZante, 2010). The way small business managers establish and utilize leadership information might improve to be the key to success or failure (D'Amato & Roome, 2009).

1.2 Research Problem

In the recent past much concern has been given to the nature of leadership, with particular emphasis being paid to identifying the core traits and attributes of efficient leadership in SMEs (Bass, 1990). This is attributed to the fact that the SMEs play a critical role in the Kenyan Economy. Based on the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. However, inspite of their numerous benefits, past statistics indicate that not all started SMEs become successful as three out of five businesses fail within the first few months of inception (Kenya National Bureau of Statistics, 2007). Bronwyn (1995) also supports this view that most SMEs go out of business at very early stages. Due to a number of challenges experienced by SMEs, they hardly grow beyond start-up stage.

Various studies have been conducted both locally and internationally trying to establish how exactly the debt management in SMEs is influenced by ethical leadership. To begin with, Khalid, *et al* (2012) investigated the symbiosis of ethical orientation in SMEs managers. They found out that that attention to ethical orientation in ethical judgment remains a highly contentions idea among SMEs managers. Khademfar and Amiri (2013) investigated the relationship between ethical leadership and organizational performance. Arham and Boucher (2013) investigated leadership and entrepreneurial success in SMEs. The study established that leadership is important towards the success of entrepreneurial firms. Entrepreneurs who possess effective leadership behaviors tend to enhance their

entrepreneurial success. Haron, *et al* (2015) conducted a study on ethics, corporate social responsibility and the use of advisory services provided by SMEs and found out that SMEs in Japan emphasize seniority and the ethical considerations enhanced the performance of the SMEs.

This shows that though studies have been conducted in the area, there still remains scarcity in the studies conducted locally, particularly on the SME sector. Moreover, there is no consensus on the exact relationship that exists between leadership and debt management in spite of the high SME failure rate and importance in the country. Therefore, the study sought to bridge this gap and answer the question; what is the effect of leadership on SME debt management in Kandara town?

1.3 Study Objectives

The study objectives were to:

- i. Investigate the effect of leadership skills on SME's debt management,
- ii. Assess the relationship between leadership style and SME's debt management,
- iii. Establish the effect of ethics in leadership on SME's debt management,
- iv. To establish the effect of leadership on SMEs debt management at Kandara town.

1.4 Value of the Study

This study has provided information that would inform prospective and current owners of SMEs businesses on the effect of leadership on business performance. It would also recommend ways of managing the factors identified. This information shall also provide the basic data for further research. The finding of the study would also be of relevance to policy makers in formulating strategies for the development of SMEs in Kandara town. Similarly, this study has given recommendation on some of the important measures that the entrepreneurs should take towards improving performance of SMEs in Kandara town.

The study is also important since it has added to the theory of entrepreneurship, leadership and SME debt management. The study has achieved this by bridging the gap that exists on the relationship between leadership and debt management. The study has also identified and recommends areas for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section reviews the existing theoretical and empirical literature on the on leadership among SMEs and debt management. Specifically, the chapter reviews the guiding theoretical framework relating to the study, their proposition and implication to the study variables. Other aspects reviewed by the chapter include the concept of leadership among SMEs, SMEs leadership and debt management and empirical literature with emphasis on the objective of the study, methodology and the results. The chapter finalizes by giving a summary of the literature and the research gap.

2.2 Theoretical Framework

The study was guided by various theories which include contingency leadership theory, systems theory of organization and stewardship theory. The theories are discussed in this section.

2.2.1 Contingency Leadership Theory

The contingency theory of leadership was initially introduced in 1994 by an Austrian psychologist, Fred Edward Fiedler. The theory holds that what pre determines the effectiveness of the particular leader will be based on the factors at that particular organization. Particularly, each organization has unique features to itself and therefore favorable factors are most likely to result to efficient leadership. The theory thus holds that is no single best way of managing organizations since each organization faces unique sets of internal and external constraints (Raduan *et al*, 2009).

The theory makes assumptions that the efficiency of the operations of a particular organization will be dependent on the organization's ability to diagnose and understand situational factors like environment, and adopt organizational processes and structure that will enhance its performance. Some of the factors that have been considered to help organizations achieve leverage in their environment include organizational culture and leadership styles (Ogbonna & Harris, 2000). However, the major limitation of the theory is its static nature in that it views an organization as being able to gain fit within the environment every time thus being able to remain in equilibrium (Donaldson, 2006).

The theory's proposition to the study is that, the ability of the manager or owner in managing the debts of the SME, will be determined greatly by the internal factors in that particular SME. Thus, the internal constraints such as the organization culture and structure should be highly evaluated during the managing of the SMEs. This will enable the leaders to exercise their leadership traits and conducive internal environments.

2.2.2 Systems Theory of Organization

The Systems Theory was initially proposed by Van Bertalanffy (1950). It has later received several modifications to suit varying organisational settings by KatazKhan (1966).

The theory holds that each system is organized in such ways that it contains its components are independent but interrelated. Based on this theory, it is critical for the top management to have a clear understanding how the system operates (Foster, 2012). The theory makes assumptions that there exists interdependence between the personnel and there is also impact of the external environment on the organization structure. This theory is relevant to the study, as links one individual, group or department within the SMEs to operate as a singular unit. The theory's proposition is therefore that the role of ensuring proper debt management in the SMEs does not belong solely to those in charge, but to each and every personnel in the firm. Hence all the departments ought to be well coordinated in ensuring information asymmetry so as to effectively manage their finances.

2.2.3 Stewardship Theory

Stewardship theory is a theory of management that was initially proposed by David and Donaldson (1993). The theory views the managers as stewards who have outmost interest in ensuring the prosperity of their organizations. As such, they will ensure the outmost maximization of the profit of the firm while ensuring smooth operations. This theory holds that a manager's aim is first to enhance the firm's performance because a manager's need of achievement and success are met when the firm is doing well (Otienoet *al*, 2015). The theory also argues that an organization requires an appropriate structure that enables harmonization to be achieved most efficiently between managers and owners. This theory is of importance as it is able to combine ethical forms of decision making and leadership. However, the current approaches to stewardship are not

sufficiently robust or universal. The theory's thus proposes that the leaders will put it their priority to ensure that financial systems in the organizations are well managed. Hence the positive relationship between leadership and debt management.

2.3 Leadership among SMEs

The role of leadership among SMEs cannot be overlooked as it greatly influences day to day operations of the SMEs and subsequently their performance (Randeree& Chaudhry, 2012). As a result, leadership has been the key interest of entrepreneurial and management studies for the two decades and has gradually become a topic of increased concern. The increase in focus has resulted from the fact that leaders provide directions and they have to encourage their followers to accomplish tasks (Gill, 1998).Despite this, the general business difficulties is that leadership deficiencies have led to wrong costly business decisions (Plino, Young, &Lavery, 2010).

