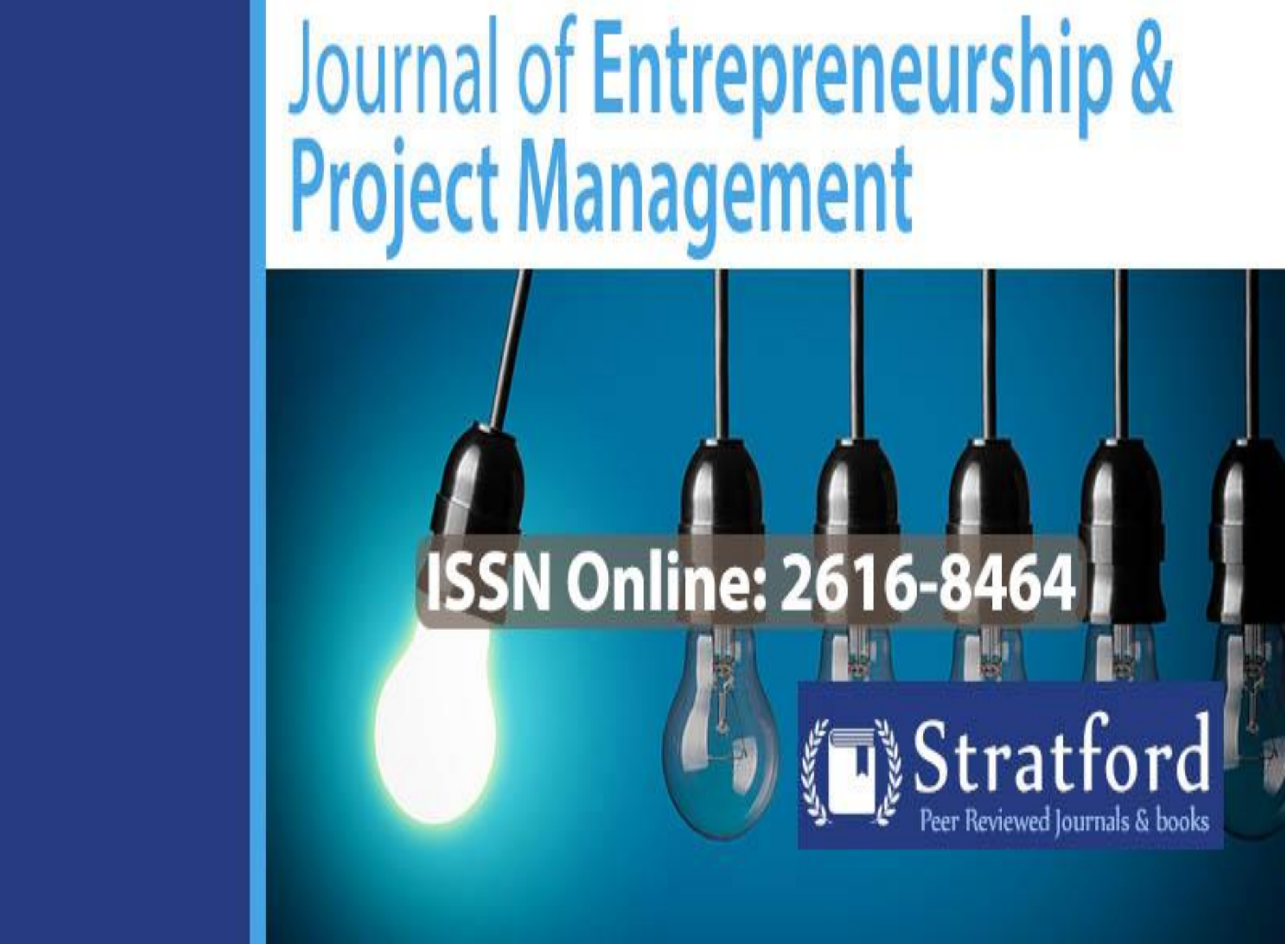

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Abstract

Small and Medium enterprises have been acknowledged by many countries worldwide as the engine for economic growth. As a result, a lot of studies have been conducted to into issues affecting their growth so as to cushion them and spur their competitiveness. While some factors have been identified such as capital adequacy and leadership styles, there is need for more research regarding their significant effects on SME growth particularly in the interior design industry thus the necessity for this study. Specifically, the study looked at the effect of leadership styles on the growth of SMEs in the interior design industry in Nairobi County, as well as the relationship between capital adequacy and the growth of SMEs in the interior design industry in Nairobi County. A descriptive research design was applied to implement the study targeting a total population of 174 firms. This study employed stratified random sampling technique to categorize the firms in to three different sections of interior design firms, interior decoration firms and architectural firms as they show different heterogeneous characteristics. Then from each section 10% was selected from the population using simple random sampling. Questionnaires were the main primary data collection instruments. A pilot study was used to confirm content validity of the data gathering instruments while the Cronbach's coefficient alpha was used to establish reliability. Quantitative and qualitative data collected was analyzed using descriptive statistics and expressed as percentages and frequencies. Chi square test was conducted to test the relationship between the independent and dependent variables. Besides, regression analysis was done to determine the extent to which the independent variables influence the SME growth. Inferential statistics was tested at 95% confidence level and p-value of 0.05. Data is presented in tables as they offer a better picture of results. The study observed that Interior Design SMEs in Nairobi County leadership style involves a lot of supervisory procedures as well as frequent communication which hinders output. As a result, the study recommended that employees should be involved in the process of decision-making. They do not require close supervision nor punishment for them to achieve organizational objectives. However, providing guidance without pressure is required. On a second note, the study observed that SMEs growth in Nairobi County is largely hindered by financial constraints.

