



Effects of Leadership Styles on Implementation of Organization Strategic Plans in Small and Medium Enterprises in Nairobi

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The study sought to analyze the effect of leadership styles on implementation of strategic plans in Small and Medium Enterprises (SMEs). Specifically the study: analyzed the effect of autocratic leadership style, assessed the effect of democratic leadership style and evaluated the effect of laissez faire leadership style on implementation of strategic plans in SMEs. Descriptive research design was used. The study population consisted of 4531 SMEs registered by Ministry of Industrialization and Enterprise development. A sample of 354 SMEs was selected using stratified random sampling. A questionnaire composed of open and closed ended questions was used to collect primary data. Quantitative data was analysed using Statistical Package for Social Sciences (Version 21). In addition, a multivariate regression model was generated to assist in determination of the relative importance of each of the three variables to implementation of strategic plans. The regression showed that autocratic leadership had the highest effect of implementation of strategic plans with a coefficient of 0.488, followed by democratic leadership with a coefficient of 0.384 and laissez faire with a coefficient 0.269. The study recommends that organizations should use all the three leadership styles to maximize implementation of strategic plans.

Keywords: Implementation of strategic plans, autocratic leadership, democratic leadership, laissez faire leadership

INTRODUCTION

Small and Medium Enterprises (SMEs) are considered as the major contributors to the Kenyan economy, employing 75% of the total population (Kamau, 2012). However, such enterprises face challenges as they attempt to become competitive and grow into large

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companies. As a result, 60% of SMEs in Kenya fail in their first year of operation (Bowen, Morara, and Murethi, 2009).

Various studies show that the leadership styles have influence on performance of organizations. Nave (2006), asserts that effective leaders should implement organization strategies to improve on the performance. In the case of Kenyan SMEs, the owner-manager is normally identified as the leader who determines the success or failure of the business. This suggests that the fate of an SME is closely related to the leadership style of the manager and the strategies he/she chooses to implement. Here, strategic plan implementation shapes the performance of core business activities in a strategy-supportive manner.

According to Thompson and Strickland (2007), strategic planning is the process for directing organisation resources to achieve the organization strategy. It is therefore necessary to understand the organization current position and the possible avenues through which it can pursue a particular course of action. This is also supported by McNamara (2005), who was of the view that strategic planning determines where the business is going in the next one year, two years or more, how the organisation is going to achieve the strategy and how the organization will know it has not achieved the strategy.

Thompson and Strickland (2009), further argue that strategy implementation is primarily an administrative task that involves figuring out workable approaches to executing the strategy and then, during the day-to-day operations, getting people to accomplish their jobs in a strategy supportive and results achieving fashion.

Problem Statement

Small and medium enterprises adopt strategies to enable them not only to survive, but to succeed in a competitive environment. The strategies adopted act as a guideline of the Small and medium enterprises operations. However, implementation of strategic organization plans remains a major challenge facing organizations. Most studies acknowledge that implementation has become the most significant challenge with only 30% of formulated strategies being implemented in organizations. The effect of management styles on

implementation of organization strategic plans has received little attention. Therefore this study analyzed the effect of leadership styles (autocratic leadership style, democratic leadership style and laissez faire leadership style) on implementation of organization strategic plans in small and medium enterprises.

Research Objectives

- i) To analyze the effect of autocratic leadership style on implementation of organization strategic plans in the small and medium enterprises in Nairobi.
- ii) To assess the effect of democratic leadership style on implementation of organization strategic plans in the small and medium enterprises in Nairobi.
- iii) To evaluate the effect of laissez faire leadership style on implementation of organization strategic plans in the small and medium enterprises in Nairobi.

LITERATURE REVIEW

Theoretical Review

According to McGregor (1960), theory X and theory Y consists of two alternative set of assumptions. Theory X is an authoritarian style of leadership where Theory X assumes that employees find working unpleasant and usually avoid working if possible. Employees in theory X must be directed and even threatened to deliver in order to achieve the organization goal. Theory X also assumes that employees avoid responsibilities and the employees lacked motivation. Theory Y is a participative style of leadership and theory Y is more likely to have its roots in the recent knowledge of human behavior. Theory Y says that threatening and external controls are not the only ways to make people work better to achieve organizational (Hofstede, 2005).

This theoretical model relates to the research as it focuses on two of the variables that were under study, that is, autocratic leadership style (Theory X) and democratic leadership style (Theory Y). However the research extended McGregor theory's contribution to knowledge by examining the effect of Theory X and Theory Y on strategy implementation.