Beginning and coordinating an SME, includes a chances of success as well as failure. Due to their small size, a simple managerial mistake is likely to lead to sure collapse of a small enterprise hence no chance to learn from its past mistakes. In Kenya, a micro-enterprise is termed as having no more than 10 employees; a small enterprise with 11-50 employees; and a medium/large enterprise with more than 50 employees, as indicated by National Micro and Small Enterprise Baseline Survey (1999).

However proper management may not be the only role of the managers as it may also lack due to external factors that are beyond the owner-manager's control (Oketch, 2000). These factors are unavoidable in the institutional environment of Kenya which favors larger firms. In addition, the ever undergoing changes in the business environment with regard to globalization of markets act as a further limitation to SMEs growth prospects.

2.4 Small and Medium Sized Enterprises Leadership and Financial Management

This is the finance required to not only begin the SMEs but also ensure smooth operations. Financing methods used by SMEs vary from initial internal sources, such as owner-manager's personal savings and retained profits to informal outside sources, including financial assistance from family and friends, trade credit, venture capital and angel financiers (He & baker, 2007). Despite this wide variety of finance sources, most

SMEs still experience problems of capital insufficiencies. This thus shifts focus to the financial management practices in the SMEs.

Financial management is based on mobilizing and using sources of funds (McMahon *et al.* 2008). It consists of planning and controlling inflow of cash into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). The individual characteristics of the owners or managers of the SMEs highly influences the firm's ability and possibility of acquiring external finance. This has caused effectiveness of the debt management practices being linked to the leadership in that particular organization. The reason majorly due to the owner–manager in SME having a critical role in the SMEs in their role as the primary decision maker.

2.4.1 Leadership Skills and Debt Management

The leadership skills comprises of the traits possessed by a leader, which could be either learnt or acquired. Appropriate leadership skills enable a particular leader to ensure maintenance of focus in conducting its business operations. The skills not only enable the owner to get the staff to aim in achieving the company's goals but also in rebranding the set goals so as to achieve maximum gains. Specifically, the skills will enable proper financial management in the organization (Knights & O'Leary, 2006). Inadequacy in the required skills could be handled by establishing what those areas of shortcomings are and then to develop a plan for handling with those shortcomings.

Managers who have effective leadership attributes are essential to the services they manage. However, the managers ought to make sure that day to day processes run well so as to attain the desired effects. The attributes entail; clarity of purpose and goals, good organization skills, good communication skills and good delegation skills. The financial management is a very delicate task in the organization, and such must be handled with the appropriate skills. This will ensure proper debt recording and fulfillment of various financial obligations.

2.4.2 Leadership Style and Debt Management

The leadership style entails the mode used in exercising command by the leader. It could be focused more towards achieving the set goals or towards enhancing the co-existence and coordination in the firm. Leadership can be exercised through different styles. Some

leaders possess one style, which is right for certain, situations and wrong for others. While some leaders can adapt and use different leadership styles for given situations. Adaptability of style is an increasingly significant aspect of leadership, because the world is increasingly complex and dynamic (Gikomo 2013).

The leader thus has to adapt based on the business environment for the desired effects to be achieved. The leadership style influences both how the leader interacts with the other employees and also how they exercise command (Samujh, 2011). Proper leadership style will gear the company in the right direction. It will also ensure proper coordination and understanding among the staff. This will in turn boost the performance of the organization leading to enhanced financial management.

2.4.3 Leadership Ethics and Debt Management

Leadership ethics today is more crucial than ever. The world is more transparent and connected than it has ever been. The actions and philosophies of organizations are scrutinized by the media and the general public as never before (Otieno *et al*, 2015). Leadership ethics involves a strategic planning of the decision process through consultation, accountability and ethical standards. It refers to the code of conduct that ought to be followed during the conducting of operations.

The ethics in leadership are important in that a leader who strives to act in an ethical manner, motivates the fellow employees to act ethically too. The leaders can use their influence to impact positively to the staff. This will ensure the operations are conducted diligently and honestly (Knights& O’Leary, 2006). In debt management, the leadership ethics will prevent and minimize the occurrence of bad debts and enhance the settling of various financial obligations.

2.5 Challenges Facing Small and Medium Sized Enterprises

SMEs are recognized as playing a supporting role in the advancement of prosperity among communities. To ensure economic prosperity of any country, the number of entrepreneurs who successfully establish and develop small and micro enterprises needs to increase significantly (Smith, 2013). However, the sector still remains stagnant despite numerous new SMEs being introduced into the market. This is attributed majorly due to the various factors which limit the SMEs sector in Kenya. Starting and operating a small

business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is planning, improper financing and poor management have been posited as the main causes of failure of small enterprises (Longenecker,*et al*, 2006).

While SME's face many constraints, lack of appropriate financial products and services invariably appears in surveys and analysis as one of the leading hurdles to realizing growth (Waari & Mwangi, 2015). The main challenges being inability to pay, unwillingness to settle debts, businesses failing at very early stages. Though most of the firms are formulated by proper financial plans, the plans are not always adhered to due to capital insufficiencies (Jindrichovska, 2013). Most of the SMEs face limitations in balancing between surplus and shortage of working capital. As a result, these firms have been experiencing slow growth because of inability to pay daily expenses of their operations and difficulty to exploit new markets. Also outsourcing loans from banks is not easy due to inadequate capital base of most SMEs in the country to meet the collateral requirement by the banks before credit is given out.

Additionally, interest rates on traditional loans are extremely high when compared with most Western institutions, with rates hovering around 20% in most cases. This is likely due in large part to the extremely high inflation rate in Kenya, currently just below 8% but which has been over 30% within the last four years. Most SMEs in the country also lack the capacity in terms of qualified personnel to manage their activities (Lawalet *al*, 2016). As a result, they are unable to publish the same quality of financial information as those big firms and as such are not able to provide audited financial statement, which is one of the essential requirements in accessing credit from the financial institution. This also hinders the debt management of the SMEs.

2.6 Empirical Review

Various studies have been conducted in relation to leadership and debt management practices in organizations. To begin with, a study by Ogbonna and Harris (2000) reported that leadership styles is not directly linked to performance but indirectly associated through organizational culture and only for transformational style of leadership. On the other hand, Rejas, Ponce, Almonte and Ponte (2006) study of SMEs in Chile found that transformational style had a significant positive effect on performance while transactional style had a negative effect. Similarly, Yang (2008) undertook a survey study in SMEs in

Taiwan and the findings showed that transformational leadership was significantly positively related to total business performance while transactional style was negatively related to performance.

Bowen *et al*, (2009) investigated the how SMEs manage the challenges they face. These challenges seem to change (evolve) according to different macro and micro conditions. The findings indicate that SMEs face the following challenges; competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity and debt collection. Credit constraint seems to be easing up when compared to previous researches.

Kranenburg (2013) role that organizational culture and leadership style play in Small and Medium-sized Enterprises (SMEs). Based on the result of this research it is recommended that transformational leadership style should be practiced so as to gain improved employees performance and to enhance competitive advantage.