They are faced with short term and long-term financing shortage to run their operations. They also have restricted access to bank loans to run effectively. As a result, the study recommends that SMEs should establish a cordial relationship with Banks to improve their lending relationship. Further, the SMEs can pursue alternative sources of funding such as table banking or angel capital.

Key terms: *Capital Adequacy, Interior Design Industry, Leadership Styles, Small and Medium Enterprise Growth, Nairobi County Kenya*

1.0 Introduction and study objectives

Small and Medium enterprises have been acknowledged by many countries worldwide as the engine for economic growth. As a result, a lot of studies have been conducted to into issues affecting their growth so as to cushion them and spur their competitiveness. While some factors have been identified such as capital adequacy and leadership styles, there is need for more research regarding their significant effects on SME growth particularly in the interior design industry thus the necessity for this study. Currently there has been constant growth in the SME sector over the years. There are 7.4 million SMEs operating in Kenya with the recent (MITED, 2020) showing that these SMEs employ over 14.1 million people accounting for over 93% of the total labor force. This consequently indicates that the sector as a central factor in the country's economy cannot be ignored. The classification of these enterprises in Kenya is mainly defined by the employee population and their turnover. The SMEs Act of 2012 defines small enterprises as those firms that post an annual turnover of less than Ksh.5, 000,000 and have an employee list of less than 50 (Kenya Law, 2012). Medium enterprises comprise of firms employing between 50 to 99 and a turnover ranging from Ksh.5 million to 800 million.

Globally, interior design has grown from simply a section under arts and decorations into a fully-fledged industry that stands on its own. In the USA the interior design industry is big having transcended the SME tag that it was known for (Singamneni *et al.,* 2019). In developed countries, interior design industry has grown mainly because of the expanding middle class with a lot of disposable income available to engage in interior design (Gupta, 2019). In these countries, many of the companies are SMEs as far as the fewer number of employees are concerned. The African situation appears different from that of the western countries. Interior design is gaining ground but at a slower pace (Joseph, 2020). This is due to lack of disposable incomes to engage in interior design for households. The available interior design companies mainly depend on few big corporations for business. The interior design industry is on progressive growth and the growth appears proportionate to the growth of the economy with many of the design businesses being SME oriented (Owusu and Agyemang, 2021).

Leadership Styles

Leadership style is the behavioral pattern and approach of motivating people, providing direction and implementing plans (Astuti *et al.,* 2020). For employees, it can be regarded as the total pattern of all expressly and implied actions performed by their leader (Mansaray, 2019). The importance of leadership styles among micro and small enterprises cannot be disregarded as it greatly affects their day-to-day operations, growth and performance. Leaders motivate, direct and encourage their followers to accomplish the desired goals (Astuti *et al.,* 2020).

In the Kenyan context which is characterized by a complicated business climate where SMEs face problems like limited access to capital, absence of markets for their goods and poor management, the lack of an effective leader may contribute to the death of the enterprise. Good corporate management is a factor that influences success. Hence success or lack of it in any

SME is neither a matter of chance nor an abstract phenomenon. This study therefore seeks to find out which style of leadership would be most effective for the success of SMEs in the interior design industry.

Capital Adequacy

Financial challenges affect small firm's ability to operate particularly during the launch or startup and have a lot of impact on business survival, profitability and growth (Bakhtiari *et al.*, 2020). As small firms endeavour to grow and develop, they encounter a lot of strains on their profitability which negatively impacts on a business key performance indicator, the Return on Investment (ROI). At the firm level, an increase in capital can enhance business activity and lead to an increase in jobs, greater innovation and higher income (Bushe, 2019).

Notably, several small ventures are poor in the management of business cash flows and working capital, which has contributed to high failure rates in comparison to big businesses (Zada *et al.*, 2021). It is highly predictable that the growth of small business entrepreneur will be gradually halted, if measures geared towards ensuring that they obtain the necessary managerial skills and funds needed to cope with changing market demands are not implemented (Zada *et al.,* 2021). The study investigated the extent to which financial adequacy influenced growth of SMEs in Kenya.

Statement of the problem

While some factors have been described, like technological innovation, capital adequacy, employee skills and leadership styles, there appears to be little research done regarding their significant effect on SME growth particularly in the interior design industry hence the need for the present study. The interior design industry is an emerging industry with great contribution to the national GDP. Interior design firms are faced with stiff competition hence the various SMEs in this sector need to devise creative means so as to derive a competitive edge by offering quality services in comparison to competitors to enable them grow their businesses.

The present study looked at a significantly inclusive spectrum of factors to ascertain their effect on SME growth and further look at an industry that is on an upward trajectory in terms of opportunities but whose growth and the factors that would enhance that growth remain significantly uninvestigated.

Objectives

The main objective of this study was to establish the Effect of capital adequacy and leadership styles in steering small and medium enterprise growth while specific objectives were to establish the effect of leadership styles on the growth of SMEs in the interior design industry in Nairobi County, as well as the relationship between capital adequacy and the growth of SMEs in the interior design industry in Nairobi County

Scope of the Study

The study focused on the determinants of the growth of Small and medium Scale Enterprises in the interior design industry in Nairobi County. It looked specifically at capital adequacy leadership styles. It targeted the 174 Interior design, interior decoration and architectural firms offering interior design services in Nairobi County of Kenya, licensed by Nairobi City County. The study was carried out between 2018 and 2023.

2.0 Theoretical background and informing literature review

This study anchored its variables to transformational leadership as postulated by Avolio and Bass (1998). The theory's concept expounds on motivation of people to accomplish targets and improve the status quo. Transformational leadership is inspired by the leader's charisma to motivate the people to give their best using the available resources. This theory is an improved version for many other leadership theories; trait theory, contingency theory, transactional leadership theory and behavioral leadership theories.