Empirical Review

Murigi (2013), conducted a study on influence of head teachers' leadership styles on pupils' performance in Muranga, Kenya and one of the leadership style variables was autocratic leadership style. The measures used in autocratic leadership were punishment, task oriented, commands and supervision. According to findings of the study autocratic leader focused in their managerial role as they were task oriented (mean = 4.9) and getting things done (mean=4.2). The study observed that the autocratic leader motivated the staff through punishment. The study revealed that autocratic leadership was the least significant in influencing performance.

Ogbeide and Harrington (2011), studied the relationship among participative management style, strategy implementation, success and financial performance in the food service industry. The study was done in United States of America. The measurements used were organizational structure, level of involvement and implementation success. The findings of the study were that higher levels of action plan implementation success for restaurants firms were more likely to use participation in decision making and plan execution. Small firms are likely to use an approach with greater participation than larger firms.

Koehn and Namusunge (2012), conducted a study on the effect of leadership styles on organization performance. The study was in States Corporation at Mombasa, Kenya. One of the key variables was laissez faire leadership, transactional and transformational leadership style. The result of the study showed that laissez faire leadership is not significantly correlated to organizational performance. Based on the findings the study recommended that manager should discard laissez faire leadership by becoming more involved in guiding their subordinates, managers should formulate and implement effective reward and recognition system.

METHODOLOGY

Descriptive research design was used. There are 2469 SMEs that are in agro based industry, 1512 SMEs in engineering and construction industry,

and 550 SMEs in chemical and mining industry (Ministry of Industrialization and Enterprise Development, 2014). The study focused on 4,531 SMEs in Nairobi. This is because SMEs in Nairobi and its environs have formal procedures or processes that are documented and registered with regulatory government bodies (Ministry of Industrialization and Enterprise Development, 2014).

The sample size was determined using Krejcie and Morgan (1970) sampling frame which recommends the appropriate sample for any given population. Given the population above and in accordance with Krejcie and Morgan (1970), formula the sample size of the study was 354. The study applied stratified sampling technique to determine the number of respondents who participated from every category/class. This implies that a sample of 7.8% from within each group in proportions that each group bears to the study population was selected (see Table 1)

Krejcie and Morgan (1970) formulae as follows:

$$S = \frac{X^2 NP(1 - P)}{d^2(N - 1) + X^2 P(1 - P)}$$

Where S = required sample size

X^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population Size

E= precision level at 0.05

N= sample proportion of success

P= the population proportion (assumed to be .50 since this would provide the maximum sample size).

d= the degree of accuracy expressed as a proportion (.05).

INSERT TABLE 1 HERE

Data Collection Instruments and Procedure

The questionnaire consisted of both open and closed ended questions to allow respondents to express their opinions. The researcher prepared a questionnaire with brief instructions which allowed the respondents to tick their opinion and express their views with regards to the questions.

A five point Likert scale was used to answer the statements.

The method for collecting the questionnaire was through “drop and pick” later method. The data collecting instruments addressed the problem of the study and achieve the research objective.

FINDINGS AND DISCUSSION

The target was 354 SMEs in Nairobi; however, the completed and usable questionnaires were 123 making a response rate of 34.7 percent. The respondents were owners and managers. The study revealed that 71.5% of SMEs under study implement a formal strategic plan. Also the study revealed that (47%) that is 58 out of 123 of the SMEs that implemented formal strategic plans had up to 2-5 years since commencement of their program, 16 % had more than 6 years but less than 10 years, while only one (1%) organization had the experience of above 16 years and only 4 (5%) firms had between 11-15 years of strategic plans implementation. Small and medium enterprises with least (1 year) experience in strategic plans implementation accounted for 31.8 %. This finding indicates the reluctance of SMEs to implement strategic plans.

DESCRIPTIVE STATISTICS

Autocratic leadership style

Autocratic leadership style looked at how business focus on task orientation improved implementation of strategic plan. The results had a mean of 4.2/5, with high supervision improved implementation of strategic plan, the results had a mean of 4.1/5, manager being in control of business operation improved implementation of strategic plan, the results had a mean of 4.0/5, decision making by the owner without consultation improved implementation of strategic plan with a mean of 3.9/5 and use of punishment on employees improved implementation of strategic plan with a mean of 3.7/5. This finding agrees with Murigi (2013), who conducted a study on influence of autocratic leadership style on performance. According to Murigi (2013) autocratic leadership style involves the application of punishment, task oriented, commands and

supervision. This implies that autocratic leader focuses in his managerial role and getting things done.