Hamsa *et al*, (2015) investigated the cash management practices and its effect on the financial performance of SMEs in the Northern Region of Ghana. The study established that cash management practices have influence on the financial performance of SMEs, hence there was need for SME managers to embrace efficient cash management practices as a strategy to improve their financial performance and survive in the uncertain business environment.

Okwachi, Gakure and Ragui (2013) focused on relationships between managerial practices and strategy implementation. The aim of the study was to determine the influence of managerial practices on performance. The study recommended that SMEs should take initiatives to improve their management practices through methods of financial literacy which include; lobbying, professional and industry organizations, adoption of best practices and taking advantage of both government and private sector initiatives in order to boost financial performance.

Gikomo (2013) noted that there was a positive and significant relationship between growth of SMEs and venture capital financing. While the study was important in examining the role of venture capital financing on SME growth in Kenya, the sample selected was flawed because it did not determine the role which financial literacy had on venture capital financing and financial performance.

Kihonge (2014) conducted a study on entrepreneur financial literacy, financial access, transaction costs and performance of micro enterprises in Nairobi County, Kenya. The findings of the study indicated that entrepreneur financial literacy had a statistically significant influence on enterprise performance therefore the hypothesis that financial literacy influences enterprise performance was supported.

Waari and Mwangi (2015) conducted a study on the factors influencing access to finance by micro, small and medium sized enterprises (MSMEs). The study focused on the MSME's (demand side) in establishing the factors influencing their accessibility to finance. The study revealed that information asymmetry, business risks and transactional costs influence access to finance.

Kinyua and Ali (2016) investigated the role of strategic management factors on the growth of SMEs in Mombasa County. Their findings indicated that strategic training, strategic planning, and strategic resource allocation all affected business growth either singly or in combination. The researcher's conclusion was that as much as SME's always conduct strategic training, planning, and resource allocation, they fail when it comes to involving all levels of management because they don't do it equitably and fairly.

2.7 Summary of Literature and Knowledge Gap

In this section, the reviewed literature, the theoretical framework tried to explain what exactly undermines effective leadership in SMEs. The Contingency and Systems theory both hold that the internal business environments are the most crucial in determining how leaders perform. While the Stewardship Theory holds that the leaders should be driven internally in gearing the organizations to the best. Though the sector has received much interest from scholars, the studies conducted have not been consistent in establishing the relationship that exists between leadership and financial management. As such, both positive and negative findings have been obtained by the studies whilst few studies have been conducted locally. Moreover, the available theories are not definite enough in identifying exactly how debt management may be impacted by the leadership employed. This thus shows the presence of the knowledge gap, and this study aimed at addressing this by examining the effect of leadership on SMEs debt management in Kandara town.

2.8 Conceptual Framework

In this study, the conceptual framework examined the effect of leadership on SMEs debt management in Kandara town. The independent variables were various leadership attributes, namely; leadership skills, leadership style and leadership ethics while the dependent variable were debt management. The conceptual framework is presented in Figure 2.1.

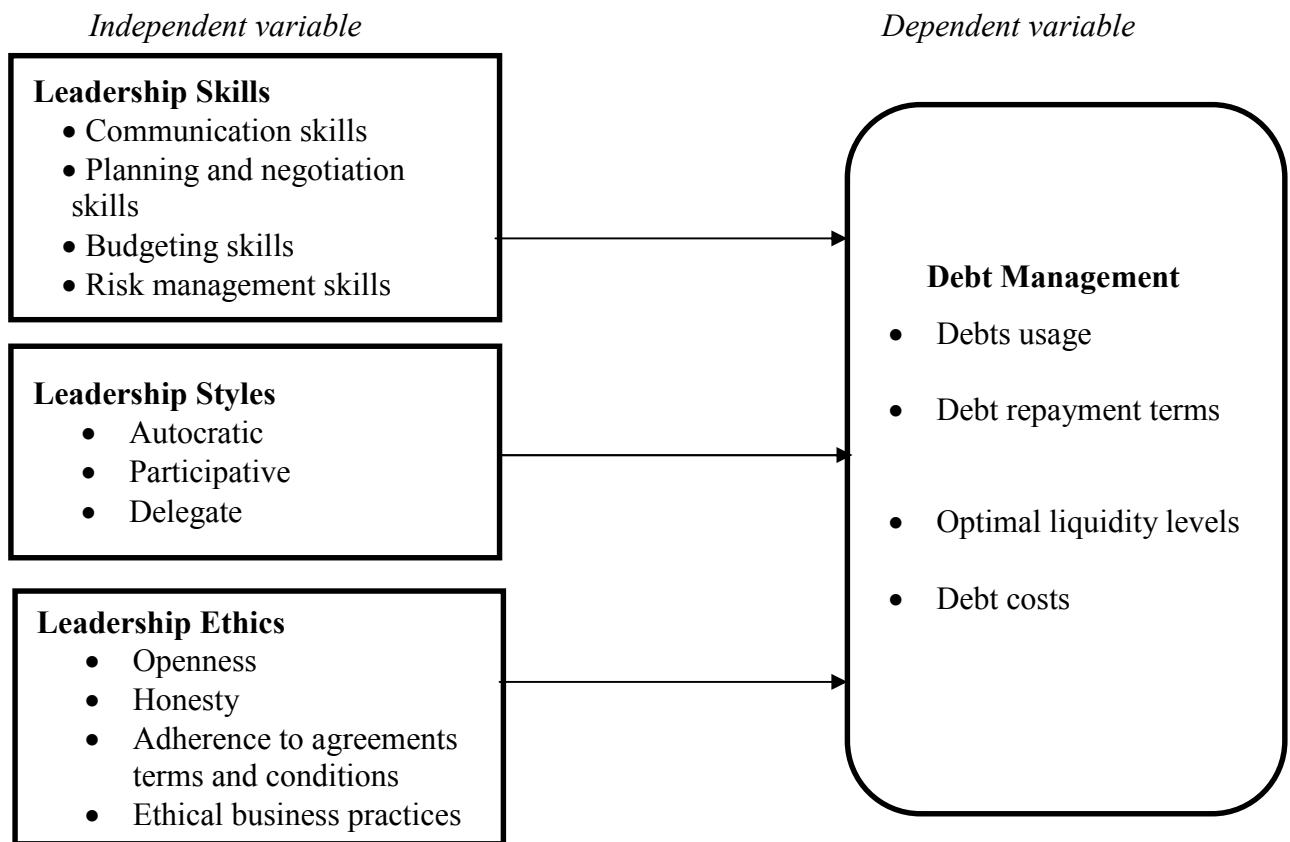


Figure 2.1 Conceptual framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology that the researcher used in this study. Particularly, the chapter presents the research design, population and sampling technique, data collection tools used data collection procedures and how data was analyzed.