Hargis *et al* (2011) noted that transformational leadership is particularly divested from transactional leadership which is about influencing followers based mainly on the offering of rewards and the meting out of punishment. Transactional leadership is supervisory and results oriented significantly lacking the passion, inspiration and motivation aspects of leadership. Accordingly, the recent research portrays transactional leadership as ineffective and transformational leadership is widely recommended.

Despite the highlighted strengths of the theory, Joyce, Judge and Timothy (2004) criticized the theory by asserting that transformation leadership theory is based on self-impression and therefore seeking moral promotion of self rather than development of the subjects being led. The authors also state that transformation theory is not aligned to training and therefore leaders cannot be trained to be transformational leaders but rather is based on personal morals. Joyce, *et al*. (2004) argued that transformation theory of leadership adoption in a firm result to gains to the leaders and losses to followers as opposed to 'transforming' them to better people. Thus, to be instrumental in the success of SMEs, managers need to implement this style. Therefore, transformation leadership theory was relevant in evaluating the effect of leadership styles on the growth of SMEs in the interior design industry in Nairobi County.

Capital Adequacy and SME Growth

Lu *et al.* (2022) carried out a study to investigate the relationship between bank, financial inclusion through digital platforms and SME funding challenges in China. The authors reviewed that increased new financial services like digital payments avenues and online banking has tightened competition between big country-wide banks and small localised banks. This in-turn has affected credit accessibility of SMEs through increased financial inclusion. The researchers noted that efforts for SMEs financial inclusion have been largely fulfilled by local banks. However, financial technology could enable large national banks to compete with local banks in provision of financial services to SMEs. Besides, the authors noted that there is paucity of evidence concerning the effect of financial inclusion through digital technology on SME funding through local banks and SMEs-bank relationships. The authors sort to fill this gap by examining the impact of local banks and digital financial inclusion on SME financial constraints.

Cheong *et al.* (2020) reported on the nexus between credit access as well as tax structure and performance of SMEs in Malaysian manufacturing sector. The authors reviewed that credit accessibility and tax framework have weighty impacts on SMEs performance. The researchers acknowledged that SMEs encounter challenges acquiring funding through commercial banks facilities due to insufficient collateral and unsteady cash flows. This leads to higher rates of loan rejection adversely deteriorating SME growth. Thus, SMEs raise finance through the founder's own investments, friends, family, and close contacts. However, these sources are often not sufficient to sustain SME operation and growth.

The authors noted that past studies have used traditional metrics such as total amount of bank loans, tax expenses to measure credit accessibility and impacts of tax structures on SMEs

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performance. Though these metrics are pertinent to borrowing evaluation, financial establishments have evolved to accommodate industrial revolution 4.0. The authors argued that the current business climate tax structures that enhance growth and innovation need to be established. The authors departed from the previous studies to investigate the effects of modern and innovative funding sources such as crowdfunding and incubators on SMEs performance. Besides, their study examined the consequences of credit access and tax structures on SMEs performance.

A study conducted by Benedict *et al.* (2021) investigated financial factors that influence SMEs productivity in the leather industry, Kenya. The author noted that SMEs experience diverse obstacles including low market demand, inadequate financing, stiff competition and macroeconomic disturbances. The author noted that though SMEs experience a multitude of challenges, no literature has comprehensively grasped the extent to which financial variables affect SMEs performance, especially in the leather industry in Kenya. To fill this gap, their study examined effects of financial factors namely credit access, financial skills and tax on performance of SMEs in Kenya.

The study was formulated as a cross-sectional survey which was guided by upper echelon theory and human capital theory. The study used primary data collected using questionnaires. The sample from which data was collected comprised of 300 participants randomly selected from SMEs operating in the Kenyan leather industry. Mainly, the respondents included entrepreneurs, business managers, owners or employees responsible directly or indirectly with managerial operations of the firms. Their results revealed that financial skill, credit accessibility and tax structure significantly affected performance of SMEs. The study suggested that the government should have conducive tax rates and pardons to SMEs. Besides, SMEs should ensure financial literacy among their management to facilitate credit access. Benedict *et al.* (2021) reported insightful findings regarding the relationship between financial constraints and SMEs performance but the study did not report the impact of this relations on SMEs growth.

Conceptual Framework

The conceptual framework links the two variables in a schematic framework. It assumes that the aspects of technological innovation, Employee skills, leadership and capital adequacy have either a positive or negative effect on SME growth depending on how effectively they are used. Figure 1 shows how the variables are linked through conceptual framework.

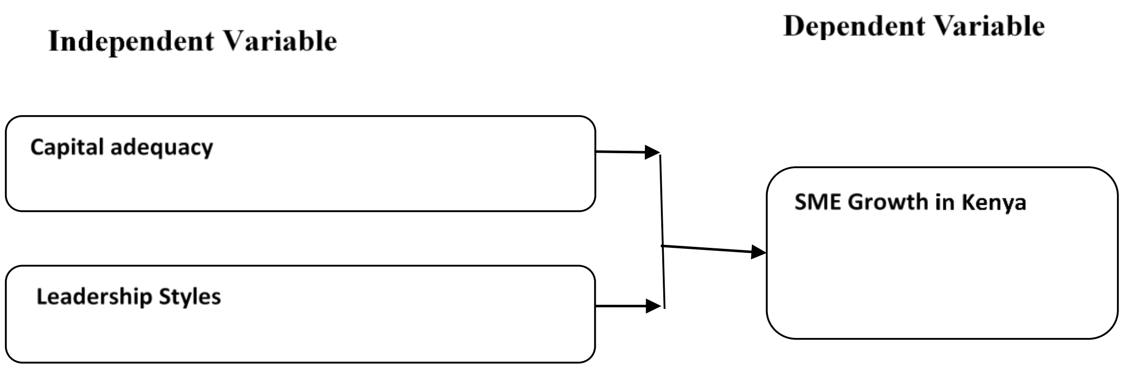

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Table 1: Operationalization of Variables