Democratic leadership style

The study showed the adoption of democratic leadership style where the owner and the employees are involved in the decisions making improved implementation of strategic plan with a mean of 4.2 out of 5, open communication in the business and constant feedback improved implementation of strategic plans with a mean of 4.2 out of 5. Further encouragement of team work improved implementation of strategic plans with a mean of 3.5 out of 5, the owner of the business cares for the well-being of the employees improved implementation of strategic plans with a mean of 3.4 out of 5 and lastly delegation of authority improved implementation of strategic plans with a mean of 3.6 out of 5. This finding concurs with Ogbeide and Harrington (2011) who observed that small firms are likely to use an approach with greater participation in implementation.

Laissez faire leadership style

From the findings, employees who set their own target improved implementation of strategic plans with a mean of 4.4 out of 5, complete freedom improved implementation of strategic plans with a mean of 4.3 out of 5 and lastly employees solve their own work related problems improved implementation of strategic plans with a mean of 4.1 out of 5. These findings disagree with Chaudhry and Javed (2012) who stated that motivation level in respect of laissez faire is low because of no involvement of the management.

INFERENTIAL STATISTICS

Analysis of Variance

The significance value is .044 which is less than 0.05 thus the model is statistically significant in predicting independent variables (autocratic leadership style, democratic leadership and laissez faire leadership style) this shows that the overall model was significant.

INSERT TABLE 2 HERE

Regression Analysis

In addition, the researcher conducted a multiple regression analysis so as to determine the influence of leadership style on the implementation of strategic plans. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

INSERT TABLE 3 HERE

The Un-standardized beta coefficients column in Table 3 above were used to obtain the overall equation as suggested in the conceptual framework. When these beta coefficients are substituted in the equation, the model becomes:

$$Y = 1.147 + 0.488X_1 + 0.384 X_2 + 0.269X_3, \text{ where}$$

Y = implementation of strategic plans, X1 = Autocratic leadership style, X2 = democratic leadership style and X3 = Laissez faire leadership style

The study conducted a multiple regression analysis and from the above regression model, holding (autocratic leadership style, democratic leadership and laissez faire leadership style) constant at zero, the implementation of strategic plans will be 1.147. A one unit change in autocratic leadership results to zero point four eight eight (0.488) units increase in implementation of strategic plans; also a one unit change in democratic leadership results to zero point three eight four (0.384) units increase in implementation of strategic plans.

Lastly, a one unit change in laissez faire leadership style results to zero point two six nine (0.269) units increase in implementation of strategic plans. This shows that there is a positive relationship between (Autocratic leadership style, democratic leadership style, and Laissez faire leadership style) and implementation of strategic plans. The t-test statistic shows that all the B coefficients of are significant (since $p < 0.05$).

INSERT TABLE 4 HERE

From the findings 67.6% of implementation of strategic plans is attributed to combination of the independent factors that relate to autocratic leadership style, democratic leadership and laissez faire leadership style investigated in this study. A further 32.4% of implementation of strategic plans

is attributed to other factors not investigated in this study.

CONCLUSIONS

This study establishes that autocratic leadership style had the largest effect on implementation of strategic plans. This study shows that one unit change in autocratic leadership results in 0.488 units increase on implementation of strategic plans. Democratic leadership style was subsequent with a coefficient of 0.384 and lastly laissez faire with 0.269. This study concludes that autocratic leadership, democratic leadership and laissez faire all have a positive effect on implementation of strategic plans.

RECOMMENDATIONS

The study recommends all the three leadership style depending on the situation in the business to maximize implementation of organization strategic plans. The study recommends autocratic leadership style when focusing on task and when making quick decisions in the business. The study recommends democratic leadership style if a decision is complex so as to involve managers and employees. The study recommends laissez faire in situation where employees have high skills and are capable of working on their own.

SUGGESTIONS FOR FURTHER STUDIES

While this study successfully examines the variables, it also presents rich prospects for several other areas to be researched in future. This study focused on the SMEs in Nairobi in Kenya. It would be useful to carry out the same type of research across East Africa and beyond and see whether the same results would be replicated.