3.2 Research Design

The research design is the scheme or procedure employed by the researcher in conducting the study so as to go about the research question. This study adopted the descriptive research survey design. The descriptive research design is concerned in obtaining information about a phenomena exactly how it is and enables making valid conclusion where possible (Mugenda & Mugenda, 2008).

The research design also enables the researcher to have close association with the research variable, while minimizing interference thus ensuring no biasness hence being the most appropriate for the study. The justification for using the descriptive research design is also that it provides a clear picture of the interrelations that exists between individuals or elements (Hamsaet *al*, 2015).

3.3 Population

The population of this study comprised of small and medium enterprises in Kenya. Due to the size and dispersion of this target population, the study was limited to small and medium enterprises within Kandara town. This entailed a total of 187 SMEs in Kandara town as per the Murang'a County Integrated development plan (2013 – 2017). Managers or the owners of the SMEs were the target respondents. This population was chosen as they are ones directly involved in overseeing the operations of the organizations hence the most knowledgeable of the study topic.

3.4 Sampling Design

The study adopted simple random sampling to obtain 30% of the study population summing up to a total of 56 SMEs. The preference of simple random sampling technique is because it minimizes sampling error as each element in the target population is accorded unbiased probability of being selected. This population is justified as it is in line

with Mugenda and Mugenda, (2008) who asserts that a population of 30% is large enough to enable generalization of the study's findings.

3.5 Data Collection

The study used entirely primary data. Primary data comprised of first-hand information that has not yet been documented or published but obtained directly from the respondents. The primary data was collected by the use of questionnaires, that contained both close ended and open ended questions. Additionally, the questionnaires were organized into sections, each section addressing the specific research question. The questionnaires were administered by drop and pick method. This method was convenient as it gave the respondents an ample time to fill the questionnaires. After dropping the questionnaire, the respondents were given at least one week to respond and follow-ups made via emails and phone calls. The researcher visited the various areas under the study on several occasions for a follow-up on the research questionnaires and to collect them.

3.6 Pilot Study

To enhance reliability and validity, the questionnaire were pre-tested on 10 respondents who were selected using purposive sampling from SMEs in Nairobi County. Nairobi County was selected due to proximity to the researcher and that the county did not form part of study population. Cronbach's alpha was then used to assess internal consistency and reliability of the questionnaires. This was based on the results of the pilot test obtained. This revealed vague questions, deficiencies in the questionnaire and provided an opportunity to analyse the data to see if the methods of analysis are appropriate.

3.6.1 Reliability of the Questionnaire

Reliability is refers to the consistency of either measurement or design to give the same conclusions if used at different times or by different scholars. Cronbach's alpha was used to assess the reliability based on the internal consistency or average correlation of items using coefficient with ranges between 0 and 1. The Cronbach alpha values obtained for all the variables was ensured they are higher than 0.7. This was achieved through rephrasing the questions with low alpha after pilot study or dropping them.

3.6.2 Validity of the Instrument

Validity is the measure of whether an instrument attains its purposed objective, well as the appropriateness of the measures coming to accurate conclusions. In this study, construct validity was used to assess the validity of the research instruments. This was made possible by a panel of familiar experts in that area. Amendments to the questionnaire were done. Data quality control was managed through reliability and validity testing and verification of the data collection instruments.

3.7 Data Analysis

Data analysis entails the process of obtaining information from the data collected and presenting them. Cronbach's alpha was calculated to measure the internal consistency within the data that was collected. This ensured that the data collected was valid and reliable. The data received was both qualitative and quantitative forms since this research data collection uses both qualitative and quantitative methods. The qualitative data from the open ended questions was analyzed using content analysis while quantitative data from the close ended questions was interpreted by use of statistical package for social sciences (SPSS) and was analyzed through the use of descriptive statistics which included frequencies, percentages, standard deviation and arithmetic mean. The analysed data was then represented in tables. Both correlation and regression analysis were used to achieve the study objectives.

3.7.1 Analytical Model

In order to the establish the effects of leadership and debt management in the SMEs, the following multiple regression model was used;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Debt Management among SMEs

β_0 = Regression constant (y-intercept)

β_n = Independent variable coefficients

X_1 = Leadership Skills

X_2 = Leadership Styles

$X_3 = \text{Leadership Ethics}$

$\varepsilon = \text{Error term}$

3.7.2 Test of Significance

In order to test the significance of the relationship leadership and debt management in the SMEs, the study conducted an Analysis of Variance (ANOVA). To establish how good the model was, the focus was also on the R square value from the model summary that was generated by multiple regression output in SPSS that determined the proportion of the variations in real life that is explained by the model.

From the ANOVA of multiple regression output in SPSS. The F-statistic (Mean Square of Regression divided by the Mean Square of Residual) and the Significance (p-value) enabled conclusion on the significance of the regression and correlation results. The confidence intervals were analyzed at 95% confidence level.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the results of data analysis on the effect of leadership on small and medium sized enterprises debt management at Kandara Town. Data analysis was done in line with the research objectives which were to establish the effect of leadership skills on SME's debt management, to determine the relationship between leadership style and SME debt management, to establish the effect of ethics in leadership on SMEs debt management and to establish the effect of leadership on SMEs debt management at kandara town.

4.2 Response Rate

The study targeted 56 SMEs in Kandara town. Out of the sampled SMEs, 42 responded while 14 SMEs did not respond. This represented a response rate of 75%. The findings are presented in Table 4.1. The response rate was considered excellent for the study in achieving the study objectives. This is in line with Mugenda and Mugenda (2003) ascertain that a response rate 70 percent and over is excellent.

Table 4.1: Response Rate

Status	Frequency	Percent
Responded	42	75%
Not Responded	14	25%
Total	56	100%

4.3 Questionnaire Reliability Test

Prior to data collection, reliability test was done to evaluate the questionnaire's ability to measure the study variables consistently. Reliability test was done on the variables measured using likert scale. Debt Management among SMEs had an alpha of 0.827, leadership skills 0.738, leadership styles 0.763 and leadership ethics 0.774. The results

are presented in Table 4.2. The results indicated that the research instruments were reliable since Cronbach's Alpha was higher than 0.7.

Table 4.2: Reliability Test

Variable	No of Items	Cronbach Alpha
Debt Management among SMEs	4	0.827
Leadership Skills	5	0.738
Leadership Styles	4	0.763
Leadership Ethics	4	0.774

4.4 Descriptive Statistics

This section presents the descriptive statistics relating to the gender of respondents, education level, position of the respondents, age of SMEs, category of the SMEs, number of employees, leadership skills, leadership style, leadership ethics and SME debt management.

4.4.1 Gender of Respondents

The study sought to establish the gender of the respondents. The results obtained are presented in Table 4.3. The result indicates that 67% of the respondents were male while 33% were female. This meant that majority of the people running the SMEs were male. This could be due to the fact that historically, men dominate most of the economic activities.