Variables	Indicators	Tools of analysis
Effect of leadership styles on growth of small and medium sized enterprises in the interior design industry	Autocratic leadership Democratic leadership Transactional leadership Transformational leadership	Descriptive statistics, chi-square and regression
Effect of capital adequacy on growth of small and medium sized enterprises	Short term financing Long term financing Working capital Borrowing Capacity	Descriptive statistics, chi-square and regression
SME Growth	Sales revenue Profit Increase in net assets Number of employees	Descriptive statistics, chi-square and regression

3.0 Research Methodology

This study applied a descriptive research design. Kothari (2014) states that in a descriptive study, accuracy becomes a key consideration and a research design which minimizes bias and maximizes reliability is regarded as good. Mugenda and Mugenda (2013) asserted that descriptive research design reports on a phenomenon as is so as to help build a profile on it without altering it. Descriptive research design was preferred because the focus of the study was in a single County in Nairobi County (Kombo & Tromp, 2009). Descriptive research design ensures optimal reliability of data collected through elimination of biasness as one can engage research assistants.

The total target population was 174 firms that are licensed by the Nairobi County to offer the services of interior design, interior decoration and architectural services. These firms are broken down as in table 2.

Table 2: Target Population

Nature of firm	Number of firms	Percentage
Interior design firms	125	71
Interior decoration firms	38	22
Architectural firms	11	7
Total	**174**	**100%**

Sample Size and Sampling Procedure

From each category, a sample 10% of the firms was selected using simple random sampling to ensure there is minimal opportunity for bias. After this, the study interviewed the ownermanager, one technical person preferably a supervisor and one other employee in each of the selected firms

Table 3: Sample Size

Nature of firm	Number of SMEs(N)	Sample Size (n) (10%)	Sample Respondents	Percentage
Interior design firms	125	13	39	72.2
Interior decoration firms	38	4	12	22.2
Architectural firms	11	1	3	5.6
Total	**174**	**18**	**54**	**100.0%**

Data Collection Instruments

Questionnaires was the main tool for primary data collection. A five-item likert scale questionnaire was used to gather the requisite data from the employees and managers Questionnaire is a research tool that combines data over a large sample and is the most reliable study tool as it allows gathering of data from a wide sample with varying background; the information remains private, saves time and as they are accessible in paper format there is no occasion for bias (Kombo & Tromp, 2009).

Pilot Study

The study piloting was conducted by randomly selecting 10 interior design firms in the study area. Upon which the firms were visited and the questionnaire was administered to at least three participants from each firm comprising of a technical employee, any other employee and a managerial staff. The data acquired was coded into SPSS and analysed to gather insights on planned study. Once the piloting was complete, the study was reviewed and necessary amendments were done. The data and the findings of the pilot study were not included in the final study. The firms that participated in the pilot study were excluded from the actual study. The results of pilot testing help establish and test the reliability and validity of the research instruments.

Validity of the Instruments

Validity demonstrates the level to which the research tool quantifies the construct that is intended for measurement (Kothari, 2014). The effectiveness of the instrument to capture the data regarding the variables under study was evaluated via content validity. Jankowicz (2005) posits that content validity signifies the extent to which a number (quantity) characterizes all variables of a given social trend. The research instruments were submitted for experts and peer review at the School of Management and Leadership Management University of Africa through the supervisor. The document was investigated for relevance, accuracy, completeness and consistency. The recommendation and amendments suggested were incorporated. The content validity was further assessed during the pilot testing.

Reliability of the Instruments

Reliability is the measure of extent to which the data tool deliver reproducible outcomes (Kombo & Tromp, 2009). To establish reliability of research instruments the Cronbach's coefficient alpha was used. Orodho (2003) categorized an alpha value greater or equal to 0.7 is a reliable measure of consistency. Table 4 below shows the reliability test statistic.

Table 4: Cronbach Alpha

Cronbach's coefficient alpha	Internal Consistency
$\alpha \geq 0.9$	Excellent
$0.9 < \alpha \geq 0.8$	Good
$\alpha \geq 0.7$	Acceptable
$0.7 < \alpha \geq 0.6$	Questionable
$0.6 < \alpha \geq 0.5$	Poor
$\alpha < 0.5$	Unacceptable

Source: Orodho (2003)

Data Collection Procedure

The researcher acquired a research permit (appendix IV) and a letter of introduction from the Management University of Africa (appendix III) prior to proceeding to the firms to collect data. The researcher personally visited their offices and administered the questionnaires. The researcher later scrutinized and analyzed relevant documents to determine their trustworthiness.

4.0 Data Analysis, Interpretation and Presentation

The study targeted to collect data from a sample size of 54 participants from which all questionnaires were filled and retrieved by the researcher recording 100% response rate. This was an appropriate response rate which enabled the research to draw satisfactory conclusions from the study. In fact, it has been documented by Mugenda and Mugenda (2013) that a response rate of above 50% is adequate, 60% is good and 70% excellent to be a representative of the population under study.