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APPENDIX

Table 1: Sample Size

| Nature of Business | Frequency (F) | Percentage % | Sample Size (n) |
|------------------------------|---------------|--------------|-----------------|
| Agro based | 2469 | 7.8 | 193 |
| Engineering and Construction | 1512 | 7.8 | 118 |
| Chemical and mining | 550 | 7.8 | 43 |
| Total | 4531 | | 354 |

Table 2: ANOVA

| | Sum of Squares | Df | Mean Square | F | Sig. |
|--------------|----------------|------------|-------------|--------|---------|
| Regression | 35.775 | 2 | 8.944 | 15.066 | .044(a) |
| Residual | 13.654 | 120 | .594 | | |
| Total | 49.429 | 122 | | | |

Table 3: Regression Analysis Results

| | Un-standardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------------------------|------------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 1.147 | 3.93 | | 2.915 | .000 |
| Autocratic leadership style | .488 | .221 | .663 | 1.908 | .001 |
| Democratic leadership style | .384 | .106 | .397 | 3.608 | .001 |
| Laissez faire leadership style | .269 | .115 | .192 | 1.917 | .003 |

Table 4: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|---------|----------|-------------------|----------------------------|
| 1 | .851(a) | .724 | .676 | .77048 |

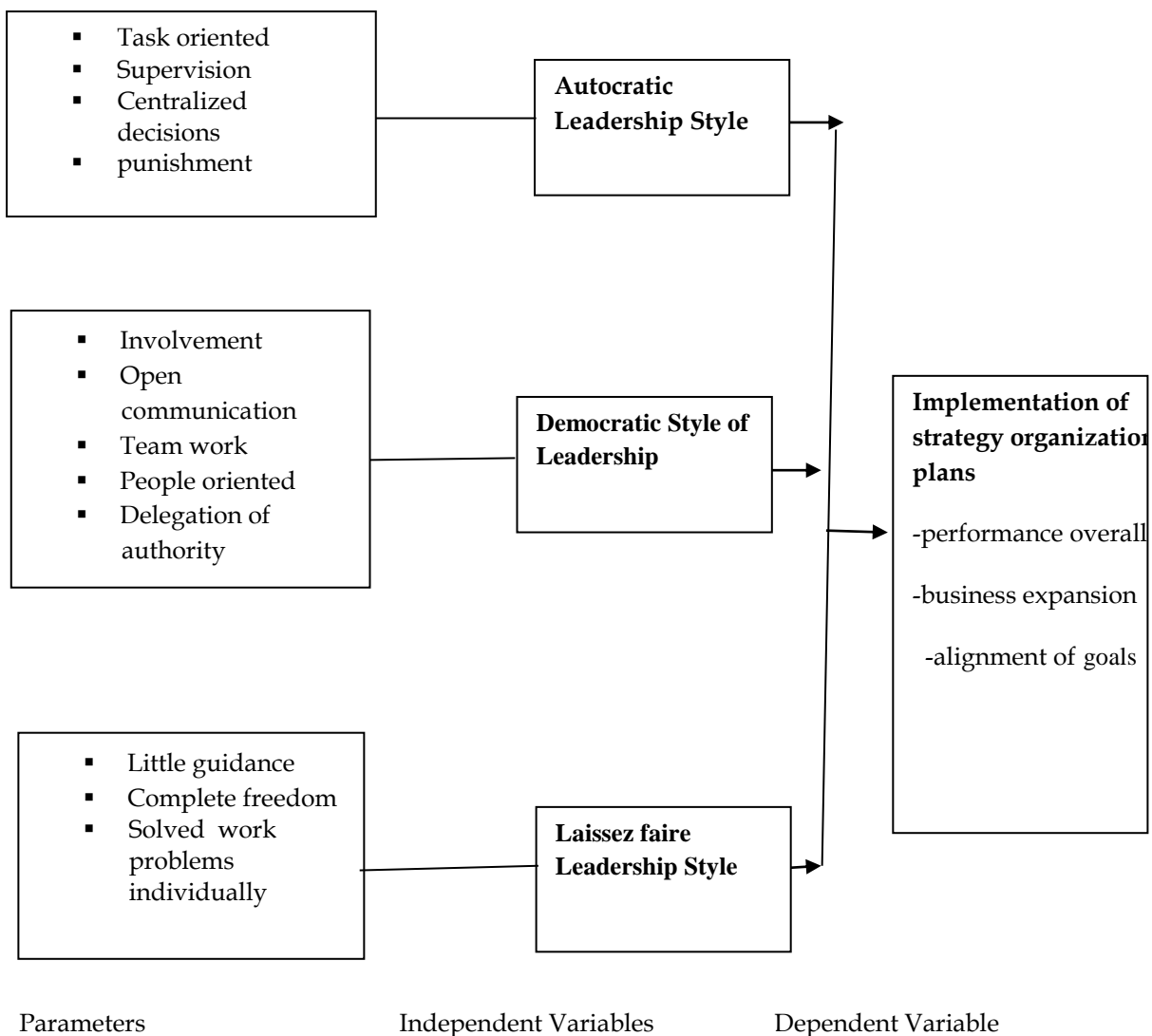


Figure 1: Operational Framework