Table 4.3: Gender of Respondents

Gender	Frequency	Percent
Male	28	67%
Female	14	33%
Total	42	100%

4.4.2 Education Level of the Respondents

This study was meant to evaluate the education level of the respondents. This was important since the education level determined the respondents' ability to understand the study variables and hence provided reliable information. The findings indicated that majority of the respondents at 43% were bachelor's degree holders, 26% had secondary education, 24% were post graduate degree holders while 7% had education levels less than secondary. The findings are presented in Table 4.4. The findings indicate that majority of the respondents had secondary education and higher and therefore were knowledgeable enough to respond to the study questions. The information provided was therefore reliable.

Table 4.4: Education Level

Education Level	Frequency	Percent
Less than Secondary	3	7%
Secondary	11	26%
Bachelors	18	43%
Post Graduate	10	24%
Other Specify	0	0%
Total	42	100%

4.4.3 Position of the Respondents

The study pursued to establish the designations of the respondents were holding. The findings show that most of the respondents were owners at 48%, 29% were managers, 14% were supervisors and 10% assistant managers. The findings are presented in Table 4.5. All the respondents were ranking higher than the supervisors and hence they were in position to provide reliable information.

Table 4.5: Position of the Respondents

Position	Frequency	Percent
Owner	20	48%
Manager	12	29%
Assistant manager	4	10%
Supervisor	6	14%
Other (please specify)	0	0%
Total	42	100%

4.4.4 Age of the SMEs

This study was meant to evaluate the number of years the SMEs had been in operation. This was crucial since the number of years determined the experience the respondents had and hence reliability of the information provided. The findings indicated that majority of the SMEs at 26% were operating for 2-5 years, 24% for 10-13 years, 21% for 6-9 years, 5% for 14-17 years and 2% for over 17 years. The findings are presented in Table 4.6. The findings imply that most SMEs studied had been in business for over 2 years and hence capable of providing reliable information.

Table 4.6: Age of SMEs

SME Age	Frequency	Percent
Below 2 years	9	21%
2-5 years	11	26%
6-9 years	9	21%
10-13 years	10	24%
14-17 years	2	5%
Above 17 years	1	2%
Total	42	100%

4.4.5 Category of the SMEs

The study targeted to determine the category the SMEs were falling in. Majority of the SMEs at 57% were in services while 43% were in manufacturing. The findings are presented in Table 4.6. The findings indicate that manufacturing business is not common at Kandara town.

Table 4.7: Category of the SME

SME Category	Frequency	Percent
Service Industry	24	57%
Manufacturing Industry	18	43%
Non specified	0	0%
Total	42	100%

4.4.6 Number of Employees

The study also aimed at establishing the number of employees the SMEs had as a measure of their size. Majority of the SMEs at 25% had 6-15 employees, and 16-25 employees, 21% 26-36 employees, 14% above 32 employees while 12% less than 5 employees. The findings are presented in Table 4.8. The findings indicate that the SMEs studied were distributed among small and medium firms.

Table 4.8: Number of Employees

Number of Employees	Frequency	Percent
Less than 5 employees	5	12%
6-15 employees	11	26%
16-25 employees	11	26%
26-35 employees	9	21%
Above 35 employees	6	14%
Total	15	36%

4.4.7 Leadership Skills

The study sought to access the extent of leadership skills at the SMEs. To achieve this, a five point likert scale was used. The findings were presented in Table 4.9. On whether leadership communicated well, a mean of 4.02 and standard deviation of 0.78 was obtained. This implied that to a large extent, SME leadership had appropriate communication skills. Whether the SMEs leaders were a good financial planner and budgeted adequately, a mean of 3.79 and standard deviation of 0.976 were obtained. This implied that to a large extent, SMEs leaders were good financial planners. Whether the leaders were listening to others views, to a large extent, the respondents agreed with a mean of 3.55 and standard deviation of 0.916. Whether leaders negotiated wisely, to a very large extent the respondents agreed with a mean of 3.9 and standard deviation of 0.983.

The findings implied that SME leaders possessed communication skills, financial planning, were consultative and had excellent negotiation skills. The standard deviation of leaders listening to views of the others, negotiations and financial planning indicated that these skills were missing on some leaders.

Table 4.9: Leadership Skills

Leadership	VSE		SME		ME		LE		VLE		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Leader communicates well	0	0	1	2	9	21	20	48	12	29	4.02	0.78
Leader is a good financial planner and budgets adequately	0	0	5	12	10	24	16	38	11	26	3.79	0.976
Leader listens to others views	0	0	5	12	16	38	14	33	7	17	3.55	0.916
Leader negotiates wisely	0	0	4	10	10	24	14	33	14	33	3.9	0.983

4.8 Leadership Style

This study was meant to evaluate the leadership style adopted by the SMEs. This was in relation to risk management, stakeholders' involvement and openness, fostering unity at work place, authority exercised and delegation. A five point likert scale was used to achieve the objective and results presented in Table 4.10. To a large extent, leader managed their risks (mean of 3.71 and standard deviation of 0.944), were open with other stakeholders (mean of 3.81, standard deviation of 0.969) and were delegating responsibly (mean of 3.62 and standard deviation of 0.987). To a moderate extent, leaders were fostering unity at work (mean of 3.29 and standard deviation of 1.088) and were authoritative (mean of 3.38 and standard deviation of 1.081).

The findings implied that SMEs leaders were open to stakeholders, managed the risks facing business and delegated responsibility to juniors. To less extent, the leaders were authoritative and were not doing as good in fostering unity among the staff.

Table 4.10: Leadership Style

Variable	VSE		SME		ME		LE		VLE		Mea	
	F	%	F	%	F	%	F	%	F	%	n	SD
Leader manages risks.	0	0	4	0	14	3	14	3	10	4	3.71	4
Leader is open with other stakeholders	0	0	4	0	12	9	14	3	12	9	3.81	9
Leader fosters unity at work	0	0	14	3	8	9	14	3	6	4	3.29	8
Leader is authoritative	0	0	11	6	12	9	11	6	8	9	3.38	1
Leader delegate responsibly	0	0	6	4	13	1	14	3	9	1	3.62	7

4.4.9 Leadership Ethics

This study was meant to evaluate the ethical standards maintained by SME leaders. The findings are presented in Table 4.11. To a large extent, the respondents agreed that leader observed/ adhered to SMEs policies (mean of 4 and standard deviation of 0.733), leaders exhibited integrity and or honesty (mean of 3.6 and standard deviation of 0.989), records were open to scrutiny (mean of 3.62 and standard deviation of 0.909) and leader business dealings and operations were ethical (mean of 3.55 and standard deviation of 0.889). Hence, SMEs leadership at Kandara town observed ethical leadership in running the affairs of the SMEs.