Demographics

The research sought to determine the gender, age and level of education and years of service of the study participants (Table 5). Majority of the participants were male at 68.5 % while female were only 31.5 % . This could have indicated that the workforce in the industry is male dominated. Most of the respondents were in the age bracket of 27-36 years at 50% followed by 19-26 years (31.5%), 37-46 years (16.7%) then 47-56 years at 1.9%. This suggested most of the workforce in the interior design industry were youthful. As established by findings of the study most of the participants as indicted by 59.3% were diploma holders while bachelor degree holders were 37% and 3.7 % post graduate holders. Thus, the workforce of the interior design industry were educated. Further, the results revealed that most of the respondents as shown by 31.5% had worked at the SMEs for 2-4 years while those who had served for 5-7 years were 24.1%, above 9 years included 18.5%, below 2years were 14.8% while the minority of 11.1% had served for 7-9 years . Thereby, the results showed that most of the workforce in the interior design industry had experience of more than two years.

Table 5: Demographic Background

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Female	17	31.5	31.5	31.5
Male	37	68.5	68.5	100.0
Total	54	100.0	100.0	
Age in years	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
19 to 26	17	31.5	31.5	31.5
27 to 36	27	50.0	50.0	81.5
37 to 46	9	16.7	16.7	98.1
47 to 56	1	1.9	1.9	100.0
Total	54	100.0	100.0	
Level of education	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
Degree	20	37.0	37.0	37.0
Diploma	32	59.3	59.3	96.3
Post Graduate	2	3.7	3.7	100.0
Total	54	100.0	100.0	
Years worked at SME	**Frequency**	**Percent**	**Valid Percent**	**Cumulative Percent**
2 to 4	17	31.5	31.5	31.5
5 to 7	13	24.1	24.1	55.6
7 to 9	6	11.1	11.1	66.7
Above 9	10	18.5	18.5	85.2
Below 2	8	14.8	14.8	100.0
Total	54	100.0	100.0	

SME Growth

The study determined the growth of SMEs within a duration of the last 3 years in regard to sales, profit before tax, net assets and number of employees. As results showed, 27.8% of the respondents reported that the SMEs had over 25 %, 10-24% and 1-9% growth in sales turnover. On the other hand, 16.7% reported that the SMEs got smaller. About 27.8% of the respondents indicated that the SMEs had 25%, 10-24% and 1-9% profit before paying taxes while 16.7% of the respondents reported that the SMEs had reduced profits before tax. As the results showed, 50% and 22.2% of the workers indicated that the SMEs had net assets growth of 1-9% and 10-24% respectively whereas 27.8% of the respondents reported that their SMEs showed no growth of the net assets. Further, majority of the respondents at 72.2% reported the SMEs had 1-9% growth in the number of employees but 27.8% of the respondents reported that the workforce of the SMEs had reduced over the duration of 3 years

Effect of leadership styles on the growth of small and medium sized interior design enterprises

The study also sought to investigate the effect of leadership style on progression of small and medium sized interior design companies. The study findings revealed that 50% of the respondents disagreed with the argument that the chief judge of the achievements of the team members is the leader. However, 33.3% percent agreed and 16.7% percent strongly agreed that the chief judge of group members' achievements is the leader in their SME. To a larger extent, 72.2% of the respondents agreed while a lesser number of 27.8% of the respondents strongly agreed that effective leadership is to give orders and clarify procedures. Majority of the respondents as shown by 72.2% agreed while 27.8% strongly agreed that the employees wanted to be involved in the decision-making process. From the findings, 33.3% of the respondents both strongly agreed and a similar population agreed, 5.6% were undecided, 11.1% disagreed and 16.7% strongly disagreed with the view that provision of guidance without pressure is key to good leadership

Table 6: Leadership Style

Parameters	SA		A		U		D		SD	
	N	%	N	%	N	%	N	%	N	%
The leader is the chief judge of the achievements of the members of the group.	9	16.7	18	33.3	0	0	27	50	0	0
Effective leaders give orders and clarify procedures	15	27.8	39	72.2	0	0	0	0	0	0
Employees want to be a part of the decision-making process.	15	27.8	39	72.2	0	0	0	0	0	0
Providing guidance without pressure is the key to being a good leader.	18	33.3	18	33.3	3	5.6	6	11.1	9	16.7
As a rule, employees must be given rewards or punishments in order to motivate them to achieve organizational objectives.	3	5.6	21	38.9	9	16.7	18	33.3	3	5.6
Employees need to be supervised closely, or they are not likely to do their work.	12	22.2	18	33.3	0	0	15	27.8	9	16.7
Most workers want frequent and supportive communication from their leaders on the vision and goals of the organization	33	61.1	15	27.8	0	0	6	11.1	0	0
A good leader is concerned and involved in the process and helps every member of the group succeed.	42	77.8	12	22.2	0	0	0	0	0	0

N=Number/frequency

As the analysis of chi square indicated, the leadership style significantly affected all the parameters of the SMEs growth including sales (p=0.004), profits (p=0.002), net assets (p=0.003) and number of employees (p=0.001) (Figure 5).