Table 4.11: Leadership Ethics

Variable	VSE		SME		ME		LE		VLE		Mea n	SD
	F	%	F	%	F	%	F	%	F	%		
Leader observes/ adheres to SMEs policies	0	0	0	11	6	20	8	11	6	4	3	0.73
Leaders exhibits integrity and or honesty	0	0	7	7	11	6	16	8	8	9	3.6	0.98
Leader records are open to scrutiny	0	0	4	0	16	8	14	3	8	9	3.62	0.90
Leader business dealings and operations are ethical	0	0	4	0	18	3	13	1	7	7	3.55	0.88

4.4.10 SME Debt Management

This study was meant to evaluate the extent of debt management at the SMEs. A five point likert scale was used. The findings are presented in Table 4.12. The respondents indicated that to a large extent, debt had been used for business with a mean of 3.74 and standard deviation of 0.989, optimal liquidity levels were being maintained (mean of 3.5 and standard deviation of 1.153) and that debt costs were controlled (mean of 3.74 and standard deviation 0.989). To a moderate extent, debt repayments terms had been honored with a mean of 3.43 and standard deviation of 1.085. Therefore, SMEs at Kandara town had managed well their debts in terms of using the debt for business, maintaining optimal liquidity levels and controlling debt costs.

Table 4.12: SME Debt Management

Variable	VSE		SME		ME		LE		VLE		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Has debt been used for business	1	2	1	2	14	33	17	40	9	21	3.74	0.989
Debt repayments terms honored	1	2	7	17	12	29	16	38	6	14	3.43	1.085
Optimal liquidity levels maintained	1	2	7	17	12	29	13	31	9	21	3.5	1.153
Debt costs controlled	1	2	2	5	11	26	20	48	8	19	3.74	0.989

4.4.11 Other Ways Leadership Affected Debt Management among SMEs

This study was meant to evaluate the other ways leadership affected debt management among SMEs. This was an open ended question in the questionnaire. The respondents indicated that bad leadership led to lack of adherence to procedures and policies, good leadership led to effective debt management, good leadership led to growth of SMEs and

increased profitability, good leadership ensured stability of profits, made it easy to access funds through loans and prevented fall of the SMEs. Further, bad leadership was reported to increase the risk of the SMEs and liquidity.

4.4.12 Challenges Facing SMEs in Debt Management

This study was meant to evaluate the challenges the SMEs were facing in debt management. The respondents indicated that SMEs debt management was limited by lack of staff with financial skills, lack of collateral, lack of capital, lack of procedures, poor record keeping, lack of skilled labour, lack of proper record keeping, competition and lack of guarantors for the loans.

4.5 Correlation Analysis

Correlation analysis results are presented in Table 4.13. Leadership skills had an R 0.758 and p-value of 0.001. The positive correlation indicated leadership skills had positive effect on SME debt management. The coefficient of correlation is greater than 0.5 indicating that the relationship was strong. The p-value obtained on 0.001 indicated that the positive relationship between leadership skills and debt management was significant at 95% confidence level since it was less than 0.05. Therefore, leadership skills were key in ensuring that SMEs had appropriate debt management practices.

Leadership Styles had a Pearson Correlation of 0.333 and a p-value of 0.031. This indicated that the leadership style had positive relationship with SMEs debt management though the relationship was not very strong since it was less than 0.5. The p-value of 0.031 implied that the relationship between leadership style and debt management was significant at 95% confidence level.

Leadership ethics had a Pearson Correlation of 0.465 and p-value of 0.002. The coefficient of correlation of 0.465 which is positive indicated that leadership ethics positively affects debt management at the SMEs. Hence, observing ethical standards at the SMEs will greatly improve SMEs debt management. The p-value of 0.002 indicates that leadership ethics significantly affected debt management at 95% confidence level.

Table 4.13: Correlation Analysis

		Debt Management among SMEs	Leadership Skills	Leadership Styles	Leadership Ethics
Leadership Skills	Pearson R Significance (2-tailed)	.758** 0.001	1		
Leadership Styles	Pearson R Significance (2-tailed)	.333* 0.031	.693** 0.000	1	
Leadership Ethics	Pearson R Significance (2-tailed)	.465** 0.002	.718** 0	.642** 0	1
	N	42	42	42	42

4.6 Effect of Leadership on Debt Management

Multiple regression model was used so as to determine the relationship between leadership and SMEs debt management. The resulting regression coefficients were used to interpret the direction and magnitude of the relationship. The beta coefficients showed the responsiveness of the dependent variable as a result of unit change in each of the independent variables. Three aspects of leadership including leadership skills, style and ethics were evaluated. The model summary results are presented in Table 4.14.

A coefficient of correlation of 0.768 and a coefficient of determination of 0.590 were obtained. The coefficient of correlation of 0.768 indicated that leadership had strong positive effect on SME debt management. This implied that better leadership will lead to improved debt management at SMEs. The coefficient of determination of 0.590 indicated that leadership accounted for 59% of changes in debt management with the balance being explained by other factors not included in the model. Therefore, debt management at SMEs vary with SME leadership.

Table 4.14: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.768a	0.590	0.457	2.78708

a. Predictors: (Constant), Leadership Ethics , Leadership Styles , Leadership Skills

The results obtained from the variance analysis are presented in Table 4.15. The p-value obtained of 0.000 indicated that leadership has significant effect on debt management at 95% confidence level. This is because the p-value is less than 0.05. Hence, debt management has significant positive effect on SMEs debt management.

Table 4.15: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.592	3	2.197	4.547	.0000a
Residual	23.541	38	0.483		
Total	30.132	41			

a. Predictors: (Constant), Leadership Ethics , Leadership Styles , Leadership Skills

b. Dependent Variable: Debt Management among SMEs

The model coefficients obtained are presented in Table 4.16. Leadership skills had a coefficient of 0.838, leadership styles 0.057 and leadership ethics 0.606. The positive coefficients indicated that increase in the coefficients would increase debt management. All the coefficients were significant at 95% confidence level hence they could not be left out in predicting debt management. Leadership skills had a p-value of 0.001, leadership style 0.017 and leadership ethics 0.021. The model developed by the study that could be used to predict SME debt management level was $Y = 1.035 + 0.838X_1 + 0.057X_2 + 0.606X_3$ where Y= Debt Management among SMEs, X_1 = leadership skills, X_2 =Leadership Style and X_3 Leadership Ethics.

Table 4.16: Model Coefficients

	Unstandardized		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.035	0.85		3.218	0.023
Leadership Skills	0.838	0.632	0.026	4.113	0.001
Leadership Styles	0.057	0.645	0.048	2.933	0.017
Leadership Ethics	0.606	0.613	0.416	2.433	0.021

a. *Dependent Variable: Debt Management among SMEs*

4.7 Discussion of the Study Findings

The study sought to evaluate the effect of leadership skills on SME's debt management, leadership style and SME's debt management, ethics in leadership and SME's debt management and to establish the effect of leadership on SMEs debt management at Kandara town. On the relationship between leadership skills and SME's debt management, an R 0.758 and p-value of 0.001 were obtained. The positive correlation indicated leadership skills had positive effect on SME debt management. The coefficient of correlation was greater than 0.5 indicating that the relationship was strong. The p-value obtained on 0.001 indicated that the positive relationship between leadership skills and debt management was significant at 95% confidence level since it was less than 0.05. Therefore, leadership skills were key in ensuring that SMEs had appropriate debt management practices. These findings concurred with those of Knights & O'Leary (2006) who argued that leadership skills were crucial since they enable proper financial management in an organization. Kihonge (2014) also found that entrepreneur financial literacy had a statistically significant influence on enterprise performance. Hence, leadership plays important role on SME performance including debt management.