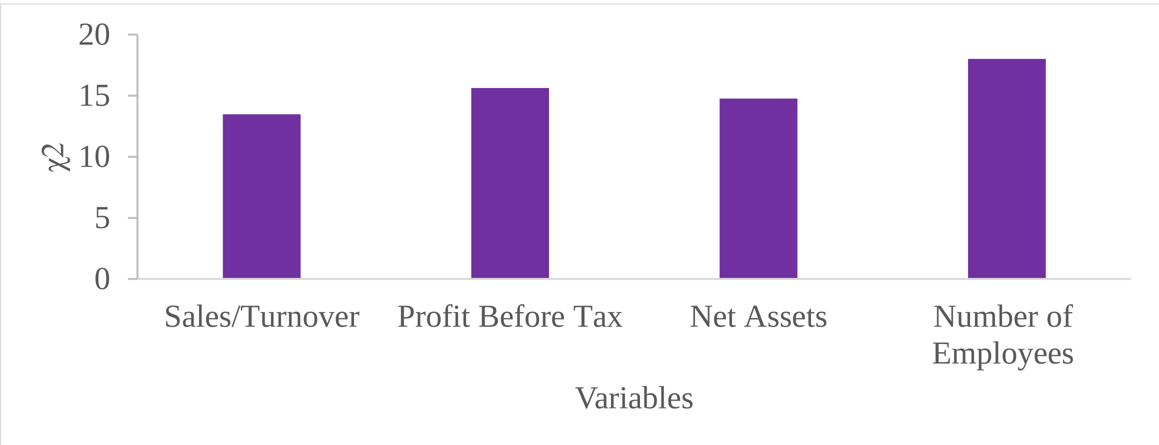

Figure 1: Chi Square Statistics for Leadership Style

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Leadership is the driving force of an organization which can make significant positive contribution to organization success. Leadership oscillates around the traits of the leader (Amey *et al.*, 2020). Contrary to the current inquiry, amongst the employees at Uchumi Retailers in Nakuru County, 48 percent agreed that their manager is the sole judge of employees′ achievements (Daniel, 2018). In agreement with the present investigation, a study conducted by Daniel (2018) reported that 55% of the respondents strongly agreed that their manager gives orders and clarifies techniques.

In the current study, 61.1% strongly agreed that workers are provided supportive communication from their leaders with regard to the organization vision and goals. Omar (2018) reported that lesser (43%) number off employees strongly agreed that their supervisor provided supportive advice on the work of their organization. The findings of the current study are in-line with the results of Daniel (2018) who observed that 30% of the respondents agreed that their supervisors were required to provide supportive advice to achieve organizational goal.

Leadership is the most critical factor that significantly affects organization effectiveness (Laureani and Antony, 2018). A leader provides management of human capital required for systematic assessment of staffing in an organization. It is the means through which managers and directors appraise the business enthusiasm to accomplish organisation objectives (Fiaz and Saqib, 2017). Leadership characteristics that induce team effectiveness include cordial relationship between leadership and employees, communication, clear direction, conflict management, coordination, supportive organization, cohesion, decision making, social relationships and performance feedback (Fiaz and Saqib, 2017). Leaders should be able to create employees with minimal interdependence, motivated workers, stability, clear boundaries, directions and clear organization objectives. They should develop structures with task, composition and norms that promote competent teamwork, reward system, educational and informational systems so that they support teams in their work hence organization success (Burke, 2017; Ford *et al.*, 2017).

Effect of capital adequacy on the growth of small and medium sized interior design enterprises

The researcher sought to resolve the impact of capital inadequacy on growth of small and medium sized enterprises in the interior design industry. Collectively, majority of the respondents strongly agreed and agreed at the frequency of 22.2% and 38.9% respectively that their SMEs essentially require short term financing for operational needs. However, 38.9% of the respondents disagreed with the above statement. As the results indicated, 77.8% of the participants strongly agreed, 11% agreed whereas another 11% disagreed that their SME mainly requires long term financing for their growth strategy. There was a big proportion of respondents at 61.1% who disagreed followed by 5.6% who strongly disagreed that they have enough working capital to run their SMEs effectively, however 5.6% agreed with that statement.

As shown by the findings of this study, 55.6% of the respondents strongly agreed and 27.8% agreed they need to inject more cash to run the SME effectively but 11.1% disagreed and 5.6% strongly disagreed (Table 7). The highest proportion of 72% among the respondents disagreed and 16.7% strongly disagreed with the opinion that they had easy access to a bank loan to run the SME effectively. Only 11% of the respondents agreed to having easy access to a bank loan for effective running of their SMEs. Similarly, the greatest percentage of the respondents at

38.9% agreed and 33.3% strongly agreed that banks are poor providers of capital to SMEs. Nonetheless, 22.2% disagreed and 5.6% strongly disagreed with the opinion that banks are bad providers of capital to SMEs. Additionally, the findings indicated, 61.1% of the respondents strongly agreed and 22.2% agreed that lack of capital has hampered the growth of their SMEs while 16.7% disagreed (Table 7).

Table 7: Capital Adequacy

Parameters	SA		A		U		D		SD	
	N	%	N	%	N	%	N	%	N	%
My SME mainly requires short term financing for operational needs	12	22.2	21	38.9	0	0	21	38.9	0	0
My SME mainly requires long term financing for my growth strategy.	42	77.8	6	11	0	0	6	11	0	0
I have enough working capital that helps me run the SME effectively	0	0	3	5.6	0	0	33	61.1	3	5.6
I need to inject more cash to help me run the SME effectively	30	55.6	15	27.8	0	0	6	11.1	3	5.6
I have easy access to a bank loan to help me run the SME effectively	0	0	6	11	0	0	39	72	9	16.7
Banks are not good at giving capital to SMEs	18	33.3	21	38.9	0	0	12	22.2	3	5.6
Capital inadequacy has hampered the growth of my SME.	33	61.1	12	22.2	0	0	0	0	9	16.7

N=Number/frequency

Capital adequacy was analysed to be significantly associated with various areas of SME growth. It was shown to significantly affect sales (p=0.016), profit (p=0.046), net assets (p=0.029) and number of employees (p=0.027) (Figure 6).