The leadership skills which were crucial in improving SME debt management included communication skills, financial planning, listening to others views, and negotiation skills. The findings implied that SME leaders possessed communication skills, financial planning, were consultative and had excellent negotiation skills. The standard deviation of leaders listening to views of the others, negotiations and financial planning indicated that these skills were missing on some leaders.

Leadership styles and SME debt management was found to have an R of 0.333 and a p-value of 0.031. This indicated that leadership style had positive relationship with SMEs debt management though the relationship was not very strong since it was less than 0.5. The positive relationship implied that adoption of leadership styles that promotes management of risks, that is open, fosters unity at work, delegation of authority and that is less authoritative will improve performance of the SMEs in terms of debt management. The p-value of 0.031 implied that the relationship between leadership style and debt management was significant at 95% confidence level.

The findings compared with those Rejas, Ponce, Almonte and Ponte (2006) who found that transformational style had a significant positive effect on performance while transactional style had a negative effect. The findings also compared with those of Ogbonna and Harris (2000) who established that that the type of leadership did not necessarily impact on the performance but it is indirectly contributed by the organizational culture. In addition, Yang (2008) investigated the relationship between transformational leadership and business performance and established the same.

Leadership ethics had an R of 0.465 and p-value of 0.002. The coefficient of correlation of 0.465 which is positive indicated that leadership ethics positively affects debt management at the SMEs. Hence, observing ethical standards at the SMEs will greatly improve SMEs debt management. The p-value of 0.002 indicates that leadership ethics significantly affected debt management at 95% confidence level. These findings supported those of Knights & O'Leary (2006) that ethics in leadership were important in that a leader who thrived to act in an ethical manner motivated employees to act ethically too and maintained a good relationship with stakeholders and hence SME increased

performance. Ethics included adherence to SMEs policies, having records open to scrutiny and leader business dealings and operations were ethical. The findings compared with those of Khalid *et al* (2012) who found out that that attention to ethical orientation in ethical judgment was key on SMEs. Further, Khademfar and Amiri (2013) established that ethical leadership encouraged sensitive and positive attitude toward the organizations in private and public sector.

The study also sought to establish the effect of leadership on SMEs debt management at Kandara town. To achieve this, multiple regressions was used. The study obtained a coefficient of correlation of 0.768 and a coefficient of determination of 0.590. The coefficient of correlation of 0.768 indicated that leadership had strong positive effect on SME debt management. This implied that better leadership will lead to improved debt management at SMEs. The coefficient of determination of 0.590 indicated that leadership accounted for 59% of changes in debt management with the balance being explained by other factors not included in the model. Therefore, debt management at SMEs vary with SME leadership. P-value of 0.000 was obtained indicating that leadership has significant positive effect on SME debt management.

These findings compared with those of Arham and Boucher (2013) who established that leadership was important towards the success of entrepreneurial firms. They concluded that entrepreneurs who possessed effective leadership behaviors enhanced their entrepreneurial success. Haron, *et al* (2015) found out that SMEs in Japan emphasized seniority and the leadership and ethical considerations enhanced the performance of the SMEs.

The study also found out that most of the SMEs had challenges when it came to financing the business, managing the business professionally and realized very limited growth.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the findings, the conclusions and recommendations of the study based on the objective of the study. The chapter ends with suggestions for further research.

5.2 Summary of the Findings

The study sought to establish the effect of leadership skills on SME's debt management. To achieve this objective, correlation analysis was used. An R of 0.758 and p-value of 0.001 were obtained. The positive correlation indicated leadership skills had positive effect on SME debt management. The coefficient of correlation was greater than 0.5 indicating that the relationship was strong. The p-value obtained on 0.001 indicated that the positive relationship between leadership skills and debt management was significant at 95% confidence level since it was less than 0.05. Therefore, leadership skills were key in ensuring that SMEs had appropriate debt management practices.

The study also aimed to establish between leadership style and SME's debt management. Leadership styles and SME debt management was found to have an R of 0.333 and a p-value of 0.031. This indicated that leadership style had positive relationship with SMEs debt management though the relationship was not very strong since it was less than 0.5. The positive relationship implied that adoption of leadership styles that promotes management of risks, that is open, fosters unity at work, delegation of authority and that is less authoritative will improve performance of the SMEs in terms of debt management. The p-value of 0.031 implied that the relationship between leadership style and debt management was significant at 95% confidence level.

Third objective was to establish the effect of ethics in leadership on SME's debt management. Leadership ethics had an R of 0.465 and p-value of 0.002. The coefficient of correlation of 0.465 which is positive indicated that leadership ethics positively affects debt management at the SMEs. Hence, observing ethical standards at the SMEs will

greatly improve SMEs debt management. The p-value of 0.002 indicates that leadership ethics significantly affected debt management at 95% confidence level.

Fourth objective was to establish the effect of leadership on SMEs debt management at Kandara town. To achieve this objective, multiple regression analysis was used. The study obtained a coefficient of correlation of 0.768 and a coefficient of determination of 0.590. The coefficient of correlation of 0.768 indicated that leadership had strong positive effect on SME debt management. This implied that better leadership will lead to improved debt management at SMEs. The coefficient of determination of 0.590 indicated that leadership accounted for 59% of changes in debt management with the balance being explained by other factors not included in the model. Therefore, debt management at SMEs vary with SME leadership. P-value of 0.000 was obtained indicating that leadership has significant positive effect on SME debt management.

Leadership skills had a coefficient of 0.838, leadership styles 0.057 and leadership ethics 0.606. The positive coefficients indicated that increase in the coefficients would increase debt management. All the coefficients were significant at 95% confidence level hence they could not be left out in predicting debt management. Leadership skills had a p-value of 0.001, leadership style 0.017 and leadership ethics 0.021. The model developed by the study that could be used to predict SME debt management level was $Y = 1.035 + 0.838X_1 + 0.057X_2 + 0.606X_3$ where $Y =$ Debt Management among SMEs, $X_1 =$ leadership skills, $X_2 =$ Leadership Style and $X_3 =$ Leadership Ethics.

5.3 Conclusions

The study makes a number of conclusions. First, the study concludes that leadership skills have positive effect on SME's debt management. Therefore, SMEs leaders who have effective skills will have their SMEs perform better than those of leaders without leadership specific skills. The important leadership skills that SMEs leaders must have include communication, financial planning, listening and negotiation, and risk management.

The study also concludes that leadership style positively affects SMEs debt management. A charismatic leader who is open to stakeholders, who fosters unity at work place and delegates authority will perform better in debt management than a self-centered leader who is authoritative and does not involve stakeholders in running the SMEs. This is due to the fact that debt is a collective activity that is not only affected by the leaders but by the stakeholders.

The study also concludes that ethics in leadership has positive effect on SME's debt management. Ethical behavior includes but not limited to leader observing or adhering to SMEs policies, leaders exhibiting integrity and honesty, records openness to scrutiny and leader business dealings and operations being ethical. Leadership ethics involves a strategic planning of the decision process through consultation, accountability and ethical standards.

Fourth objective was to establish the effect of leadership on SMEs debt management at Kandara town. The study concludes that leadership has significant positive effect on SMEs debt management at Kandara town. Therefore, effective leaders will lead to improved SME performance in terms of debt management. Today's organizations need effective leaders who understand the complexities of the rapidly changing global environment. For small businesses to prevail, they need practitioners with knowledge, skills, and education appropriate for their operations.

5.4 Recommendations

The study found that leadership skills have positive effect on SME's debt management. Therefore, the study recommends that SMEs leaders to enhance their leadership skills in attempt to improve performance of the firms. The skills can be enhanced by the leaders seeking more education on leadership, attending leadership workshops and reading widely. This will ensure that the SMEs leadership is appropriate and enhance their performance; financial and nonfinancial.

The study found that leadership style positively affects SMEs debt management. The study therefore recommends that SMEs leaders to be more charismatic, open to stakeholders, fosters unity at work place and delegate authority to junior staff. Delegation

of authority to junior staff should be done after empowering the junior staff. This will ensure continuity of the staff and improve debt management among the SMEs.

Study also recommends that SMEs leaders to adopt ethical leadership practices in their business operations so as to improve firm performance including debt management. Ethical behavior includes but not limited to leader observing or adhering to SMEs policies, leaders exhibiting integrity and honesty, records openness to scrutiny and leader business dealings and operations being ethical.

SMEs play an important role in the economy including creation of employment with majority of Kenyans being employed by SMEs. The firms' performance therefore is critical to economic growth and development. The study found that leadership will contribute significantly to performance of the firms. The study therefore recommends that the government and development partners to regular conduct leadership training workshops on SMEs leaders. This can be done by through the County governments so as to reach SMEs leaders in rural areas. The training should cover personal leadership and financial management, record keeping.

5.5 Limitations of the Study

The research was limited by several factors that affected the study though the researcher managed them to ensure achievement of research objectives. Leadership measurement was limited to leadership skills, ethics and styles. Further, four to five factors were used to measure leadership skills, style and ethics. However, leadership has many other aspects which include leadership traits and practices.

The study independent variables were limited to leadership while dependent variable was limited to debt management. This in spite of the fact that debt management of the SME will be affected by other factors including the resources within the SMEs and other strategies used. Debt management is also affected by economic environment like debt regulations in any country.

The study used primary data alone to make the study findings and conclusions. Primary data suffers from accuracy concerns where the accuracy of the information cannot be verified. Further the data tend to be subjective since it reflects the opinions of decision

makers. This challenge was addressed by use of likert scale and designing research questions to be as objective as possible.

The study was also limited to SMEs in Kandara town. Kandara town SMEs may not be representative of SMEs in Murang'a County or other parts of the country. Firms within a certain geographical location usually share common characteristics which differ from location to location. Studying only SMEs in Kandara town may therefore have limited the ability to generalize the findings.

5.6 Suggestions for Further Research

Further study is recommended on the relationship between leadership and debt management. Different measurement variables could be used to measure SME leadership and debt management. For this study leadership measurement was limited to leadership skills, ethics and styles. Leadership measurement could include the leadership traits, leadership structure, and ability to make decisions. Debt management can also be measured by varied measurement factors.

A similar study is also recommended where debt management will be measured by secondary data. This will improve the reliability of the data obtained and allow confirmation of this study finding. Data relating to debt management can be collected over five years' period. Measurement of leadership using set variables should be done on annual basis to enable comparison of the data and analysis.

The study was also limited to SMEs in Kandara town. Further study is recommended on the effect of leadership on debt management in other towns, Counties or regions. This will enable generalization of the study findings. Firms within a certain geographical location usually share common characteristics which differ from location to location and hence conducting a similar study in other towns will be important.

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APPENDICES

Appendix I: Questionnaire

This study seeks to obtain information regarding the effect of leadership on the debt management taking a case of SMEs in Kandara town. It a study aimed is aimed at collecting data to be used solely for academic purposes (Tick where appropriate).

PART A: DEMOGRAPHIC DATA

a) Respondent general information

1. Please indicate your gender

a) Male ()

b) Female ()

2. What is your level of education?

a) Less than Secondary ()

b) Secondary ()

c) Bachelors ()

d) Post Graduate ()

e) Other Specify

3. What is your position in the SME?

a) Owner ()

b) Manager ()

c) Assistant manager ()

d) Supervisor ()

e) Other (please specify).....

b) SME Profile

4. What is the age of your SME?

- a) Below 2 years ()
- b) 2-5 years ()
- c) 6-9 years ()
- d) 10-13 years ()
- e) 14-17 years ()
- f) Above 17 years ()

5. What category does your SME belong to?

- a) Service Industry ()
- b) Manufacturing Industry ()
- c) Non specified ()

6. Please estimate the number of employees in the firm.

- a) Less than 5 employees ()
- b) 6-15 employees ()
- c) 16-25 employees ()
- d) 26-35 employees ()
- e) Above 35 employees ()

PART B: LEADERSHIP AND DEBT MANAGEMENT

7. Leadership skills

This section seeks to establish leadership skills in SMEs. Please indicate to rate the following statements using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
Leader communicates well					
Leader is a good financial planner and budgets adequately					
Leader listens to others views					
Leader negotiates wisely					
Leader manages risks.					

8. Leadership styles

This section seeks to establish leadership styles in SMEs. Please indicate to rate the following statements using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
Leader is open with other stakeholders					
Leader fosters unity at work					
Leader is authoritative					
Leader delegate responsibly					

9. Ethical leadership

This section seeks to establish ethical leadership in SMEs. Please indicate to rate the following statements using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
Leader observes/ adheres to SMEs policies					
Leaders exhibits integrity and or honesty					

Leader records are open to scrutiny					
Leader business dealings and operations are ethical					

10. Debt management in SMEs

This section seeks to establish the nature of the debt management in SMEs. Please indicate to rate the following measures of debt management using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
Has debt been used for business					
Debt repayments terms honored					
Optimal liquidity levels maintained					
Debt costs controlled					

11. What other ways do leadership affect debt management among SMEs?

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12. What Challenges are facing your firm in debt management?

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Thank you for your time