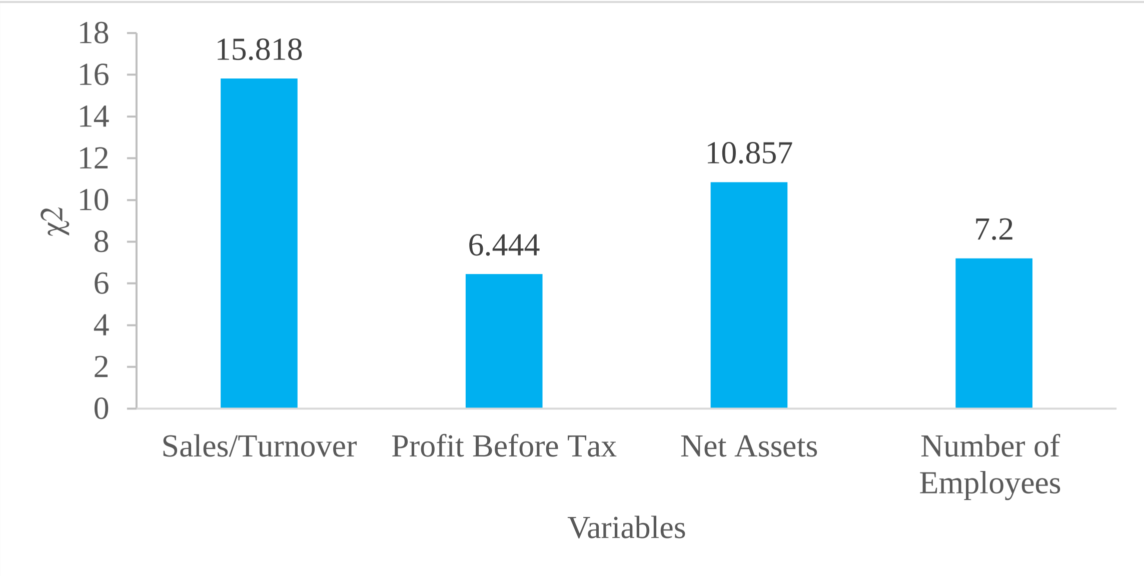

Figure 2: **Chi Square Statistics for Capital Adequacy**

In agreement with the present study, a study conducted in Ongata Rongai Township showed that majority of the respondents (85%) indicated that financing of SMEs to ensure smooth of running of operations was challenging (Macharia, 2012). The highest proportion of 72% among the respondents disagreed with the opinion that they had easy access to a bank loan to run the SME effectively (Macharia, 2012). As Akinyi (2018) observed in Gikomba Market, Nairobi County, 49% of the respondents indicated that they faced a challenge accessing bank loans. From the study, 61.1 % of the respondents indicated that capital adequacy had affected the growth of their SMEs. Similarly, 75% of the respondents indicated that lack of access to finance affected the performance of their SMEs (Akinyi, 2018). Similarly, in Trans-Nzoia County, most of the respondents (35.7%) indicated that their SMEs experienced finance constraints (Mugodo, 2014). Only 19.0% obtained their loans to finance business from banks (Mugodo, 2014).

Only one percent of SMEs entrepreneurs in Huruma Division, Nairobi County raised business capital from Banks (Kedogo, 2013). Further, the findings of Mugodo (2014) concurs with the observations of the current study that majority of the SMEs encountered great challenges in accessing finance and credit. Further, the results are colloborated by the observations of Wanjohi and Mugure (2008) who reported that SMEs in developing countries experience major financial challenges. Additionally, in Trans-Nzoia County, it has been reported that SMEs experienced limited access to financing (Mugodo, 2014). Similarly, in SMEs owned by youths in Nairobi County, 60.8% of the respondents reported that they had limited access to capital from banks. Further, among SMEs based in Ongata Rongai Township, 76% had never applied for bank loans for business financing (Macharia, 2012). Only 40% of the respondents sampled from Thika Municipality borrowed money to run their SMEs from bank loans (Mwaniki, 2012). They attributed this to high interest rates charged and lack of relevant information on financing facilities from the banks (Henry, 2017).

Some of the difficulties associated with SMEs problems in accessing credit financing include lack of appropriate structure by financial institutions for financing SMEs. Further, SMEs may lack information on where to source for financing. In addition, lack of a good track record of performance restricts lending by commercial banks (King and McGrath, 2002). Financial constraints are a major challenge facing SMEs in Kenya (Murithi, 2017). Inaccessibility to long-term credit for SMEs leads to acquiring of short-term financing with high bank charges and high fees, which hampers SMEs growth (Shibia and Barako, 2017). Due to bank loans inaccessibility several money lenders in form of pyramid schemes have emerged promising to provide finances to SMEs. However, this lending is associated with hefty interest charges making the business unprofitable resulting to limited growth. Due to finance scarcity, SMEs struggle with expansion, modernization, mechanization and automation. Further, they struggle to meet clients' service delivery leading to loss of business (Igwe *et al.,* 2018).

4.9 Regression Analysis

This study determined to what extent the independent variables: leadership style, technological innovation, capital adequacy and employee skills influences SMEs growth.

4.9.1 Diagnostic Tests for Assumptions of Regression Analysis

For data to qualify for regression analysis it is required to fulfil the assumption of normal distribution, no multi-collinearity and heteroscedasticity. Normality test was assessed using the levene test. The null hypothesis for this test states that the variance is homogeneous. The p value for the test was > 0.05 (Table 8) hence the null hypothesis was not rejected. Thus, the data showed homogeneity of variances

Table 8: Test of Homogeneity of Variances

Variables	Levene Statistic	Sig.
Leadership style	1.258	.279
Capital adequacy	1.763	.203

Multicollinearity was assessed using the variance inflation factors (VIF). Multicollinearity is a term used to describe high correlation among the predictor variables. The VIF values above 10 indicates multicollinearity. Regression analysis requires absence of multicollinearity in the data. In this study the VIF values were < 10 (Table 9) indicating absence of multicollinearity.

Table 9: Test for Multicollinearity

Variables	VIF
Leadership style	2.975
Capital adequacy	4.767

Heteroscedasticity refers to scenario where variance of a given value is unequal. Regression analyses assumes absence of heteroscedasticity. It was tested using the Breusch-Pagan test whose null hypothesis is absence of heteroscedasticity. The test showed a p-value > 0.05 (Table 10) hence, the null hypothesis was not rejected. Hence, the residuals were assumed to be equally distributed.

Table 10: Test for Heteroscedasticity

Type of Test	Co-efficient	Probability
Breusch-Pagan Test (Chi square df=p)	2.6162	0.8585

Regression Model

Model Summary

The model's goodness of fit was assessed by the coefficient of determination/R-square (R2). The R^2= 0.948 (Table 11) showing that the independent variables could be 94.8 % of the total variation in growth of small and medium enterprises in Kenya.

Table 11: Model's Goodness of Fit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.973[a]	.948	.932	.12061
a. Predictors: (Constant), Technological innovation, Leadership style, Employee skills, Capital adequacy				

ANOVA for the Model

The study determined the statistical significance of the model using ANOVA. The results showed that the predictors could significantly influence (Table 12; F=58.807; p <0.001) the growth of SMEs. Thus, the regression model was a good fit for the variables under study.

Table 12: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.422	4	.855	58.807	.000[b]
	Residual	.189	13	.015		
	Total	3.611	17			

a. Dependent Variable: SME Growth
b. Predictors: (Constant), Technological innovation, Leadership style, Employee skills, Capital adequacy

Regression Coefficients

The study determined the B coefficients of multiple variables in a multiple regression model. The findings showed that in absence of the influence of the predictor variables; leadership style, technological innovation, employee skills and capital adequacy, SMEs would grow by 0.210 (Table 13). However, when the other predictors are unchanged, a unit rise in leadership style, technological innovation, employee skills or capital adequacy would result in 0.218-, 0.756-, 0.352- and 1.135-unit increase (Table 13), respectively, in growth of SMEs.

Table 13: Coefficients for Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.210	.267		.786	.446
	Leadership style	.218	.072	.333	3.040	.009
	Capital adequacy	1.135	.132	1.194	8.618	.000

a. Dependent Variable: SME Growth

The results are corroborated by similar past studies. A study conducted among SMES in CBD, Nairobi County, Kenya showed that while other factors remained unchanged a unit increase in financial technology would raise SMEs growth by 0.036 units (Awinja and Fatoki, 2021). A study by Chege and Wang (2020) indicated that while keeping other variables constant, a unit rise in technology transfer would increase the performance of agribusiness SMEs in Kenya by 2.577. It has been reported that a unit increase in credit access, which would enhance capital adequacy of SMEs, would increase productivity of leather industry SME by 44% (Benedict *et al.*, 2021). Ochieng *et al.* (2023) observed that a unit change in leadership style, particularly participative leadership style would increase the performance of SMEs in the manufacturing industry in Kenya by 2.901 units. In Germany, it was noted that a unit increase in employees training would result in 8.680 increase in innovation capacity of SMEs, a factor that would enhance their growth (Demirkan *et al.*, 2022).

5.0 Summary of the Findings, Conclusions and Recommendations

5.1 Summary of the findings

The study findings may be summarised according to research objectives as follows:

Leadership Styles and SME Growth

The study also sought to investigate the effect of leadership style on progression of small and medium sized interior design companies. In half of the interior design SMEs in Nairobi County the leader is not the chief judge of the member achievements. In the SMEs, effective leadership involved giving orders and clarification of procedures to the employees. Majority of the employees would like to be involved in the decision-making process. Further, workers require help from the leadership. Employees would prefer frequent, supportive communication and provision of guidance without pressure from their leadership. Moreover, improved leadership style was shown to enhance growth of SMEs

Capital Adequacy and SME Growth

As results indicated, majority of the interior design SMEs in Nairobi County experienced financing difficulties for operational needs. The SMEs required both short- and long-term financing requirements for their growth strategy. A big proportion of respondents disagreed that they have enough working capital to run their SMEs effectively. Further, the SMEs experience difficulty accessing bank loans to run the SME effectively, which hampers their growth. The findings showed that improved capital adequacy would result in more growth of the SMEs.

5.2 Conclusions

Effective leadership in Interior Design SMEs in Nairobi County was conclusively seen to involve clarifying procedures and directing employees, frequent and supportive communication. Further, the workforce in Interior Design SMEs in Nairobi County want to be a part of the decision-making process. It was concluded that providing guidance without pressure is the key to good leadership. Employees don't need close supervision nor rewards or punishments in order to motivate them to achieve organizational objectives of Interior Design SMEs in Nairobi County. Lastly, good leadership is concerned and involved in the process of work and helps every group member succeed.

Likewise, the study concluded that SMEs in Interior Design in Nairobi County experienced financial difficulties. The SMEs require short term and long term financing for operational and growth needs. The SMEs have limited access to bank loans to run their organizations effectively. Further, banks are not good at giving capital to SMEs hence the capital inadequacy they experience halts the growth of these SMEs.

5.3 Recommendations

The study makes the following recommendations; that SME leaders should involve employees in decision making. Further employees should be provided with support and guidance without undue pressure. Proper direction and clarification of procedures should be offered as well as frequent and supportive communication; and that the SMEs should pursue short term and long-term financing for operational and growth needs. Banks should improve their lending relationship with the SMEs so as to be friendly and accommodative to the SMEs. Alternatively, the SMEs can pursue alternative sources of funding such as angel investors, relatives and personal savings.

5.4 Suggestions for further Research

This study was limited to determine the effects of technological innovation, employee skills, leadership styles and capital adequacy on the growth of interior design SMEs in Nairobi County. Further studies can determine the effects of these variables on other SMEs in different localities in Kenya.

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